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# La Permuta: an effective instrument for housing transactions in Cuba

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## Introduction

This paper is about the *permuta*, which is the only legal instrument created by the Cuban authorities to facilitate land and housing exchanges. Beyond that fact, the *permuta* has sociological and economical significance as being the escape valve for the people in their resistance to being *standard people in standard housing*,<sup>i</sup> as it reflects the increasing demand of families for more diversified dwelling options.

In the absence of a formal real estate market, the *permuta* has proved very effective in incorporating hidden and informal valuations and transactions in housing, where monetary interests are increasingly appearing as an important feature. Over the last decades, the number of arrangements and agreements between the parties, and the complexity of the negotiations has increased. The transactions within the *permuta* now incorporate new aspects that anticipate future value increments and other benefits and profits from the development of home based businesses, or that anticipate positive impacts derived from public investments or new urban regulations.

The study of the *permuta* is therefore very attractive for urban planners and economists. But the study is also difficult for various reasons: it is very vulnerable to legal and institutional changes, it has a dual (legal and illegal) connotation, it has a large capacity to mutate and camouflage in order to evade restrictions, and there are no trustworthy records of the informal transactions.

## From the market environment to *la permuta*

*The appropriation of space, this remnant of power that people have on the world, is one of the advantages of domestic culture and at the same time one of its essential motors. But the appropriation also leads the transition from the basic need of shelter to the pleasures it conveys.*  
Daniel Pinson.

Before 1959, Cuba experienced serious distortions in urban development and infrastructure provision. The capital city absorbed most development initiatives, while other territories were poorly developed. The reason was that most of the investment projects depended upon political and financial interests, wishes and preferences of the governing private and public powers that rarely targeted the needs of the poor.<sup>ii</sup>

The triumph of the Revolution in 1959 brought new strategies for economic, social and cultural policies<sup>iii</sup>. The implementation of new concepts, methods and instruments with the intention to transform the urban structure<sup>iv</sup> required a new institutional structure designed, among other things, to favor equity and to reduce and gradually eliminate financial speculation from urban development.

This new social project implemented laws and regulations to abolish land and real estate property markets.<sup>v</sup> The institutional and operational framework for buying and selling land and housing properties, and for land rents and taxes in the real estate market, disappeared overnight. The whole situation changed drastically for landowners and developers, when the state declared itself the first purchaser, with the intention of reducing speculation by controlling prices, by avoiding the intermediaries, and by determining a fairer way to assign and redistribute the housing stock. In 1968<sup>vi</sup>, the government fixed the price of four pesos per square meter for all land, located in urban or rural areas.<sup>vii</sup>

According to the Cuban Constitution, housing is a given right of every human being, and the government is the main actor responsible for its development, production and distribution. Here lies the main advantage - but also the main limitation - of the Cuban housing policy, because in trying to provide shelter for the

majority in a subsidized way, the authorities finally end deciding for the majority and forcing everybody to live under the same standards<sup>viii</sup>. This affects the identity of people and their social diversity, and it creates discomfort and opposition. If, on top of that, the authorities do not have the necessary resources to produce the services and infrastructure needed for housing areas, and if instead of improving housing quality it lowers it to produce more, the situation becomes worse instead of better.

Between 1959 and 1994, the government initiated almost all the housing programs as part of this subsidized and equalitarian vision. Only from 1994 until 2000, as part of the opening to the outside world to face the economic crisis, did it allow the construction and renting of medium and high standard apartments for foreigners settling on the island.

During the 70s, 80s and 90s, all investments for the productive and unproductive sectors, including housing, other social services and urban infrastructure, fell under the responsibility of the government. But the benefits derived from these developments have not been sufficient to meet the demand. In the case of housing in particular, the provision and maintenance have been below the demand for new units and the rate of deterioration of the existing stock. This has led to an increasing demand to exchange dwellings, not only in search of financial benefits also to solve family needs and reach an acceptable level of the quality of life. The need for a mechanism for property exchange led to the creation of ***la permuta***.

This instrument arose in order to facilitate the exchange of housing units among inhabitants or families, owners or usufruct occupants, with the authorities ensuring the legal control of the process through the participation of an urban agent. Among the main reasons to permute were the following:

- Natural family growth, need for a larger home.
- Improve distance to work, to central areas or to relatives.
- Improve access to city level services.
- Environmental concerns for health reasons or for recreational purposes.
- Incapacity to maintain or repair the housing property.

Practically all types of lodging qualify to *permuta*: privately owned homes, social housing produced and allocated through state agencies, self construction with government credit, and even self construction without government support in informal areas<sup>ix</sup>. The only cases excluded from *la permuta* are buildings listed as *basic assets*<sup>x</sup> controlled by enterprises and institutions, although this consideration has changed in the last decade. Other spaces and surfaces such as roof tops, garages, court yards, back yards and gardens provide additional value in the informal aspects of the exchange.

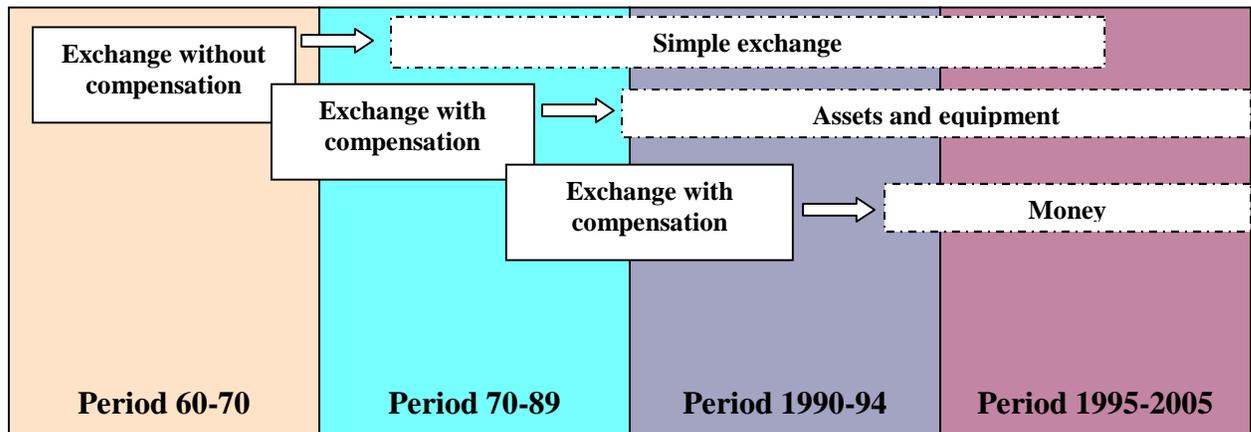
It is important to notice that financial incentives do not appear among the authorized reasons for housing exchange. It is evident that the official criteria do not consider financial advantages derived from property size, location, year of construction and quality, architectural design or potential rents. Yet there is evidence of hidden undeclared intentions of profit making behind many apparently simple exchanges.

### **Chronology of *la permuta***

The legal regulation of the *permuta* has changed according to social and economic circumstances. This is evident in its legal treatment in different juridical forums since its creation, namely in the General Housing Law of 1986, in its first modification of 1989, and in its second modification in 2003 (law decree 233). Yet despite all those compulsory legal procedures, the *permuta* is difficult to monitor as it activates multiple

mechanisms in parallel with the legal process. The arrangements and agreements between the parties are not transparent for all those involved, and there are no contracts or records of the negotiations. That is a risk for the families involved, and it is a challenge for this type of study, as it is difficult to obtain reliable data about a process only recorded in the minds of those involved.

The way that the *permuta* takes place has changed. During the 70s and 80s, the process appeared to be more transparent and simple, nowadays it is very difficult to reach an agreement without the presence of an intermediary. We have identified four main periods with specific characteristics in the history of *permuta* operations:



The graph above shows a **first period** when *permutas* essentially served to facilitate dwelling exchange with no other interest than to meet the families' wishes better. There was little evidence of compensation during this period. The fact that the revolutionary laws had been recently passed, and the promises of a better society, brought out the best in people, and this probably restrained other sorts of arrangements. Moreover, between 1959 and 1972, some of the largest housing projects were finished at the same time as the redistribution of the housing stock abandoned by the diaspora. In that period, the distinguishing elements for a good *permuta* were the property size and the number of bedrooms: to have telephone and gas were additional advantages for a good exchange.

Nevertheless, things were not so uncomplicated and undemanding as they might appear. Since the first years of the Revolution, there was a demand to live in specific city areas among certain population sectors, namely those with a more urban culture. The land use plans for the former wealthiest neighborhoods were subject to special regulations. The designation of *frozen zones* in areas abruptly abandoned by their original owners is an example of this. In leaving, the rich left large residences surrounded by greenery with high environmental, urban and architectural quality. In these areas, *permutas* required special authorization and verification of the families' characteristics, as most buildings were reserved for state interests, protocol houses, embassies and diplomatic residences.

The **second period** corresponds to the 70s and 80s decades marked by a new approach in social housing production with the boom of large scale standardized projects using prefabricated construction systems. At that time, the growing demand for housing led the government to create the social micro brigades<sup>vi</sup> as a participatory mechanism to achieve more productivity in house building.

Although the patterns of the first period persisted, it was common to find negotiations over compensation. Individuals unwilling to confess their wish for compensation simply showed resistance to accept the offers, waiting to hear more interesting proposals. At first, compensations were not significant and they took place

when families with less income preferred to lose comfort in exchange for money. Compensation with equipment and other valuable assets appears as an alternative to money transactions.

During this period, the preference for down town and high income areas became more evident. The residential areas built by the micro brigades were located in areas distant from most urban services and recreational areas and without transportation facilities. The buildings had low construction quality and unattractive urban environments.

Inter-provincial permutes were also common, as the highest aspiration of many families was moving to the capital, even if this implied infringing legal aspects. The *permutero* who plays the role of real estate agent gradually becomes an indispensable part of the *permuta*, appearing as the solution for more complex swapping, forming chains among five, ten and even more families.

At the beginning of the 90s – **the third period** - with the economic crisis and the devaluation of the Cuban peso<sup>xii</sup>, the compensation for the value difference between dwellings included assets and equipment rather than money. Private automobiles, color television sets, tape recorders, CD players and videocassette players were some of the desired artefacts. The situation changed in 1994 once the government legalized the use of the American dollar and the exchange of foreign currency, creating an unprecedented demand for compensation in hard currency.

For the first time in the history of the Revolution, the precarious economic situation exacerbated the inequalities among population sectors, namely between those with dollars and those without. Many families, including the original owners of houses, start to leave their houses to the *nouveau riche* in exchange for hard currency. The revenue sources of the newly rich are family remittances from abroad, profits from private small businesses such as *paladares* and room renting, second salaries from foreign firms, and tips from the tourism sector.

The exchange of dwellings in the special period<sup>xiii</sup> after the legalization of the dollar had negative and positive impacts on the various city neighborhoods. On the one hand, the amount of maintenance undertaken by the newcomers produces positive externalities into the surroundings, with the exception of dwellers with little taste who transform and adapt the buildings without taking into account the aesthetic values. However, in the low income areas that receive no benefit from well-off families and little attention from the state, the lack of maintenance and deterioration is more evident, reinforcing the attitude of the inhabitants to neglect and abandon their dwellings.

During this period, the amount of compensation and the fee of the agents are the result of crossed negotiations among the actors involved in the *permuta*. The process becomes complex because of the interplay of variables that allow the comparison between different negotiations. For example, the value is no longer equivalent to the building cost (replacement cost), and it starts to include other elements such as location and accessibility. The actors also gather intelligence and information not only from the informal context, but also from formal transactions in the national and international contexts.

The **last period**, from 1994 to 2006 is the most sophisticated. Money has become the key variable for valuing properties involved in the *permuta*. The development of tourism and real estate projects, and the favorable entrepreneurial context created with the laws allowing foreign investment, spread information about the profitability of different city areas and about the performance of real estate markets in other countries. These references reached the Cubans through foreign businessmen, relatives abroad who are interested in helping their families to open a business in their home country, and Cubans who work in joint ventures and government enterprises in direct relation with foreign negotiations<sup>xiv</sup>.

In addition to the location, construction area and quality, accessibility, property size and neighborhood prestige, other factors are taken in to account. These include speculating with future value increments, anticipating benefits and profits from the development of home based businesses or from positive impacts derived from public investments or new regulations in the area. It is interesting to see how the informal agents recognize and capture these potentials, while government institutions evidently less motivated, stay indifferent and ignore them.

Instead of figuring out ways to capture the value generated, both by public and private investment (even if the latter is informal) official Cuban institutions spend a lot of time and energy designing new strategies to tighten controls on the activities related to the *permuta*. The *permuteros* are clever enough to identify new legal gaps to continue the informal trade with housing therefore the environment of of the *permuta* in the last years lacks transparency due to the apprehension of agents and beneficiaries facing the restrictive institutional context

### **The legal context of *la permuta***

The *permuta* appears in the Cuban Civil Code, Law No. 59, Title V, Article 367. This sets the general rules for a contract in which the parties agree to exchange the ownership of one asset for another. Without detailing this concept, it is evident that the legal scope of this instrument is general and flexible enough to assimilate the changing circumstances of the Cuban context. Moreover, over the last decades, this instrument's legal procedure has been modified many times to adapt it to the circumstances.

The permanent monitoring by the government of the *permuta* is evident in the juridical attention it has given to it. First, in the General Housing Law of 1985, later on in the 1989 modifications, afterwards in the Law decree 233 of 2003 and finally in the second modification of the General Law in 2004. In all cases the authorities have reacted with restrictive approaches, to limit the irregularities rather than find legal ways to recognize them.

Four years after its publication, the 1989 law was modified in order to increase the municipal control. The main changes are listed below and did not directly affect the *permuta*:

- Reinforcement of state control over housing issues at municipal level.
- Cancellation of the owners' right to evict other occupants.
- Establishment of most sales in favor of the government and only exceptionally among private owners.
- Authorization of renting of houses or parts of them.

During the 90s, other regulations and legal procedures were issued and finally in 2003, with the Law Decree 233, came new changes with considerable impact on the procedures for permuting.

- Modifications to renting conditions.
- Prohibition of buy-sell operations among property owners.
- Establishment of all sales in favor of the government according to a legal price.
- Special regulations for the *permuta*.
- Legal sanctions for profit making and illegal housing transactions.

This law decree is a reaction against the irregularities and illegalities identified during the 1990-2002 period, most of them hidden behind *permuta* operations. It is no coincidence that the number of irregularities increased during the 90s, which was the period of economic opening to foreign capital and the development

of tourism and real estate businesses. Nor is it a coincidence that those restrictions have been applied again, now that high centralization policies have been introduced.

In 2004, the General Housing Law was modified again, this time introducing important changes in 18 of its articles and adding another article. The following chart shows the general contents and the articles modified.

Chapter	Contents	Modified articles
I	Principles and Objectives	None
II	Construction and Housing repairs	7, 15
III	Transfer of state built Housing Property or allocation of empty dwellings.	None
IV	Juridical framework of state owned housing.	49, 63
V	Juridical framework of privately owned housing	69, 70, 74, 76, 78, 81
VI	Regulations for apartment buildings	None
VII	Housing under special regulations	108, 109,
VIII	About illegal occupancy	115
IX	Property Register	116, 117, 118, 119, 120, 121
X	Legal procedures to claim property rights.	None
XI	About the National Institute of Housing	None
	Special Dispositions	2da, 3ra, 7ma, 10mo 2da, 10mo 3ra, 10mo 4ta
	Temporary Dispositions	None
	Final dispositions	None

The articles most affected are those dealing with juridical issues and property rights, the Property Register procedures, and the Special Dispositions. From 1995 to 2004, the Municipal Authorities had already implemented most of the changes, in the form of Law decrees which anticipated the Law modifications. The changes are intended to:

- Improve the capacity of the Municipal Housing Directorate
- Reinforce the right to buy and sell land and building properties in favor of the state
- Limit the rent authorization to legal and natural inhabitants residing in the country.
- Testaments involving large properties would require authorization of the Municipal Housing authorities.
- Extending from 5 to 10 years the period of time a person must live in a house to have legal right to it. This case is very common among people planning to abandon the country who leave their house under surveillance of relatives or friends, who will be evicted by the authorities unless they can prove they have lived there the required time.
- Transfer the responsibility of the Property Register from the Municipal level to the Ministry of Justice.
- Transfer the powers to update and elaborate the territorial cadastre and to grant ownership titles to the Property Register Offices.
- Ratify the Court as the main authority to claim justice for unfair solutions for administrative and legal issues concerning housing.
- Establish punitive actions for violating housing regulations and for the development of profitable businesses through the *permuta*. The confirmation of lucrative activities with housing, administrative fraud, violation of procedures, falsification of documents and so forth are penalized with the government confiscation of the dwelling.

The government response to the irregularities is very restrictive, never acknowledging the real causes and consequences. These are addressed very superficially, not leading to a real understanding of the problem and therefore to its solution.

The powers granted to the local authorities are mainly a formality. Functionaries act first as observers, later as penalizers because they continue to lack the planning and administrative capacities to really face the population problems. In certain domains, municipal competences have been transferred to the ministerial level in the attempt to achieve better control, but this only widens the distance between the decision makers and the local actors, which is equivalent to speaking two different languages without an interpreter.

There are other aspects which limit the right to permute, such as the minimum standards and the imposed rule of a certain degree of homogeneity between the buildings for an authorized exchange. Certain cases of humanitarian concerns, property titles involving more than one owner, and buildings located in areas with special regulations, need additional approvals from planning local and national authorities.

#### Types of legally permitted permutas

**Notaries Permute:** Is the building exchange one where the occupants are property owners with documents to authenticate that condition? The arrangements require the presence of a notary.

**Administrative Permute:** Does the dwelling to be exchanged involve the interests of more than one owner, tenant or free occupant? This is the most frequent process, as it involves state leases and state rented dwellings. It is always handled through the Municipal Housing Directorate.

**Compulsory Permute:** Is this a case where not all the owners approve the exchange? It is socially and psychologically more complex as it usually involves conflicts of interests and disagreements among family members. This type of process has two main targets:

- \* Bring the co-ownership to single ownership. This change could be demanded by either owner.
- \* Allow the housing owner or tenant to separate from the other occupants that do not have the same property rights. This type of permute has different combinations depending on the number of occupants and their legal status. It is frequent among state housing tenants.

The current regulations establish the reasons to deny a *permuta*:

- If it is used for money-making
- If there are illegal subterfuges.
- If it causes damages to any of the occupants.
- If one of the occupants has been declared a permanent tenant by the Board of Illegalities.
- If one or more occupants have the intention to abandon the country and there are no major reasons to approve the exchange.

One of the most important steps in the legal procedure is the determination of the dwelling's official price. This is usually registered in the property documents and it is valid for five years if the building has not been enlarged or significantly transformed. There is an official procedure for the dwelling's appraisal<sup>xv</sup> and there is no evidence that the legal method influences in any way the informal price which is determined.

A conflict takes place when the authorities detect evident disproportions between the legal prices of the properties being exchanged, as these are sensitive to external variables such as location and urban qualities, and to building quality indicators such as the state of repair and floor area. Big differences between the dwellings can make housing authorities consider that there are hidden interests, and they will disapprove the exchange, unless there are family reasons to justify it.

The *permuta* has restrictions in special city zones. In such cases the procedures are not a responsibility of the municipal level but transferred to the government entities in charge of the area. At present there are five such zones<sup>xvi</sup>:

- 1- Heritage Conservation Zones.
- 2- Tourism Development Zones.
- 3- Controlled Zones.
- 4- Frozen Zones.
- 5- Special Zones.

The first zone includes city centers and districts of cultural and historical relevance with heritage buildings and monuments, such as Old Havana, the waterfront, Chinatown, El Vedado and Miramar neighborhoods. These locations already have or could receive in the future national and international designations for heritage protection, that establish special procedures for development and redevelopment, usually managed by a special agency or institution.

Among the areas considered significant for tourism development may be the ones listed above and others with relevant landscape and environmental qualities such as Old Havana, the beaches on Eastern Havana, and many other areas of environmental significance in the various provinces of the country.

The controlled and frozen zones are specific urban perimeters with strict control of the buildings and the inhabitants for national security reasons. These areas enclose the residences of Prime Ministers and the most important government functionaries, the diplomatic and protocol services, and they have special surveillance and circulation restrictions.

The special zones are land reserves for future projects and other protected areas where constructions are not permitted, such as airport surroundings, military areas, scientific centers, city level parks, ecological reserves and underground water reserves. These areas have restrictions according to each case, and it is important to monitor their development to protect them from inappropriate uses and illegal settlements.

These legal and institutional adjustments were opposed by many people, who filed complaints because the procedures considerably limited their options, were time consuming and complicated. The government finally decided to revise the whole process, and the authorities concluded that the main inconveniences affecting the population were:

- Obligation to accept the visits and interviews with the housing authorities.
- Excessive bureaucracy and paper work with different institutions. Time consuming and expensive procedures that required traveling to different offices.
- Lack of administrative professional capacity. Limited access to computer technology to improve the efficiency of the response.
- Lack of updated registers and monitoring of the *permuta* cases.
- Subjective and dogmatic procedures, vulnerable to misinterpretations.
- Unclear limits between what is legal and what is not, what is right and what is wrong, what is politically correct and what is not.

- Not all municipalities have the same number of applications; this depends on the population densities and other social and urban factors. This also affects the efficiency of procedures.

In December 2005, the Cuban Parliament evaluated the new proposal for the *permuta*. The revision was expected to find solutions to overcome the negative aspects previously explained: to increase the institutional and technical level of housing staff, to speed the paper work and to discourage illegalities.

The last changes were ready for implementation at the beginning of 2006 and the official newspaper, *Granma*<sup>xvii</sup> published the following note - *the population will find relief at the hour to permute. From 10 documents, now they only need 7 and three of them will be taken care of by the Municipal Housing Directorates. The number of documents that the inhabitants will have to present will depend on the building's characteristics and location. In all cases of administrative permute, the authorities will issue the Property Title and will give the necessary instructions for the inscription of the dwelling in the Property Register.*

The note continued –*the parliament recognizes the need for this change, as the presentation, analysis and approval periods were very prolonged, as for example the construction permit that took approximately 120 working days.*<sup>xviii</sup>

In February 2006 the official newspaper ratified once more the above declarations, emphasizing that in all cases the inhabitants would have the additional benefit that the municipal authorities would assume free of cost the preparation of the report with the description and the building state of repair, as well as the price determination.

It is clear that a *permuta* is legally recognized, but only under certain conditions. *Permutas* which take place under other conditions are illegal.

### **The legal process of the *permuta*: the formal side**

As previously explained, the *permuta* juridical framework has substantially changed over the last 15 years. This is evident in the changes made to the legal procedures and the consequent population responses. At present the main actors are the municipal authorities, which include functionaries, technical staff – mainly engineers and architects -; the community architect, the community organizations at local level, the lawyers and notaries and last but not least the inhabitants, the fundamental actors in the process.

In theory, the work of the municipal functionaries is very relevant but in reality these people have no professional and financial motivation, they simply follow a routine, sometimes apathetic to the inhabitants' problems, not because they are not sensitive to them, but that they realize the impossibility of giving an effective response.

On the other hand, the community architect works very close to the people, trying to solve their housing problems in a less bureaucratic environment. This makes it more active, providing the technical criteria for the construction appraisal and legal arrangements, usually cooperating with the family in taking over other procedures. In the last modifications of February 2006, the role of this actor has been considerably limited, transferring part of the task to the passive and often inefficient municipal functionaries, who are probably unwilling to reach the same quantitative and qualitative results.

In this way, the *permuta* is losing an important actor. By limiting the scope of the community architect, the whole burden is transferred to the municipal staff, already overwhelmed with papers and controls, who become technical and methodological supervisors of the process. Two situations may result from this. First,

the decentralized actions of the community architects become centralized, therefore, less dynamic and flexible. Second, the informal negotiations and agreements that could take place between the inhabitants and the architects will not disappear, but will instead involve the state institution. This will gradually accept them, with positive effects – new experiences - and negative effects – irregularities, legal violations.

The process starts when the individual or family interested fills in the permuta application in the Housing Municipal Directorate (DMV). This petition is a letter addressed to the Housing authorities, and the individual explains the motivations to permute. To facilitate the procedure there is a form containing the essential information that the interested person has to deliver at the DMV, with 20 pesos in stamps in the case of ownership, and 10 pesos in the case of a tenant or usufruct occupant. The applicant must also confirm the last housing payment in the case of tenants. If the demand involves dwellings from different municipalities, the dweller must also provide a certificate from the corresponding housing Directorate.

The second stage includes various actions that take place in parallel:

- Housing investigation: The authorities check various aspects, such as the official register at the Housing Directorate, the type of property title, the spatial characteristics of the dwelling according to architectural codes and state of repair, and the register of occupants in the Address Register of the CDR<sup>xix</sup>.
- Housing appraisal: The owners can present a recent valuation (less than five years old). Otherwise the community architect or the designated municipal functionary makes a new appraisal to update the legal price.
- Verification of Law Decree 217 (Internal Migration Control): If the dwellings involved are in municipalities with high population densities or outside Havana City, the authorities will check with the Identity Card Office and the respective Municipalities the number of occupants moving from one place to the other.
- Verification of Special Zones: If one of the dwellings is located in one of the areas with special regulations, the municipal authorities have to consult the responsible entities for approval.
- Authorization of state entities: If one of the dwellings is a Basic Asset<sup>xx</sup> or Housing Lease<sup>xxi</sup>, the occupants must present the approval of the dwelling owner. In such cases, the National Housing Institute will be responsible for the procedure.

If the verifications are positive, there is a third stage where the municipal board has a meeting to review the *permuta* demand and to decide if the papers are ready for the Housing Director.

In the fourth stage, the Director produces the legal document approving or rejecting the *permuta*. There are four possibilities:

1. Resolution of approval of a Notaries Permuted.
2. Resolution of approval of an Administrative Permuted.
3. Resolution of approval of a Compulsory Permuted.
4. Disapproval of the Permuted.

In the fifth stage, the dwellers - in the case of an administrative permuted - will need a notary to deal with the legalities of the process. With the legal certificate, they go to the Property Register of the Ministry of Justice. The *permuta* implementation can take place after legal registration, and after the final informal arrangements among the actors (see Annex 1).

The table below gives the number of origin *permutas* in the different municipalities of Havana city from 2004 to 2006.

Municipalities	Years				Existing Housing Stock (Marz/06)
	2004	2005	2006 (june)	Total	
Playa	249	352	223	824	59,507
Plaza	878	410	273	1,561	53,615
Información Ciudad de la Habana.	870	658	413	1,941	62,069
Habana Vieja	600	516	255	1,371	31,509
Regla	107	117	80	304	13,986
Habana del Este	352	412	197	961	53,862
Guanabacoa	230	242	147	619	34,785
San Miguel del Padrón	235	215	129	579	49,002
10 de Octubre	573	754	369	1,696	70,648
Cerro	661	452	244	1,357	42,380
Marianao	208	305	113	626	42,417
La lisa	195	212	98	505	40,083
Boyeros	244	244	171	659	38,011
Arroyo Naranjo	236	267	108	611	62,585
Cotorro	162	194	79	435	22,136
Swap approval by Provincial Housing Direction	51	51	12	114	
<b>TOTAL</b>	<b>5,851</b>	<b>5,401</b>	<b>2,911</b>	<b>14,16</b>	<b>676,595</b>

Source: Juridical Department, Provincial Housing Directorate, Provincial Administration Council of Havana city.

A few comments can be made about these statistics. First, the number of *permutas* does not reflect the number of dwellings involved, as every *permuta* can have a number of combinations that range from a simple exchange of two dwellings up to the multiple exchange (that according to the legislation of 2004 should not be more than three). The authorities estimate an average of 2.6 dwellings per *permuta*, this means that every year around 15 thousand units are involved. This number is not reliable: if we consider that the existing housing stock of Havana is over 650 thousand units, the number of dwellings involved in *permuta* actions represents nearly 3 % of the total stock, in comparison with the Latin-American performance with an average of 9% per year according to expert opinions.

Secondly, the numbers show that five municipalities have more than 50% of the *permuta* operations. Four of them are those with higher population densities and the biggest urban problems: some parts of these municipalities are under special regulations such as Old Havana and El Cerro. The fifth municipality is Plaza de la Revolución, which is among the best urban locations for its centralities, accessibility and functional facilities.

### Information flows in *la permuta*

In *la permuta*, information flows in different ways. Some of these channels have disappeared or have been replaced during the economic crisis of the 1990s, but the most effective remain. The following are the most recognized:

- The informal *permuta* Trade Center.
- The OPINA magazine.
- Radio programs.
- The web system of the Housing Provincial Directorate (SePermuta.com)
- The e-mail and the internet
- Posters and signs in public areas.

The *permuta* **Trade Center** takes place in a famous promenade of Old Havana known as the *Paseo del Prado*. This public space is worthy of being incorporated into a vernacular theatre play! People interested in finding *permuta* possibilities spontaneously meet there with the *permuteros* who are indispensable in property evaluation and in the organization of the *permuta*.

This exchange meeting is one of the less sophisticated ways of starting a *permuta*. In fact what takes place there is only the tip of the iceberg of a much more complicated process. The situation there is nevertheless a good thermometer for measuring general prices and property values, and it is confusing for beginners who, in the first visit, usually require the help of an intermediary to really understand what goes on. Nowadays, the largest and most profitable operations take place according to other logics, and the negotiations are not carried out in public.

The *permutero* has to be very versatile and a good communicator: many are women. Although their educational backgrounds and professional experience may vary considerably, they need to have general knowledge about the city neighborhoods, the construction typologies and building maintenance costs. It is very helpful if they have a general idea about public investment in the different city areas. All these requirements enable them to act as evaluation experts in real estate. There is evidence that a large percentage of these agents started by searching for offers to improve their own housing conditions.

The **Opina magazine** became very popular during the 80s, because it had a section for advertising *permutas* classified into supply and demand. The advertisements appeared in little boxes which contained a description of the spatial and construction characteristics of the dwellings, as well as infrastructure and transportation advantages. Following the supply box came the demand, which included the desired dwelling characteristics, the preferred locations and the need for highly appreciated networks such as gas and telephone. This tabloid reached such popularity that it became an obligatory reference about the conditions of city areas, appreciated not only by people wanting to permute but by all the inhabitants. The classified advertisements could also include furniture, electrical equipment and other assets.

The information registered in *Opina* gives evidence of the significant number of inhabitants wishing to permute from new development areas to the down town and high income residential areas. Although there are no references to values or compensations, the last lines usually include a short but very powerful sentence saying *propositions heard*.

The *Opina* magazine disappeared in the late 80s, just before the economic crisis led to the drastic cut in the number and quality of publications. The reasons for interrupting such an effective source of information are

not clear, and up to the present no other weekly or monthly publication has offered a similar service of documentary evidence about housing exchange.

The **radio programs** have filled the gap left by the Opina. A few broadcasts in Havana city advertise the *permuta* following the same structure as the magazine. This is a good alternative but less effective than written announcements, because the programs devote only a few minutes to quickly reading out the information, and because they are usually not recorded.

In the last few years, the Provincial Housing Directorate have produced an electronic exchange mechanism, through which interested people pay a small sum of money to have the right to inscribe their offer in the network. The Directorates have developed the site WEB **WWW/ hptt: Sepermuta.Com** to spread the information and at the same time to monitor the number of interested families. This alternative is not available to most families who do not have internet access, and there are not enough places that offer this service.

In parallel, many intermediaries have established **electronic mails** exclusively for *permuta* advertisement, where people can access to housing offers and contacts with *permuteros*. However, this option is not completely reliable as it is updated according to individual interests, forcing people to check other information sources.

Finally the information also appears in **posters, stickers and flyers** spread around central public spaces, bus stops, parks, corners and coffee shops. Many persons have the opinion that this method is very effective for spreading information, even more than the radio programs. The information is much abbreviated, for example, “permute two per one in Vedado neighborhood or Miramar, call Mary to 555 345” and generally lacks adequate graphic design.

Despite all these forms of spreading information, a high proportion of families and individuals frequently choose to hire the services of a *permutero*, as they would rather pay than undergo the bureaucracy of the process or lose personal privacy by giving names and phone numbers.

### **Getting inside the *permuta***

For more than forty years, the *permuta* has been the best option for a Cuban family to arrange the location and housing conditions suited to its family growth and social aspirations. The *permuta* has solved many of the failures and inefficiencies of a housing policy where the authorities decide and impose where and how people should live, using bureaucratic and restrictive methods detached from the specific needs of families and individuals.

As well as formal processes which accompany the legal side of the permute, there are often informal processes. These can have two functions: they serve to make the formal processes work better, and if the *permuta* is illegal they create such illegal processes. That's way in Cuba there is general awareness that the *permuta* is a screen for operations that happen outside the established legal frameworks. Precisely this circumstance makes it so difficult to obtain information from the actors involved, who usually deny having knowledge about the illegal proceedings. An old proverb says there are none so blind as those who will not see. This is true in the case of Cuban institutions that either pretend to ignore, or opportunistically tolerate, these irregularities, not having at hand the right mechanisms to deal with them or the power to change things. The reaction in most cases is more prohibition.

Getting good information about the informal side of the *permuta* is not easy. It requires dealing with very fragmented and dispersed information and with a culture that erases the facts of every case, preserving only

the logics and contacts that could be useful for the following operation. To penetrate the *intringulis* where the actors discuss and agree over financial aspects - values and prices – it is essential to contact them directly. This was done in three ways:<sup>xxii</sup>

1. Identify key informers at the different stages of the process
2. Enter the informal market with an interesting offer and observe the possible reactions
3. Identify and follow up different cases to observe the process from beginning to end and to analyze the differences and regularities.

During the research, the three ways proved very useful for collecting data and the opinions of the agents from both formal and informal contexts. The key informers were located using family and friends, based on mutual trust and respect. They were most helpful in gathering the necessary information about financial arrangements and valuation mechanisms.

Following and recording the history of *permuta* processes allowed us to elaborate both the formal and informal flows, and provided interesting case studies of the different chronological stages defined in a previous section of this paper.

The idea of actively offering housing in the market, using the properties of family and friends, was very useful for learning about the valuation, negotiation and price setting.

Those three steps were supplemented by making contact with the formal *permuta* agents: municipal functionaries, architects and lawyers. But these were very unproductive and almost discouraging. They were extremely cautious in providing any relevant information. The conversations developed around general topics, mainly about the social value of the service they provide to families and individuals and the formal procedures applicable to all cases. Only after several meetings, we were able to discuss important aspects of the *permuta* informal process, namely its financial scope and the ways in which values and compensations among the participants were determined. After many more meetings, we were finally able to obtain precise information about the informal mechanisms activated during the process.

### **The actors in the informal process**

Various actors participate in *permutas*. Their roles are more or less crucial, depending on the strategy for accessing the residential market. At present, the most important are the families and individuals wishing to permute – the *permutantes* -, the agents or *permuta* runners – the *permuteros* -, and the legal advisor. These actors have different ways of exchanging information between themselves and with other actors, but in general the *permutero* is the central coordinator.

- **The *permutantes*:** they are individuals or families who begin a *permuta* process driven by the need to change their housing situation. They can be owners, tenants or usufruct occupants of a government dwelling. In most cases, the responsibility lies with the head of the family (who is not necessarily the owner of the dwelling).

To enter the *permuta*, it is necessary to have at least one of the following, or the combination of them:

- Financial resources (money).
- A housing property.
- A land property.

The process is less complicated if from the very beginning the family or individual has tangible assets, that is, a room, one apartment in a building or an individual home. Due to the great limitations of the construction industry and infrastructure access, it is more convenient to have a building than land available for building. Most of the cases recorded involve transactions with building properties and in only a few cases is land acquired to build on later.

In a *permuta*, something is always bought or paid for, not necessarily something associated with the properties involved in the exchange. This is often a payment for ad hoc legal or illegal services necessary to avoid bureaucracy, to receive more information, to complete the necessary documents, to avoid technical obstacles, or even to shorten a queue. At certain moments, many formalities take place in parallel, formal activities overlapping with informal ones. During the overlapping, public functionaries interact with informal actors producing interesting negotiations for mutual benefit.

- **The *permutero*:** Is an agent or runner hired by the permutante to manage the whole *permuta* process, from finding the housing offered according to his client's preferences, to closing the *permuta* deal. In general, this actor is an expert in housing exchange and other aspects related with the city. Not all have the best market knowledge, hiring the best is more expensive and they usually work in the most complex operations. Although they usually work alone – obviously to maximize the profits - they could decide to work in a team, if the operation were very complicated.

The *permuta* agent or *permutero* needs to understand the objective – not always openly declared - of the transaction. He must also have a guarantee of the legal and financial solidity of the scheme, although this is easily recognized after the *permutero* has gathered experience. Knowledge of these variables, mainly the economic one, is an indispensable requirement for the *permutero* to close a good transaction and for his personal benefit.

Consciously or not, the *permuteros* sometimes anticipate other factors which could give value to a house, for instance family intentions of developing home based activities or of renting part of the property. Equally, if the family admits to receiving remittances from other members abroad, it is sure to get better offers both in location and building quality, but it is probable that the *permutero* demand a higher percentage for his services.

If during the negotiation, the participation of a foreigner or the financial help of friends living abroad becomes evident, the operation immediately becomes more costly. Foreigners are often willing to provide capital which will be repaid later with the profits from room renting. There are cases when foreigners even take the risk of buying a property, something legally impossible because according to the existing regulations they may only rent property (and for that they need a residence permit). However, they can reach an agreement with a Cuban friend who in all legal procedures will appear as the property owner.

To a *permutero*, a good business is not only determined by the amount of money won in an operation – although this is the main indicator of success. An operation can also provide knowledge about other properties, about the exchange circuits, and contacts with state institutions and within informal networks. Conscious of the vulnerability of the informal mechanisms, one of the most important aspects is the permanent updating of prices and business strategies.

The most versatile and capable agents develop their own vision of the business and study the legal and financial contexts, looking for the cracks that will allow them to penetrate the legal world.

If the *permuta* involves more than three dwellings, it is often necessary to subdivide it to make it legal. In such cases it is common that each family hire a *permutero*. These will have to negotiate and make alliances

to achieve their common goal, but each will secure his profits individually, defending the decision space and sharing only part of the information.

The process of reaching an agreement between the different families can be very complicated, as every party loses and wins something and there are conflicts of interest among them. Here the *permuteros* make the best of their abilities to reach an agreement, to satisfy individual and shared goals.

- **The legal advisor:** Is usually a lawyer, hired by the *permutero* as part of his team, or by the *permutante* – if he wants to secure a second opinion so as to have legal and juridical assessment about every step in parallel to the *permutero* actions. This actor is sometimes the brain of the operation, as he determines the strategic movements to avoid legal complications with the state institutions. It is also common to find them in a double role as formal and informal actors if they work or used to work in the housing Directorates, other state institutions connected with housing, or property registers.

To have a good insight into the *permuta* actors it is important to understand their different strategies, and it is essential to consider the positive and negative aspect of the process. For example, the state functionaries – whether they want it or not - learn about the transactions and compensations negotiated among the informal actors, and are gradually incorporating an irregular way of doing things. Another issue is the formation of incipient elites that gain economic power from controlling certain clusters of residential use. At the other extreme, there are growing social differences between sectors: all sectors have the same rights to better living standards, but some have no access to that, having neither the money nor the talent for this sort of business.

#### **About informality in Cuba.**

Cuba is not an exception in the issue of informality, but its heterogeneity of forms and manifestations has not been sufficiently studied. The various social policies and efforts undertaken since 1959 to produce equitable social progress have not inhibited the proliferation of mechanisms to cover the State failures in all spheres: in the production and access to consumer goods and services, in shelter, infrastructure, employment, health, education and transportation. There is not one sphere of social and economy development that escapes the presence of some informal mechanisms.

#### **La *permuta* informal process**

In general, the informal process starts earlier than the legal procedure with the municipal institutions, as the first step taken by an individual or family wishing to permute is to **contact a *permutero*** to handle the whole process.

The contribution from the *permutero* depends on the type and complexity of the *permuta*.

The simplest is an exchange between two dwellings without compensation. Here the *permutero* only helps to find the offers and will probably charge a flat rate, usually 200 CUC, for organizing the exchange.

If there is need for a *permuta* chain including more than two dwellings, and if there are financial compensations, then the agent will charge a higher rate –a percentage of the final price or the equivalent in equipment, art, furniture, a car, a land parcel or an apartment.. In most cases it is approximately 10 % of the price agreed with the client.

The *permutero* usually wants to negotiate an additional payment of between 0.5 and 1% of the potential value with the other participant(s) in the negotiation –if they have not hired their own agent -, increasing his earnings in a double value capture act. The client who contacted him first is probably unaware of this, which could be interpreted as lack of integrity, affecting the confidence and trust between client and agent.

After the contact with the *permutero*, comes the **building appraisal** according to the variables established in the informal residential sector and departing from the **comparative method** previously mentioned. The interviews with the key informers showed that, after the appraisal and the agreement upon the buying-selling, it becomes very difficult to lower the price, because the client has that revenue expectation. The **determined value** becomes an essential point of departure for the negotiations and the compensations between the parties. After the **final price** is agreed, it is almost impossible to lower or raise the value of the closed transaction.

The third step is the **presentation of offers** to the client(s) that goes on until the parties reach an agreement. This is a very dynamic negotiation process, where the *permutero* activates all his contacts and the informal networks of information in order to close the transaction as soon as possible. The process usually requires different negotiation rounds, meetings with the different parties and their agents. The number of participants depends on the *permuta chain* set up by the *permutero*, who needs a coherent strategy to get the final approval for the legal part.

After selection of the **final offer**, the process is **linked into the formal mechanism**. although the informal process has to continue during the presentation to the municipal authorities, with the *permutero* providing legal assessment and speeding the paper work through the different stages explained in the formal process.

If the operation is finally approved, the *permutero* and his client (usually the one who hired his services in the first place) proceed to **close the deal** depending on the type of agreement:

- If the client is acquiring a better dwelling than he originally had, he will pay the value difference to the other party and move to that building.
- If the client is giving away a better property in order to receive money, he will be paid the difference in value and move to that building.
- The client will pay the agreed 10 % for the *permutero*'s services, or any value equivalence.
- The *permutero* will demand from the other participants any other benefits negotiated informally *within the informal* process. This depends very much on the negotiation skills and the risks he is willing to take.

The money compensations are paid in cash. In case the arrangement is to pay in equipment or the other assets mentioned before, these will be delivered to the new house or left in place if the person or family receiving them is moving to it. In the case of other types of property, for example a car, a free land plot or a second house in other area, the process will require other legal procedures to complete the deal as the property reassignment (see annex 2).

### **Some informal mechanisms.**

There is a variety of informal mechanisms activated through the *permuta*, and the choice depends on legal and economic factors. Some of these mechanisms have survived for a long time, while others have adopted different outer forms, keeping the essential objectives. Other mechanisms have completely disappeared after being detected and legally restrained by the housing authorities.

The most important mechanisms identified during this research are listed below. It is important to distinguish between those which are strategies designed to accomplish the housing transactions or give access to the preferred house, and those which are general mechanisms which can be activated during the process.

1. The sputnik<sup>xxiii</sup>
2. The black hole
3. The temporary acquisition for future selling
4. Informal permuta networks
5. The permuta chains

### 1. The sputnik

As mentioned previously, to start a *permuta* it is very important to own a building – an individual house, an apartment, a room -, but due to the huge housing deficit, this is not always possible. However there is an informal strategy that simulates, and finally provides evidence through the necessary legal documents, that the individual wishing to permute is the owner of a property. This mechanism is called a **sputnik** and is nothing else than the presentation of a property title that corresponds to a virtual land or building, a ghost asset which only exists on paper. There are two versions of sputnik:

**Sputnik 1:** This is built upon the information provided by the municipalities about buildings declared unfit for habitation. After this designation, these buildings are emptied and sealed while waiting for demolition. However, these constructions often preserve enough sound structural elements to be considered as buildings and not ruins. This means that people could still inhabit them if they wished to ignore the risk of dying under an imminent collapse. This is a good opportunity to make minimum repairs and fabricate the official ownership documents in order to demand an *in situ* inspection by the housing functionaries, so that they will change the designation from inhabitable to habitable. With the results of the technical inspection and the change of designation, the person can go to the bank and demand a purchase contract according to the articles 53 and 54 of the Law of Housing. With this contract, the individual returns to the Municipal Housing Directorate and inscribes the building in the Housing Register. This building can then be part of a *permuta*, rented or sold.

**Sputnik 2:** After selecting the address of an empty land plot, the *permutero* – sometimes with the *help* of a housing functionary - assigns a postal number according to the territorial cadastre. Then, it is necessary to have a resolution stating that there is a dwelling located on the created address. This requires the *help* of a lawyer of the housing Directorate or a notary. After having the legal document, used to create false evidence, the interested person organizes a *permuta* to buy a real property. Although the *permuta* will reflect the exchange of two dwellings, only one really exists.

These strategies are not applied any longer, as the different resolutions and control mechanisms have changed many procedures, codes and authorized firms, significantly limiting the application. In the last 5 years, the housing authorities have organized different inspections to detect irregularities with ownership and legal documents. The cases where they have detected Sputniks have been penalized, retiring the ownership and changing the occupants to the category of tenants – paying rent to the state. After the legal modifications of 2006, the penalizations have more drastic consequences, entailing state confiscation of the dwelling for other municipal uses. The evicted occupants will receive another dwelling but very modest and probably on the periphery.

## 2 The black hole

This mechanism is based on the so called *notary protocol registry holes*, that give the opportunity to leave vacant legal registers to be filled in the future. This is a cover up mechanism that takes advantage of the daily registers that notaries make for different legal acts – such as *permutas* – and which refer to an original documentation preserved in a master register. The trick is to register as legal a document that is different from the original. In this way, it is possible to demonstrate the legality of an action in the past, in such a way that will allow dwellings with a solid legal status to be incorporated into the *permuta* transaction. The replacement of property titles, the presentation of the gift of a dwelling, or any other testimony in favor of specific individuals, are some of the recurring situations where this mechanism proves to be helpful.

This modality is active and probably in process of perfection. The small legal modifications are difficult to trace, especially in the present condition of legal registers that are not even stored in computers. An alliance with the notary is the essential element, as that is the only person capable of entering the daily registers, knowing which registers have been modified and where are the holes that allow information to be entered.

## 3 The temporary acquisition for future selling

This mechanism has two alternatives that secure the final objective of getting the desired dwelling, and it passes through one or more stages. It appears as:

- As a strategy of the agents, when they use the information they manage for different clients in order to get benefit for themselves, basically to have access to better housing.
- The acquisition of rooms, accessories, or dwellings, through donations, marriage arrangements or living together, as a bridge to the final objective, which is the desired home. This is a way to minimize the risks of *permuta* disapproval and to prevent the authorities from discovering a buying-selling intention. The interested parties go through the transitional stages in order to acquire a real asset, so as to legally obtain the *permuta* authorization and then move on to the organization of the informal process.

## 4 Permuteros' networks

The most efficient and experienced *permuteros* with an aptitude for scheming and dealing, are integrated in information networks and well connected with other agents and government functionaries. For this reason, a large number of lawyers, architects, public functionaries and other staff of public institutions participate directly or indirectly in the informal mechanisms.

The information networks are connected with information channels explained in a previous section, but only the general aspects are known publicly. The information is fragmented to avoid risks with the inspectors and other legal authorities. The most important aspects are restricted to the client and the *permutero* alone. The *permuteros* with more financial autonomy and management capacity hire other runners to keep them updated of street rumors, radio programs and other offers that could enrich the *permuta* records.

At present, the information networks are the only evidence of systematization and monitoring of the informal *permuta*. The network has the potential to become a well organized information system for structuring the interconnections between the wide range of combinations and interests, which are an important outcome of the *permuta* process.

## 5 The permuta chains

This mechanism is very common, as it is difficult to find the right *permuta* in a simple exchange. The chains are financially very advantageous for the *permutero*, as the more complex situations are the most profitable, although they are also riskier and complicated, requiring the best skills.

Even when government regulations have considerably limited the number of dwellings in one *permuta*, and when any exchange involving more than three dwellings requires special authorization of the Provincial Housing Director, there is evidence of new inventions to organize multiple exchanges. The more restrictive the institutional context gets, the more sophisticated the informal response.

From the interviews, there is evidence of the pride and prestige of certain *permuteros* who have successfully organized and implemented multiple *permutas* of more than 18 dwellings in just one operation.<sup>xxiv</sup> Under the new circumstances they have been forced to subdivide the large operations – restricted to three - into different stages, where *permutas* take place simultaneously in duos and trios, depending on the complexity of the exchange. After the first stage the agents proceed to organize a second round of exchanges until the final movement is accomplished.

This alternative requires much more organization and coherence on the part of the agents, who must generate a climate of security and self assurance among the different participants. In this mechanism, time is the most important variable, as the bureaucratic delays create uncertainty and could discourage the participants, who could even decide to abandon the *permuta*, thus dismantling the whole operation.

### Setting values and prices

In the last years, many factors have contributed to increasing the price of buildings in the *permuta*:

- The building might be located in one of the valuable city areas with highly qualified urban environment. There is a high demand for areas such as Miramar, the former Country Club, El Vedado and New Vedado neighborhoods<sup>xxv</sup>.
- The low quality and lack of diversity of the new housing (which would be an alternative to an existing).
- The small amount of housing produced by the government and the difficulties of getting a new house outside this framework.
- The growing housing demand versus the growing deficit and the quick deterioration of the existing stock.
- The lack of public transport, which makes it difficult and expensive to live in the peripheral location of most of the 70s and 80s housing complexes, far from the center and from working and recreation areas.
- The existence of only one mechanism, the *permuta*, to facilitate the housing exchange.
- The increasing willingness of people to invest in order to obtain the desired home.
- The growing interest of certain social sectors – the ones with higher incomes - to move to the best city areas.
- The increase in the contribution demanded by the intermediaries and *permuta* agents for their services – often settled as a percentage of the transaction.
- The improvement of buildings due to recent investments. The concept of a '*shoppinesque*' dwelling means a house remodeled with materials and equipment sold in the dollar stores known as the shoppings.<sup>xxvi</sup>
- The improvement of areas due to recent infrastructure investment.

Any Cuban citizen can, *grosso modo*, estimate the location values in the City and, to a lesser extent, the values of individual properties. For instance, a room with bathroom in a building of compact typology located in a densely populated area with deteriorated built environment, such as Central Havana Municipality, costs around 3000 convertible pesos (CUC). A similar room, in a central residential neighborhood such as El Vedado, surrounded by public spaces and good environmental conditions, would cost more than 6000 CUC. An apartment between 80 and 100 m<sup>2</sup> in a similar neighborhood would be around 20 thousand and 30 thousand CUC. The same residence of a wealthy family with gardens, garage, and big living spaces is around 100 and 200 thousand CUC, as in addition to the construction area, there are additional architectural, urban and environmental values.

The knowledge of the *permutero* about the value of properties is essential for determining and modifying the values of land, dwellings, or parts of the dwelling. To come up with the value of a property, the *permutero* also considers the advantage of having a client wanting to sell or exchange his property, and he will wisely use this opportunity to guide the actors into a profitable negotiation based on his experience of the informal residential market.

The growing number and complexity of residential exchanges in the last three decades has helped to perfect a system to set the prices. The method applied is the comparison with prices established in previous transactions with similar properties.<sup>xxvii</sup> The search for the most recent references, which are most similar to the *permuta* in process, is the way in which the property value is established. Adjusting the prices, after determining the approximate price range, depends on the influence of various factors, such as the clients' payment capacity, their needs and aspirations, the legal feasibility of the operation, the tangible and intangible attributes of the residential offers, and the location in the city.

The absence of systematic monitoring of these variables is an obstacle to predicting the correct value. However, based on the surveys and interviews, it is possible to give an idea of the relation between the house prices in certain locations of Havana city.

City neighborhoods	Location	Price per dwelling		
		Year 1995	Year 2000	Year 2006
Panamerican Villa (apartment buildings)	Periphery. East Havana. Waterfront area.	5000.0	12000.0	16000.0
Alamar (microbrigade apartment buildings)	Periphery. East Havana. Waterfront area.		6000.0	8000.0
Central Havana (room and toilet)	Central area. Compact typology. High density.	1200.0	2300.0	3000.0
El Vedado (80 m <sup>2</sup> apartment)	Central area. Residential neighborhood with good urban infrastructure.	16 000.0	20 000.0	25 000.0

The table shows that in central and peripheral areas of Havana, housing prices have been growing steadily in the last years. However, this general picture is not applicable to the whole neighborhood, as in certain areas prices may be decreasing. Among the causes of depreciation are the insertion of new buildings with negative urban impact – due to poor design, low construction quality and increase of population densities -, vulnerability of certain waterfront sections to flooding during hurricane seasons, neighborhood borders surrounded by informal settlers, areas close to industrial or construction sites which generate noise, traffic and air pollution.

Another cause of depreciation within the high-income areas, and even in high quality buildings, is technological obsolescence and lack of adequate infrastructure. For example, horizontal properties and large apartments in the 1950s high-rise buildings in Havana, that used to be examples of residential exclusiveness - vertical segregation - are depreciated by the lack of running water and out of order elevators, garbage chutes and other services. The 20 stories high buildings of the 70s – vertical slums - assembled with prefabricated technologies from former socialist countries have serious problems with water, lighting in public areas and there are no spare parts to repair the elevators. Nobody in their right mind would permute for such buildings, even if the location is central, the architecture magnificent, and the views from the top floor breathtaking.

Knowledge about prices actually realized is therefore an essential reference that provides information to feed the virtual comparative database used by the *permuteros* for structuring the residential market. Another set of important factors is the quality of the dwelling itself.

Criteria	Effect on Price		
	+++	++	+
Construction typology (Apartment, room, single home)	X		
Construction system (prefabricated, traditional, masonry, wood)	X		
Construction year		X	
State of Repair	X		
Construction area	X		
Additional land		X	
Architectural design quality			X
Location	X		
Urban infrastructure	X		

Source: Interviews with *permuta* experts and community architects.

- +++ High effect
- ++ Medium effect
- + Low effect

Every building is different, and the differences between the properties is very important for determining the money to be exchanged. For example, a person who wishes to buy a property but has nothing to exchange, has to pay for the total value. On the other hand, a person who enters the *permuta* as a dwelling owner to exchange it for another, only needs to pay the difference between the two dwellings' prices.

The pure buying-selling operation is not frequent in the informal market. Besides the severe penalties for legal violations, very few families can afford to buy a property. In the last four years, there has been a tendency to buy deteriorated rooms or accessories in the slums of central city areas where the collective conventions often escape government controls. This procedure is less risky from the financial and legal perspective, and allows the exchange to continue.

Another alternative is to buy spaces of a house – rooftops, garages, backyards – in order to build an extension that will be legally independent. The formal procedures to authorize this type of construction are different from the *permuta*, but once the occupants have the legal use of that dwelling portion they can permute it, sell it or rent it.

## The effects of housing exchange on urban segregation

The interplay of housing informality and urban segregation is of growing importance in the Cuban context, in the light of the wish of the government – sincere but difficult to achieve in practice - to promote socially homogeneous<sup>xxviii</sup> and safe cities, with culturally heterogeneous population coexisting in all neighborhoods.

The housing programs have failed to accomplish the expected results, because of material and financial shortages, and because excessive centralization and homogeneous designs - aimed at achieving economies of scale - have been indifferent to diversity and individuality of housing. The lack of maintenance of the existing stock, the limited financial capacity of the population, and the legal restrictions imposed by the authorities also contribute to make people resort to informal strategies to get an appropriate dwelling.

The crisis of the 90s widened the social differences. The sectors with more economic possibilities developed a social perspective different from that of others with lower life quality.<sup>xxix</sup> The wealthiest sectors have access to better housing and hard currency services, while the poor adopt survival mechanisms, diversifying their sources of income and their forms of shelter as concisely put in the Cuban phrase – *estar en la lucha*.<sup>xxx</sup>

The official vision of segregation stresses its spatial dimension, but does not reflect the complex interrelation with other social and cultural variables<sup>xxxi</sup> that result in the marginal behavior of citizens, the growing desire of young people to abandon the country, the unhappiness, the violence and alcohol abuse, and the indifferent attitude towards morality.

There are many spatial and housing problems which are not solved by legal restrictions. These include urban areas where informal settlements are expanding and consolidating, the stigmatized housing in the periphery, the social homogenization of neighborhoods inhabited only by *élites* or by very poor people, constructions which are unfinished being nevertheless used for housing, the proliferation of precarious housing in vacant plots, the illegal transformation and enlargement of dwellings, buildings and even abandoned industrial facilities, and the occupation of public spaces.

the *permuta* acts as a mechanism for redistributing housing, but its dynamic processes create a complex social and economic map of urban micro-areas that resemble the dunes more than the mountains<sup>xxxii</sup>, as there is no unique physical expression for this situation. At present, the housing patterns are changing and this constant mobility reflects a social discomfort expressed in the informal strategies to relocate in the city according to income level and social aspirations.

Many housing functionaries believe the *permuta* is a perverse mechanism, but the solution to the housing problems must depart from a serious look at the fundamental causes. The present informality is just a way out, while the expressions of urban segregation are a serious consequence of an uncontrolled market, imperfect, informal, but in the end with the positive and negative connotations of any market.

## Final Considerations

This research analyzes the *permuta* as a way of exchanging housing, and it describes the financial and legal aspects. The main objective has been to clarify aspects ignored by most housing policies and institutions, that have either denied these irregularities or tried to eliminate them with restrictive controls. Housing informality in Cuba is mainly a consequence of two problems:

- The failure of government's housing policies in its role as main producer, provider and manager.
  1. Housing constructed without the necessary infrastructure

2. Over-dimensioned projects left unfinished
  3. Lack of institutional and administrative capacity
  4. Poor coordination between national, provincial and local levels
  5. Poor construction and maintenance capacity
  6. Limited supply of construction materials versus high demand from all sectors
  7. Excessive centralization in allocation of financial and material resources.
  8. Deficient financial and control systems during the investment process.
  9. Poor monitoring of finished projects.
  10. Very limited local autonomy.
  11. Restrictive regulatory environments.
- The government's reluctance to accept certain realities of social and economic development.
    1. Top-level authorities not well informed of what really happens at the grassroots level.
    2. The government uses surveys to control and restrict rather than find solutions for the problems.
    3. Ideological and political principles in favor of socialism are not necessarily contrary to individual aspirations for a higher life quality, a better home and other domestic needs.
    4. Quantity must go along with quality standards.
    5. Low cost is not a synonym for low quality.
    6. Projects must answer to the diversity of population needs and tastes.
    7. Good design and high standards are cheaper in the end.
    8. There are many forms of participation, and informality is one of them.
    9. Do not underestimate the forces of informality.

The *permuta* has filled the gap of the non-existent official residential market. It has allowed housing to be redistributed according to supply and demand. The actors involved have demonstrated a large capacity to develop instruments and strategies and have unsuspected abilities for developing complex negotiation and coordinate processes, for monitoring the land and property values in the city, and for finding the breaches in the tight legal procedures.

The illegal scope of la *permuta* is a public secret. To understand and analyze this process, it is necessary to start with its formal side - the housing legal and institutional contexts - and from there identify the niches where informality penetrates. The actors involved must understand how the city functions, its urban structure, its centralities and identities in order to see the reasons for the rising or declining values in the different locations.

The informal operations concealed behind the *permuta* are in effect markets in land and housing, organized – moreover - less arbitrarily than the formal markets in Cuba. The informal operations have the characteristics of markets such as financial mechanisms, negotiations, the selection of preferences, the distinction and valuation of variables such as location, distance, and duration of transportation, and the limits imposed by the income capacity of families.

The *permuta* shows signs of market speculation, but the motives are still more social than financial, consisting of the wish for a better location, to shorten the distance to work, to increase the living area or the dwelling amenities. However, the situation is growing in complexity as the actors discover the economic advantages of larger negotiations, anticipating and capturing values, concealing opportune information, among other income producing mechanisms. There are some examples where the *permuta* actors move to large properties, planning future sales or the development of profitable uses.

The *permuta* allows us to study the real payment capacity of the families and how they trade off costs and benefits, it allows economic variables to be compared with social and cultural aspects in the selection of the

location, and the importance of physical and construction variables in the selection of the dwelling to be valued. Permuta gives a picture of the variables that raise the value of different neighborhoods, and that picture can help rethink the housing development in our country.

The government institutions should not continue to underestimate the relevance of these informal strategies which, under proper guidance, could be used to improve the housing policies. Even assuming that the government was to acknowledge the housing situation, confronting this reality would require an important shift in the political and economic conception of housing and the recognition of negative trends in the segregation patterns in the city.

There is an urgent need to create and implement procedures to allow more transparent and efficient processes in housing allocation and exchange. It is time to overcome the centralized land use planning, the standardized designs that ignore the diversity of needs and aspirations of the inhabitants and that impose a uniformity of constructions that in the end does not satisfy the needs of the population and that sooner or later increases the demand for and dispute over the higher quality city areas. It is time to encourage positive experiences at the local level, such as the community architect, and to integrate other ideas, envisioning ways to technically guide, legalize and improve the quality and design of informal constructions.

It is of great importance to continue the investigations about the progress of housing transactions in formal and informal contexts, the weaknesses of legal and financial frameworks, the situation with tenure and property rights and the interaction among these elements that, properly adjusted and integrated, could be part of new policies.

It would not be difficult to imagine a hypothetical future for Cuba, one in which, in parallel with social policies to protect and benefit the vulnerable sectors of the population, other realities are recognized, allowing a more diverse and coherent social, economical and urban development, whereby the last is the physical expression of the first two.

Knowing, however, that there are no easy answers for the complex social problems of the developing world, and recognizing that neither the promising market paradigm nor the state monopoly have the key to magical solutions. It would probably be best to explore and diversify the development basis, but most of all, listen and monitor the heartbeat of our societies, because as long as governments are inefficient and blind in front of the real needs of the citizens, these citizens will continue to develop their own informal strategies with social costs that are not yet foreseen.

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  - \* Resolución No 10/06: Reglamento para la Nueva Construcción y Rehabilitación de viviendas por esfuerzo propio de la población
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<sup>i</sup> Pinson Daniel. *Architecture et Modernité*. Flammarion, 1996. page 83. The massive housing construction, democratic project, paradoxically tended to erase the modest population diversity and to increase the gap that separated this sector from other social groups.

<sup>ii</sup> Dávalos, Rodolfo. At the triumph of the Revolution 50 % of the Cuban population lived in precarious dwellings without electricity. Of the existing urban housing, 50% had no sanitary networks and the rents absorbed 75% of family income. The rural housing was very poor without the minimum dwelling conditions and only 3% was considered in good state of repair. *The New Law of Housing*. Editorial Ciencias Sociales. 1990.

<sup>iii</sup> Fonet, Ambrosio. *The prodigious decade. A personal testimony*. Prologue to the exhibition *A look to the 60s: Cultural anthology of a decade*. Havana, 2005. There was, in that fascinating and subversive turmoil, a liberating impulse that we could define as the affirmative carnivalesque: the issue was not to put the world up side down but rather set straight the world that was wrong side up.

<sup>iv</sup> *HABRA RAZON QUE GUARDE EL EQUILIBRIO. Reflexiones sobre la segregación urbana en La Habana: Políticas, instrumentos y resultados* by Rosa Oliveras y Ricardo Núñez is the title of a research made in the context of the Lincoln Latin American Program for Land studies.

<sup>v</sup> The trilogy of housing laws established in the first years of the Revolution was: the law of rent low-cut, March of 1959, the law of vacant land plots in April, 1959, and the law of Urban Reform in 1960. These three juridical instruments completely changed the traditional production mechanisms of urban space in Cuba.

<sup>vi</sup> 1967 and 1968 are years that mark an important change in the history of the Cuban revolution as the moment when all private property and small businesses were confiscated by the government. This has been strongly criticized and considered one of the biggest mistakes of the revolutionary process.

<sup>vii</sup> Between the years 1956 and 1957 the records of land prices in Havana's central areas were around 200 Cuban pesos equivalent to dollars at that moment.

<sup>viii</sup> Pinson, Daniel. When he talks about the political assumption of mass housing solutions created by the modern he says: Governments created poorer and lower standard than they foresaw. The Cuban

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government tried in the first years of the Revolution to produce a new type of habitat but this dream didn't last and has ended in an increasing shortage and low quality production.

<sup>ix</sup> The use of the term marginal neighbourhood is no longer used in Cuba, at least in the official literature, as informal neighbourhoods have the same basic services established for the whole city such as health, education and culture free of charge. They are not socially segregated areas because the inhabitants are integrated to society as workers, engineers, teachers, etc. However, from the physical and operative point of view they are very similar to other Latin American informal areas, buildings are poorly designed with low quality materials and they lack the necessary infrastructure such as sewerage, roads, parks, and water.

<sup>x</sup> Many buildings are controlled by ministries, enterprises or other sectors of economy. They often have empty rooms that they can give to their own workers if they don't have a place to live, to be temporarily adapted for housing. These rooms remain under their control and if the beneficiaries change the place of work they have to return the basic asset.

<sup>xi</sup> The Social Microbrigades were promoted by the government as a way of social participation in housing construction. The designs and construction materials were provided by the state, but the brigade structure was formed by people from different backgrounds, who would receive the same salary for working in construction activities after a short training.

<sup>xii</sup> In 1993 the Cuban peso Exchange rate was 1 dollar to 130 pesos equivalent to the average salary of a Cuban worker. In 2005 the government started a policy to gradually improve the salaries of the Cuban workers. At present the minimum salary of a Cuban professional is 200 Cuban pesos that would be around 5 convertible pesos a month. 1CUC is equivalent to 24 Cuban pesos.

<sup>xiii</sup> At the end of 1991 the Cuban government publicly recognized the crumbling of the socialist block and announced the beginning of the economic crisis, called Special Period. During this deep crisis all the economic exchange traditional mechanisms with the former socialist countries were dismantled. Cuba suddenly lost 85% of the foreign commerce. In 2005 the government announced the end of the *Período Especial*.

<sup>xiv</sup> They can be State enterprises or joint ventures with foreigners.

<sup>xv</sup> "Land and building valuation in socialist Cuba: from land without value to land as economic asset"

<sup>xvi</sup> See annex with the map of the zones.

<sup>xvii</sup> *Granma* is the official newspaper of the Cuban Communist Party. It is the most important daily paper of the nation and it reflects the political lines of the Cuban government.

<sup>xviii</sup> *Granma* newspaper. December 2005, page 3.

<sup>xix</sup> Committees for the Defence of the Revolution. Is a community based political organization that looks after the security of the inhabitants and is vigilant of their actions as revolutionaries? The CDR board is selected from the oldest members of the community, among their functions they have to control the register of addresses and the number of occupants in every dwelling and mobilize the community in cases of war and disaster. They give support to all government campaigns for health, education, environmental surveillance, among other aspects. The CDR's are the smallest nucleus at local level.

<sup>xx</sup> Basic assets are the dwellings and other buildings under control of state institutions, which give them in temporary usufruct to its workers without housing. The occupants may receive the property title after 25 years.

<sup>xxi</sup> This case is similar to the Basic asset but in this case the dwellings are built and allocated by the institutions for their workers and they are not given in ownership.

<sup>xxii</sup> It has not been easy to come up with the information for this research. The issue of informality is very vulnerable to punitive actions by government institutions, however, it is of academic interest to analyze and extract conclusions from this diverse processes taking place in our society. The analysis tries to respect the discretion demanded by the informers, and the data is summarized in tables and statistics that will not harm honest people who have been willing to collaborate with this investigation.

<sup>xxiii</sup> Russian artificial satellite launched in October 1957 that turned around the planet Earth.

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<sup>xxxiv</sup> During the 80s appeared the comedy “La Permuta” which is a classic of the Cuban filming industry. It reflects a multiple permuta of more than 10 families, and it is a good reflection of the Cuban context during this decade.

<sup>xxxv</sup> Cluster of hotels, office buildings, commerce, housing for foreigners located in certain city areas, mostly near the waterfront towards the west.

<sup>xxxvi</sup> *La chopi* is a Cuban term for the English word shopping –shopping malls or shopping centers-. It is a direct allusion to the dollar shops that were open to the Cubans after the authorization of holding dollars where people can buy assets that are not available in the Cuban pesos stores or in the subsidized basic basket.

<sup>xxxvii</sup> A similar procedure is explained by professor Barrie Needham in his book *Urban land and property markets in The Netherlands* when he refers to the method to set housing prices in a market environment.

<sup>xxxviii</sup> This homogeneity is the social equality to which the Cuban Socialism aspires.

<sup>xxxix</sup> The inequality derived from the different family income, from family remittances, better salaries from foreign companies, tourism or individual businesses, is a reality. This economic advantage allows benefits that are out of the reach of the other Cuban workers, who cannot afford to buy in the dollar stores, pay for better transport, or have access to services such as restaurants and certain recreational options.

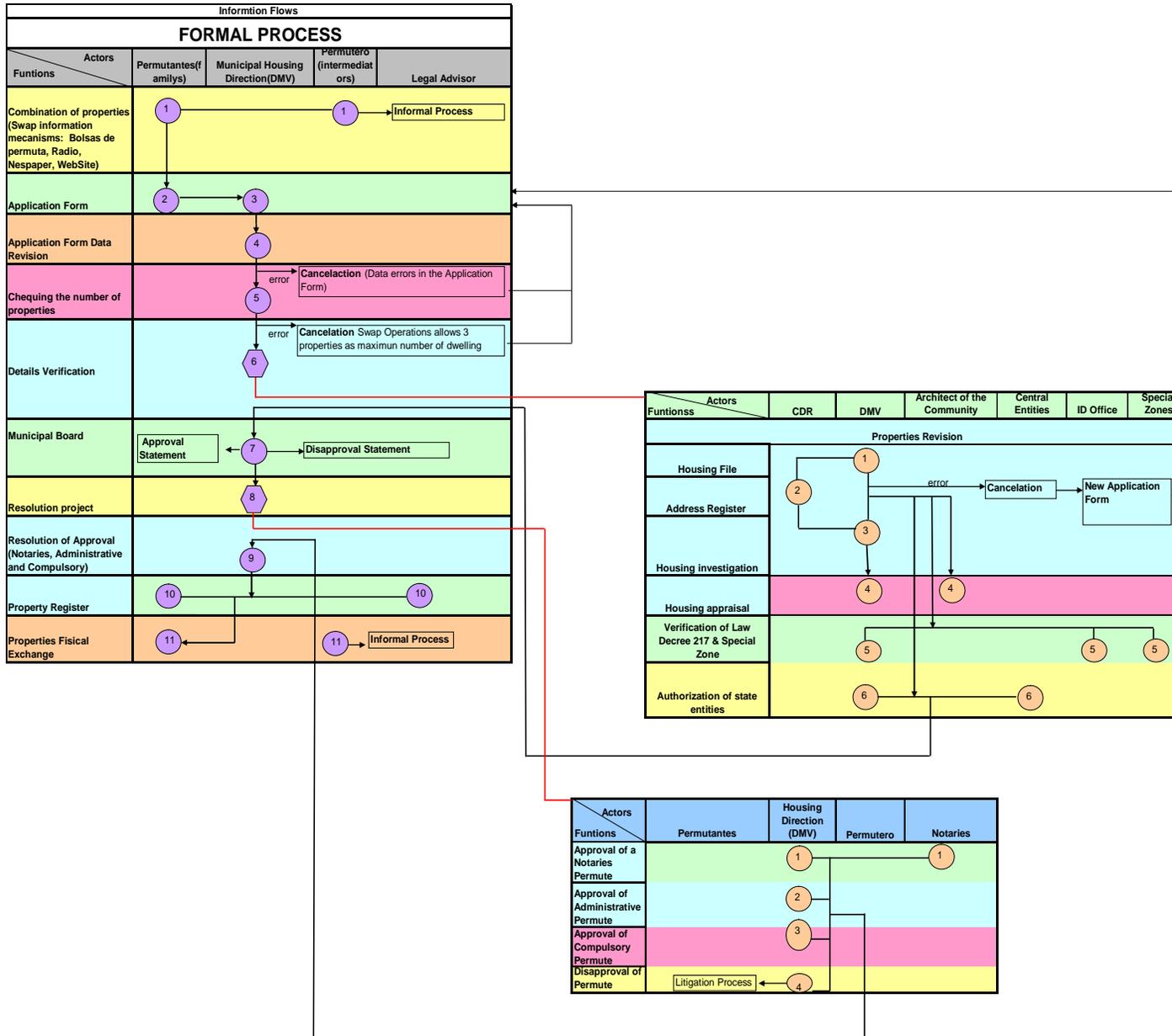
<sup>xxx</sup> Means to be in the fight. The fight to solve the problems of daily life.

<sup>xxxxi</sup> Cuban sociologists, economists and historians have in various studies analyzed problems such as social marginality, the evolution of slums, urban segregation, informality, and other problems.

<sup>xxxii</sup> Sposati, Alzaida. *Espacio y Debate*. Page 89, jun-jul 2004.

Annexes

Annex 1: Permuta Formal Process Actors and Function Flows



Annex 2: Permuta Informal Process Actors and Function

