A Brazil without Favelas

Interview with Ruban Selvanayagam
A Brazil without Favelas

Interview with Ruban Selvanayagam

*Endeva* is exploring the housing and construction sector for low-income families through a series of interviews with practitioners and academics. These interviews will be published over the course of 2014, providing a multi-faceted picture of the inclusive business landscape in this sector.

Our first interview partner *Ruban Selvanayagam* works at the Fez Tá Pronto Construction System in Brazil, a real estate development model focused on serving people at the base of the pyramid (BoP) with affordable and high quality housing.

Ruban told us about the dysfunctional mainstream housing market dynamics leading to the launch of Brazil’s renowned flagship social housing policy Minha Casa, Minha Vida, and some of the current practical challenges facing the scheme. In Ruban’s view a much more holistic approach to BoP housing is needed – one which even inclusive business practitioners sometimes still fail to take. Exhorting us all not to accept a vision in which favelas implicitly remain a part of the future, Ruban shared his insights on how his company intends to make this happen and the role inclusive business should play as part of the solution.

Till Leopold (t.leopold@endeva.org)
Juliane Schmidt (j.schmidt@endeva.org)
Claudia Knobloch (c.knobloch@endeva.org)

Published in March 2014
Ruban Selvanayagam: A Brazil without Favelas

Inclusive Housing for All | Issue 01 | March 2014

ENDEVA How would you describe the current housing situation for people living at the base of the pyramid in Brazil?

RUBAN SELVANAYAGAM The Brazilian housing market as a whole, principally from the onset of the global crisis until around 2012, developed into a “free for all” with high construction costs and skyrocketing land price speculation. The majority of building projects were catered to the middle to upper income segments – leaving the “high risk” lowest income groups relatively brushed to the side, despite the enormous demand levels.

Whilst over the past decades there have been a number of housing policies and programmes in Brazil, most of which have made a negligible impact, Minha Casa, Minha Vida (My House, My Life) was launched in 2009 by former President Lula as a revised flagship programme promising to address the core market imbalances. Currently, it is governed under two strands: a continuation of the Residential Leasing Program (PAR) for three classified income groups as well as a subsidy scheme aimed at both assisting Brazilian families getting on to the property ladder and also encouraging activity within the mainstream construction sector. The first tier of the PAR, directed towards families earning up to R$ 1,600 (US$ 690), is the most relevant for observing the behaviour of the Brazilian BoP housing market as the other two are more aimed at housing for the middle income groups and the subsidy arm of the programme has been largely inaccessi-ble to the poorest populations.
What are the main challenges in this sector at the BoP?

Today, the outdated construction methodologies combined with inflationary pressures on core building inputs and urban land values have meant that the only way to achieve commercial viability when working within this income bracket has been to create inferior quality housing developments that are often considerably distant from the central business districts; without the necessary local infrastructure and public services to offer families a dignified standard of living. This has led to many actually questioning as to whether these developments are a real improvement to life in the favelas at all.

How does this affect low-income families, apart from pure housing affordability?

For low-income families to take advantage of Minha Casa, Minha Vida, they effectively become obliged to move to the outer peripheries of the city. As many already have built lives for themselves within the favelas, this often doesn’t make sense and so they frequently prefer to stay put. Yet, at the same time, newcomers are arriving daily to such informal communities, in turn, creating a knock-on effect of rising rent and land prices. It is well evidenced, for example, that families are paying absurd levels of rent for favela units in Rio de Janeiro. What is needed is a much more holistic approach, whereby the Minha Casa, Minha Vida lowest income developments are created within healthily developed communities – well served by infrastructure, and efficiently managed public services such as transport, health and education.
Ruban Selvanayagam: A Brazil without Favelas

Inclusive Housing for All | Issue 01 | March 2014

Endeva: One approach to this issue in the current BoP housing debate are microfinance loans for incremental home improvement. You have been quite critical of this.

Ruban Selvanayagam: I am not against the principle in itself – but I am yet to be convinced as to its sustainability as a long term BoP housing model. In Brazil, a handful of housing microfinance providers have emerged within the urban favelas aimed at not only funding reforms and extensions but also assisting with architectural and engineering planning – interesting initiatives that certainly have purposes worthy of merit and further exploration. Yet, are these homes technically adherent to ever-stricter health, safety and security standards? Are there many financing institutions that would underwrite such a housing unit that possesses so many inherent risks? How can the well-known high rates of interest charged under such loan mechanisms compete with those offered by the mainstream banks? Is the growth of these loans within informal communities likely to fuel the issue of rent and land price speculation that I mentioned earlier? My main concern and, indeed, difference with many sector peers in Brazil, is that initiatives such as housing microfinance, due to the unsuccessful results of the Minha Casa, Minha Vida for the poorest income groups, implicitly accept that favelas are a part of the future.

Endeva: What kind of alternative solutions do you see, especially for inclusive businesses?

Ruban Selvanayagam: Looking specifically at the Brazilian construction sector, we need to think more as to how the transition from informality can be achieved in a manner that is socially and environmentally sustainable whilst also having the potential to generate attractive returns.

Under a proposal of a “Brazil without Favelas”, the Fez Tá Pronto Construction System is based on using lean and highly productive building processes, without compromising on increasingly demanding technical and quality standards. Moving away from more traditional building methodologies – that require qualified labour, have massive negative effects on the environment and produce units that are financially inaccessible to the majority – we use a patented gypsum plaster block within a copyrighted, semi-industrialised methodology to bring gross development costs down to a level that can be passed on as prices that genuinely serve the BoP market.

We’re also able to pay our unqualified workers a decent salary – up to three times the industry standard. Fez Tá Pronto creates environmentally friendly homes (units have solar energy paneling, rainwater capture and supplementary water storage tanks) whilst also presenting business planning that transforms what remains a broadly unattractive area of interest for investors. Most importantly, we are able to create genuinely sustainable communities via the acquisition of land with good transport links and other important local infrastructure and public services.

Most importantly, we are able to create genuinely sustainable communities via the acquisition of land with good transport links and other important local infrastructure and public services.
EndEVA: What is the profile of your typical customer?

RUBAN SELVANAYAGAM: The basic “Fez Tá Pronto” housing unit is aimed at Brazilian families earning between one and three times the national minimum salary (families earning up to about US$ 925 per month) – that is where the large majority of housing demand in Brazil is found.

EndEVA: What is the product you offer them?

RUBAN SELVANAYAGAM: Our principal building model is based on apartments. This is going back to the issue of land price and peripheral housing, since individual housing units need a lot more space and create higher infrastructure costs. We offer 47.4m² apartments – with two bedrooms, a service area, a living/dining area, a kitchen and full complementary infrastructure. The developments are simple but use the best materials on the market and are secure (through use of CCTV and facilities for condominium management staff).

The value of the unit will depend on the modality of the Minha Casa, Minha Vida programme. Should the unit be constructed under strand 1 of the PAR initiative, the value paid by the government will be R$ 69,000 (US$ 30,500) in Rio de Janeiro state (a strategy of which we have our reservations, given the largely negative accounts of the condominiums delivered to date). One advantage here is that the resident family will only pay 5% of their income (on a lease to own basis).

Whilst being an unprecedented strategy, we are more interested in delivering these units directly to the market, priced at between R$ 60,000 and R$ 70,000 (US$ 26,500 to 30,900) – a means-tested housing unit that will not require any form of down-payment and monthly instalments that will be no more than 30% of monthly income. This way, the post-occupation management of the condominiums can be executed much more efficiently than has been the case to date and genuinely sustainable living environments can be developed.
EndEVA: You mentioned that a holistic view is needed to “make housing at the BoP work”. Do you have any additional thoughts on how this could be achieved at the global level?

Ruban Selvanayagam: Brazil has the major advantage of the Minha Casa, Minha Vida programme – but also at the global level, from what I can see, there is nowadays a lot more drive for governments to become involved in facilitating the BoP housing sector. Of course you can’t expect construction systems like Fez Tá Pronto to automatically work smoothly in different countries and local contexts. BoP real estate development is, indeed, a lot more than just building a house or apartment unit. For example, in many countries, like Brazil, there is a huge amount of bureaucratic, legal and regulatory issues that need to be taken care of before you can even think about constructing – not to mention the widespread corruption.

As the world’s population continues to rise dramatically, some estimates suggest that the need for new housing is reaching some 67 units per minute. Nonetheless, the frustration is that most developers have little interest in catering to these needs as the risks are too high and profit opportunities too low. NGOs, limited in their ability to generate financial resources sufficient enough to develop long term sustainable housing in good locations, continue to embrace ideas like microfinance and peripheral construction. Nonetheless, despite a proposal like a Brazil, and indeed a world, without slums being perceived as an unrealistic and distant dream in light of such realities, we believe that to truly develop the sector sustainably such a vision must be firmly established, embraced and committed to.

EndEVA: Thanks a lot for the interesting insights!

Ruban Selvanayagam works with Manoel Pinto, a Rio de Janeiro based constructor with over 25 years experience – at the Fez Tá Pronto Construction System – a patented, copyrighted and fully consolidated real estate development model focused on serving the base of the pyramid with affordable, high quality, technically adherent and ecologically friendly housing (www.feztapronto.com). Follow Ruban on Twitter (@feztapronto).