Paper "Stratification and Public Utility Services in Colombia: Subsidies to Households or Distortions on Housing Prices?" - 2007

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In Colombia there is a cross subsidy system which charges subsidized rates to the households who live in low-income neighborhoods, and taxed rates to households that reside in high-income neighborhoods.

This document assesses the hypothesis that the flow of subsidies that potentially comes from a particular house, may be discounted by housing market agents so that most of them are transferred to the prices of the houses that receive the subsidies.

In order to estimate the effect that subsidies to domiciliary public utility services can have on housing value, the prices for houses on both sides of the boundaries of different socioeconomic strata are compared, that is, houses subject to different public utility service rates, and it is found that the increment in house value explained by differences in the subsidies received by households, is similar in magnitude to the present value of the flow of subsidies discounted at reasonable market rates. Likely effects of these subsidies are found on the rent amount.

Although the results found include information only for Bogotá, we think the same would be consistent with the current situation in the main Colombian cities. The above takes us to conclude that the functions of financing subsidies for the poor population through public spending in domiciliary public utility services in Colombia is being achieved, if anything, in a very limited way. Most of the fiscal effort on this subject has as its final effect, the distortion of housing prices in different socioeconomic strata. While the system assigns 0.7% of GDP each year in supposed gross subsidies to domiciliary public utility services in Colombia, the only thing they end up doing is introducing an additional characteristic into a set of households that they would not have without government interventions, and moving the housing market to auctioning such characteristics, with the consequent distortion on houses relative prices.

Fuente: https://www.banrep.gov.co/en/node/66099