

The Global Experience in Affordable Housing Provision: Have We Learned Nothing and Forgotten Nothing?

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“They had
learned nothing
and forgotten
nothing.”

-Talleyrand on the
Bourbons



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Cagamas



National Mortgage Corporation of Malaysia

Tribute to Cagamas's contribution to housing finance sector

- ❖ One of the world's most **successful secondary mortgage facility**
- ❖ The largest **issuer of debt instruments** in the Malaysian capital market
- ❖ A **liquidity provider** to the housing market
- ❖ **RMBS and Islamic Bonds Sukuk issuer**
- ❖ Promoter of **competition** and **innovation** in housing market
- ❖ Help **stable** the financial market during economic downturns

3 Key Messages

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- Housing is a critically important sector from both a growth and inequality perspective.
- There is a crisis in social housing caused by avoidable mistakes being repeated again and again.
- Good policy requires well targeted public resources, a deep, well functioning private sector and sound regulations

There is a growing demand from countries for housing reform to meet affordable housing needs

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Low & informal incomes

74% in low-income countries live on less than \$2 per day

Growth of Cities

1,739 Cities of +0.5m population in 2030, (564 cities in 1990)

Housing Needs

96,150 Housing units a day required from now until 2030

High GHG impact

19% of world's GHG emissions are from buildings. Housing represents 3/4 of all new buildings

Growing slum population

863 millio urban residents live in slums, and growing

Tenure Insecurity

70% of land in emerging economies is unregistered

Large impact on growth & employment

5 jobs created per housing unit built

Growing middle class

3 billion consumers expected to join global middle class by 2030 bringing in to 5 billion

Ample room to improve access to finance

93% with no access to formal housing finance products

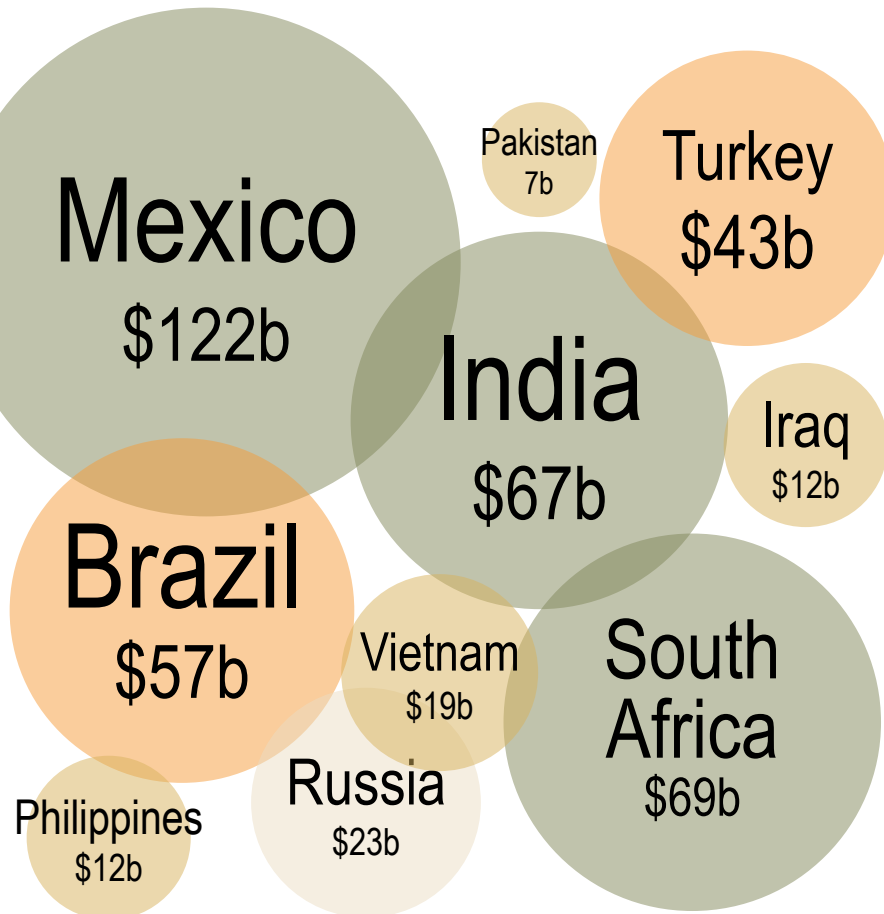
Contribution to wealth

50% of all tangible assets in housing

Housing is a Global Economic driver, but also an opportunity for Poverty Alleviation

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Top 16 markets account for ~35 mm units =
formal market of \$600-700 billion



Ending
Extreme
Poverty

Boosting
Shared
Prosperity

Addressing Housing Needs Lead to Positive Outcomes:

- Reduce over-crowding
- Improve living conditions and access to basic services
- Improve labor market participation
- Housing = 50-70% family assets
- Enhance access to credit
- Better school attendance
- Lessen utility bills in green homes

There is a Crisis in Affordable Housing Provision





Mistakes Are Made Again and Again

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- ❑ Inadequate supply of affordable housing
- ❑ Lack of access to affordable land
- ❑ Limited rental supply and solutions
- ❑ Poor location of subsidy projects with negative outcomes



- ❑ Limited efforts to go down to low- and informal-income segments
- ❑ Use interest rate for subsidy intervention tool which is often distortive and regressive
- ❑ Limited construction financing



- ❑ Lack of planning and zoning for affordable housing
- ❑ Transparent and efficient land and property registration
- ❑ Poor coordination and policy alignment between agencies
- ❑ Inadequate efforts to crowd in private sector

7 Key Operational Instruments for Housing Policy Development

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3 To stimulate housing demand

3 To facilitate housing supply process

1 To create an institutional framework for managing housing sector

Operational Instruments for Housing Policy

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Finance

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1. Development of Mortgage Finance

Encourage competition, improve efficiency of financial intermediation.

2. Targeting of Subsidies

Subsidy should be transitional or last resort tool to address un-served sector needs

3. Property Rights Development

Enforceable property rights. Land registration and formalization of informal titles.

Supply

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4. Provision of infrastructure development

Greater planning coordination between central and local government.

5. Regulation of Land and Housing Development

Land and property policy reform to drive better affordability.

6. Organization of Building Industry

Allow for competition between public and private sector, for building materials & construction

Institution

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7. Institutional Framework for managing housing sector

Robust M&E system to measure performance of policies and programs on outcomes for the served market.

How does Singapore achieve a 90% home ownership in spite of rising home prices over the years?

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- Land Acquisition Act enabled access to cheap land (90% of land now owned by Government)
- CPF and HDB: A sustainable saving, financing and subsidy funding loop
- *Cross-subsidization of lower-income segments possible as HDB construction accounts for 75% of Singapore stock*
- Broad range of ownership subsidy schemes including rent-to-own

A Starter Home costs ~USD 300K

Flat Type	% Volume	Avg HH Income (SGD)	HDB Returns
1 & 2 Room	7%	2,313	Subsidy needed
3 Room	23%	5,805	
4 Room	40%	8,293	Break-Even
5+ Room	30%	11,606	Profitable

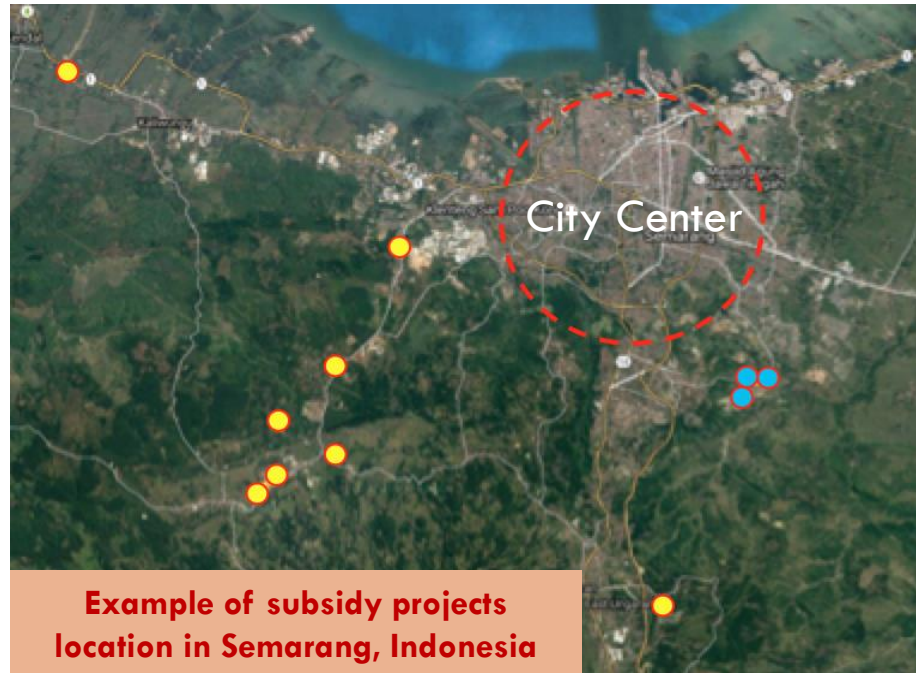
Source: HDB, 2014

Key Lessons:

- Access to cheap land is key to affordable housing provisioning**
- Cross-subsidization is a critical housing policy, regardless if housing provision done by the public or private sector**

Locations Matter a Lot

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Example of subsidy projects location in Semarang, Indonesia

○ City center

● 2015

● 2013

Indonesia Example

Subsidy with rigid low cap on home price drive developers to build where land is cheap

- *Negative impact: urban sprawl, higher infrastructure development cost, lack of access to employment and basic services, and higher transportation cost*
- *For Indonesia, poor location is one factor leading to high vacancy rate up to 30%¹*

(1) Other contributing factors

Key Lessons

- **Design “location-efficient” neighborhoods that are mixed-use, mixed-income and with convenient access to jobs, services, transit and amenities**
- **Refine affordability definition to be “housing cost + transportation cost”**

Neighborhoods also matter greatly for children's future

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HDB Children Communities



U.S. HUD Study

Study of families moving to “less concentrated poor communities” show positive impact on children’s¹ future:

- 30% higher earnings
- 26% more likely to attend college
- 30% less likely to become single parents

(1) Children must 13 years or younger before the move takes place

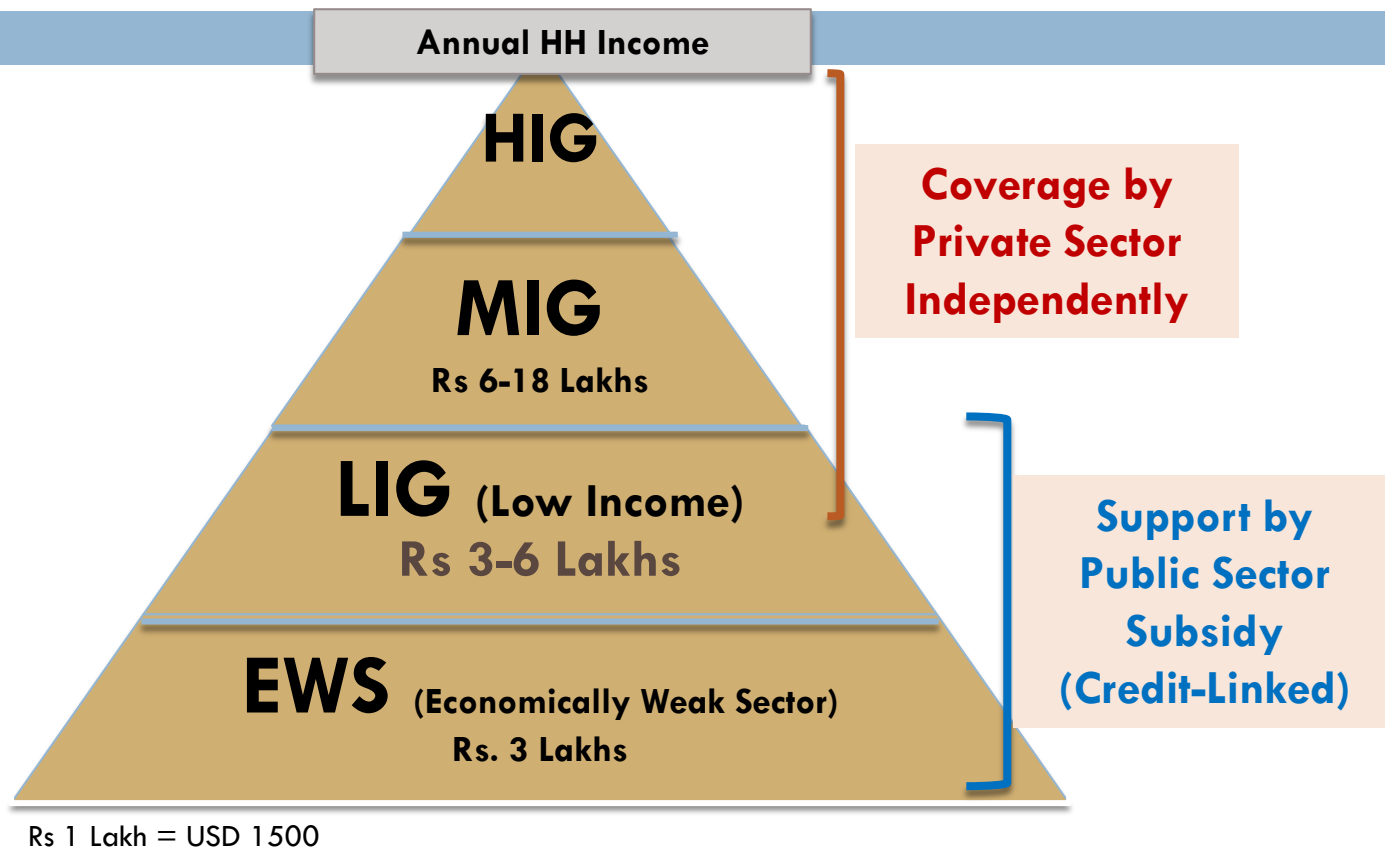
Source: Raj Chetty

Key Lessons

- **Design policy that encourage owners and renters to choose “less poor communities” to allow for positive outcomes for the adults’ financials and the children’s futures**
- **Build communities that promote social connectivity allowing for livability and long term sustainability**

India works to push affordable housing down market

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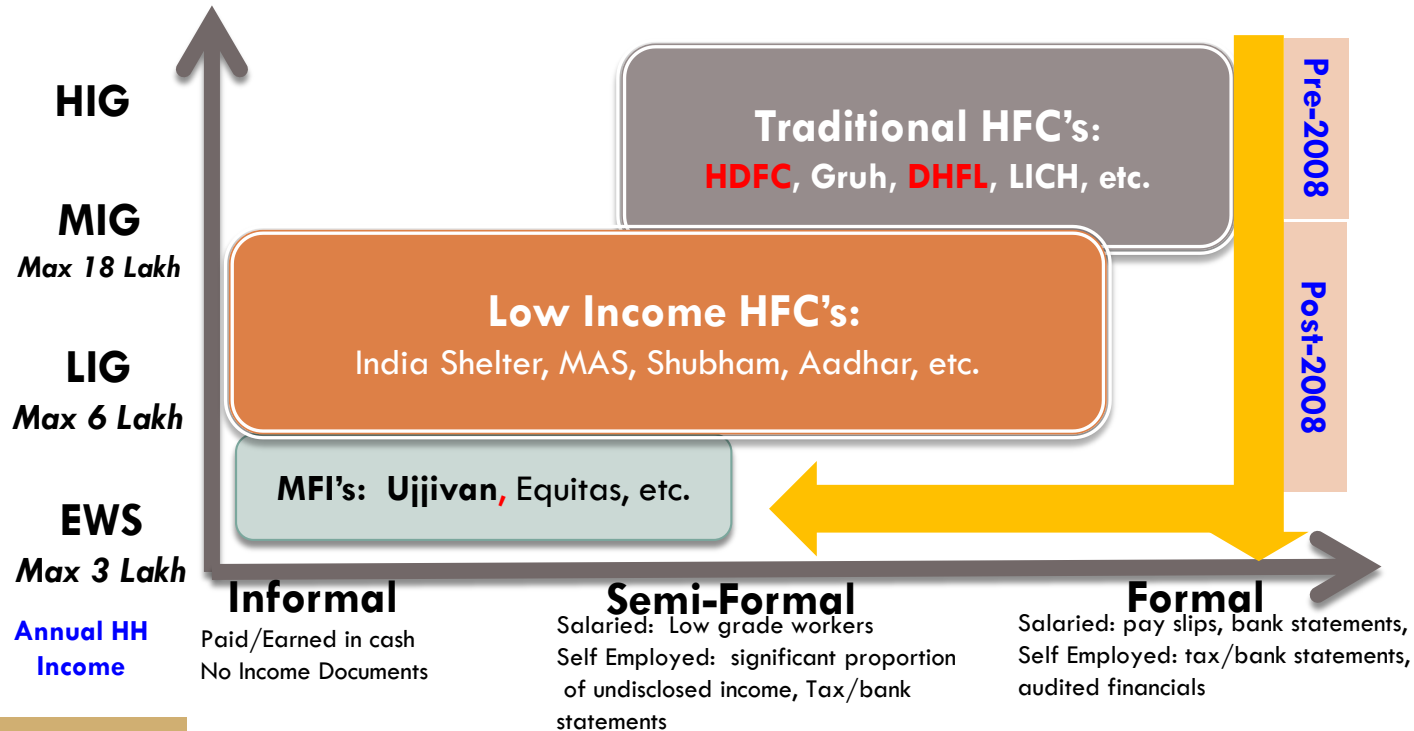


Key Lessons

- Avoid designing interest-rate credit-linked subsidy which tend to be distortive to the market
- Use subsidy only to address segments with higher risks that private sector is unwilling to take

Emergence of new HFC's to go down market

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Key Lessons

- Mortgage market takes time to build. Needs private sector innovation and public sector support
- Private sector: Innovative HFC's such as HDFC, DHFL, and Aadhar have stretched market segmentation (all have benefited from World Bank Group investment)
- Public Sector: NHB provides liquidity facility and refinancing to HFC's. RBI priority sector regulations requiring all FI's to lend to the low-income sector. Ongoing housing subsidy programs over the years

US Sub-Prime Market: A Failure of Regulation

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Growth without control

- **Perception that AAA rated RMBS = NO RISK, Housing Markets Rise Forever**
- Excess in market liquidity drive demand for RMBS of any quality
- New breed of mortgage products: Sub-prime
- New breed of capital market product: CDS, CDO, etc.



Sub-Prime Product: Stacked Risk

“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”

In Conclusion: Positive housing outcomes require a balanced and productive housing policy environment

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Thank you!
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