The mortgage meltdown in the United States has spurred renewed calls for a more rational financing system that prioritizes the right to housing over the profits of the banking and real estate sector. Interestingly, in socialist Cuba the government is experimenting with legalizing market mechanisms in housing.

For 50 years the great majority of Cuban households have legally owned their homes as a form of “personal property,” but with some limitations. In November 2011, the Cuban government legalized free-market sales and other measures aimed at bringing to the surface an underground market that had been largely unregulated.

But will this lead to widespread speculation, a full-fledged real estate market and eventual foreclosures?

The measures to legalize free-market sales of housing are part of a broad package of “guidelines” adopted by the Sixth Communist Party Congress in spring 2011 to “update” Cuba’s socialist system. These include a broad expansion of self-employment and the start of urban worker cooperatives, in part to absorb steep layoffs in state employment. Rather than heavily subsidizing certain goods and services, government has started providing needy households with assistance. The economy continues to be based on socialist ownership of the basic means of production and planning rather than market forces. But the model also includes cooperatives, small farms and a range of options for self-employment. While the new laws institutionalize many existing practices, they also create new problems and expand inequalities.

**Fifty Years of Homeownership**

After the Cuban revolution in 1959, evictions were halted, most rents were reduced and urban land speculation was largely controlled. Through the 1960 Urban Reform Law, tenants became homeowners by amortizing the purchase price of their units through rents. Landlords and other property holders were allowed to keep their own home as well as a second vacation home. State-built housing was offered as long-term “leaseholding,” with rents set at 10 percent of family income. Private renting was prohibited. In addition, vacant units confiscated from emigrants were distributed to people in need, and the Cuban lottery was transformed into a short-lived vehicle for financing new housing. Residents of poor urban housing remained as long-term leaseholders, but by the mid-1960s, no longer paid rent.

Homeowners could buy and sell dwellings and land, but only at low government-set prices, and the state had first option to buy. Although little legal buying and selling of land and dwellings occurred for the next two decades, informal sales of land for self-building were common. Housing exchanges were the way most households moved to another dwelling, but the values of the properties—as determined by very low official prices—had to be certified as equivalent. Homeowners’ heirs were entitled to receive their share of a dwelling’s official price, however, the right to remain in and acquire the property—by amortizing the share due other heirs—was restricted to people who lived
A few blocks from Havana’s famed Malecon, another new joint venture waterfront hotel is on its way to completion. Across the street from the construction site a small wooden building draws in a trickle of Cubans searching for the latest available construction materials posted on a list on the front door. Despite the images and cliches of Havana as a city whose beauty is matched only by how rapidly it seems to be disappearing before your eyes, the city shows signs of being poised to take advantage of the Cuban government’s new laws governing private property.

Even with the uncertainty over the impact and details of how Cuba’s new property laws will be implemented, some residents of Havana appear to be convinced that the new reforms are worth investing in. But scarcity of resources—material and financial—as well as competing priorities seem likely to temper the enthusiasm of Cubans towards the reforms.

“I’m a child of the revolution, I believe in it and it has done many good things,” responded a resident of Old Havana when asked about how the new law that reforms how Cubans can buy and sell homes would impact his life. “But the problem is the way people in different neighborhoods live.” Tourism and related economic development may provide new employment opportunities but in areas like Old Havana they have not relieved crowded conditions or housing shortages, nor have they addressed differences between housing stock in Old Havana and areas like the suburb of Miramar in the west of Havana.

Outside Havana, in the city of Cienfuegos, a taxi driver explained that more than the ability to buy or sell houses or cars, what was needed were more employment opportunities. “The new laws won’t really change life for most Cubans.”

How these expanded private property rights will change the character and demography of neighborhoods in Havana or introduce forces of gentrification and displacement remains in question. What does not seem in doubt is the commitment of ordinary Cubans to preserve the gains of the revolution—like the right to housing—while trying to improve their own economic conditions.

Bob Allen is director of the Transportation Justice Program at Urban Habitat and just returned from a research trip to Cuba.
swaps be equivalent in value made it difficult to move. Cash poor but property rich families couldn’t downsize and obtain money to live on, while households seeking more space couldn’t legally use their savings or remittances to expand. The new measures are intended to address such discrepancies, bring greater transparency to the market and limit opportunities for corruption.

The New System
Provisions of the new law include:
• Instead of having to go through local housing officials, the buyer and seller complete the necessary paperwork before a specialized lawyer.
• Payment is made through a bank so the buyer must have a bank account.
• Sellers pay 4 percent personal income tax on the sales price and buyers pay a 4 percent property transfer tax.
• Residents are still allowed to own only one residence and a second home in a vacation area.
• People trading homes can pay for the difference in value.
• Cubans who emigrate can transfer or sell homes before leaving the country. If they haven’t done so, the state will transfer the property at no cost to family members rather than the value being confiscated by the state as was previously the case.
• Transfers and donations as well as property disposition in divorce settlements and inheritance have also been revised.

Issues and Concerns
Despite widespread agreement in Cuba about the need to loosen restrictions on the real estate market, there are concerns about implementation and its consequences. The most important issues relate to affordability, prices, speculation, and the source of funds for purchases. For years, Cubans living abroad have funneled cash to relatives to purchase, exchange or upgrade their dwellings, and this has swelled with legalization. Many are helping out relatives, but others are purchasing homes for themselves, despite the fact that legal sales are generally limited to Cubans and foreigners permanently living in Cuba. Other potential buyers are those with substantial earnings—whether gained legitimately or not—or convertible currency through remittances and jobs related to sectors, such as tourism and joint ventures. Some of these buyers may seek speculative investment opportunities. Buyers have to justify the sources of funds for the purchase price, which may lead those with illicit cash to continue to operate through the black market or declare a low purchase price. In any case, prices have spiked, especially in prime market areas.

Limiting homeownership to one primary residence is designed to prevent accumulation of wealth, but evasion may be possible by putting the names of relatives on different dwellings.

For the majority of the population without access to substantial funds, acquiring a dwelling depends on whether credit is available and on what terms. In December 2011, Cuba expanded access to loans for private self-employed workers, small private farmers, and households to pay for building materials and labor for home repair, rehabilitation and construction. Also allowed are loans to purchase “durable goods,” such as vehicles, homes and other buildings, as well as other items, such as electric appliances. But according to the law, “these will be phased in as the country’s economic and financial conditions improve.”

Banks issuing credit perform a risk assessment to assure repayment. They usually demand collateral from borrowers and any co-signers. A new form of collateral is a “real estate mortgage,” but only on vacation homes and vacant lots and for no more than the low legal price. Items that cannot be used as collateral include the borrower’s primary residence and necessary furnishings and appliances, land owned by small farmers, social security pensions, child support, and two-thirds of borrowers’ incomes.

In January 2012, a new subsidy for low-income residents to build and repair housing was launched. Priority is going
to households where homes were damaged or destroyed in hurricanes and other natural disasters.

So far, the only taxation in effect regarding real estate is the property transfer tax paid by the buyer and income tax for the seller. Ongoing property taxes based on tax assessments are being considered as part of an overall tax law to be discussed at the summer 2012 meeting of Cuba’s legislature. Should tax assessments be instituted, they may force some households who had not intended to sell to downsize, crowd in with relatives or move to low-cost areas. However, tax rates may be low and exemptions may be granted for low-income families.

All these proposed measures are likely to accelerate the trend toward greater geographic differentiation by race and class. Neighborhoods became more socially heterogeneous after the revolution, but black market sales and house swaps in the last two decades have started to reverse this pattern. However, restrictions on sales or house swaps in special areas—for instance, those slated for tourism—continue from the past.

Some fear that market forces may lead not just to gentrification but also to homelessness and the continued growth of shantytowns. Not only could foreclosure (should there eventually be mortgages on primary residences) and tax assessments (should they be instituted) pressure people to leave, but some homeowners may find some offers so attractive that they will sell the house out from under other household members, which occasionally occurred during the brief period of free-market sales in the mid-1980s. The new law contains provisions to assure that occupants of the house being sold will have a place to live, but it is unclear how well it will be enforced.

Some planners and architects argue that families now have an incentive to spruce up their dwellings for sale or can fund building maintenance from proceeds of house swaps. A new real estate boom could deal a blow to Havana’s crumbling architectural legacy. The Cuban curator and art critic Gerardo Mosquera noted that “if things don’t change, Havana will collapse. And if things do change, they’ll tear it down.”

Also of concern is the small, separate system created in the mid-1990s for joint venture real estate investment for foreigners. Thousands of units were built for sale to foreign business people, diplomats and snowbirds. After several hundred condominiums were sold, sales were ended and the rest of the units rented. The proposed law regulating this parallel housing system has gone through numerous drafts over many years, but has not yet been approved. The Cuban government recently agreed to permit a joint venture developer of golf course real estate to sell luxury condominiums free and clear. And some have questioned why, if foreigners can buy property through these special deals, they can’t buy regular dwellings.

**Housing is a Right, not a Commodity**

In Cuba, housing is seen as a right and not a commodity. Experience has shown the difficulty of eliminating the real estate market but leaving it completely free won’t work either. The challenge will be to establish an enforceable legal framework that regulates the market to prevent speculation and artificial price hikes. Prime areas in Havana, beach resorts and elsewhere are experiencing strong speculative pressure, but other areas may have a more “normal” market, influenced by access to convertible currency or other substantial income. Although some sources of corruption are eliminated, others will continue, since incentives to evade taxes or the need to justify the source of funds to purchase will deter some participants from completely going through legal channels. House swaps continue because families want to be assured they have a place to live, and it is more affordable to pay the difference in value in a swap than purchase a dwelling unit.

As the United States and Europe go through an extraordinary period of austerity where public assets are being sold into the market, Cuba continues its enduring commitment to social control of both public and private property. Cuba’s willingness to experiment with the introduction of market mechanisms in their economy provides a compelling contrast to the industrialized North where social control of capital seems to be out of reach of even the advanced social democracies of Europe.
Race, Poverty and the Environment (RP&E) is Urban Habitat’s national journal of social and environmental justice, founded in 1990.

For over two decades we have covered how low-income people and communities of color are organizing to win equality and justice. Multiracial, multi-issue organizations capable of uniting constituencies for social justice action have never been more critical. RP&E is a longtime and crucial connection point for advocacy groups, regionally and nationally.

Visit urbanhabitat.org/rpe to subscribe, order back issues, read from our archives, sign up for our quarterly newsletter, and catch up on the latest research and news in environmental, economic and transportation justice.

In 2010, RP&E forged print-web-radio collaborations with local and national radio outlets with production facilities in the Bay Area. Radio RP&E features in depth interviews and speeches from the movement for racial, economic, and gender justice.

Annual Subscriptions: $20/individual, $40/institution. Back Issues: $10/issue. The complete archive collection, which includes over 60 issues from 1990 to present, is also available for $250.

urbanhabitat.org/subscribe

Race, Poverty & the Environment
A Project of Urban Habitat

Race, Poverty and the Environment (RP&E) is a member of The Media Consortium, a network of leading independent journalism organizations in the U.S. working together to strengthen the role of media in creating a democratic society.

Our online archives are available at urbanhabitat.org/rpe. In addition, back issues of the journal will be available via the comprehensive online academic journal archive JSTOR beginning in 2015.