

Setting the Context: Thailand

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ABSTRACT

The Thai economy and its real estate markets have experienced several boom and bust cycles during the past several decades.

The current Thai government views the real estate sector as a major driver of economic stability and growth. During the past four years, it has enacted numerous new policies to stimulate the economy and at the same time address the housing requirements of the less privileged.

This paper will discuss Thai housing and the housing finance market's development, including government and private sector roles. It will also present case studies of successful policy-driven housing and housing finance programs that played a significant part in helping Thailand's economy recover from the 1997 economic crisis and which are expected to be key drivers of sustainable future economic development.

HISTORICAL CONTEXT

Housing Development

Housing has been major policy issue for every Thai government in the past three decades because of population growth and rapid urbanization.

Thailand's population, which was 53.9 million in 1987, is now more than 65 million. Urban residents now total more than 20 million people, or about 30 percent of the population.

Rapid population growth and continuous urbanization have created numerous demands for housing over a wide range of income levels. Upper-middle and higher income-level housing needs are, however, currently well-served by the private sector. In 2004, private sector developers developed 66.7 percent of Thai housing.

Despite their housing-market dominance, private developers have largely avoided providing lower-income and lower-middle-income housing. In large urban areas such as Bangkok, various governments have implemented a wide range of policies to address the housing needs in urban slum and squatters' areas, as well as adequate housing for laborers who have migrated to urban-based manufacturing and service industries.

In addition, policy makers also must address the housing needs of a large informal sector that is still a significant part of the Thai economy.

The most recent published statistics indicate that in Bangkok alone more than 243,000 households lived in slums and squatters settlements, while another 250,000 households lived in similar circumstances in other parts of the country. (National Housing Authority)

Currently, public and private organizations are cooperating to execute government mandated housing policies.

Government and Private Sector Participation

Prior to 1960, Thailand's few private developers produced homes for middle and upper-income purchasers. The Thai government itself had been building homes primarily for government employees since the 1940s through the Public Welfare Department.

The Government Housing Bank, established in 1953, acted both as a developer and as a housing finance institution at the outset but relinquished its housing development role to the National Housing Authority (NHA) when this was established in 1973.

The NHA was established to provide housing and financial assistance to low and middle-income people. It was the government's catalyst to the development of rental accommodations and affordable homes that could be purchased by low and middle-income citizens. It was also involved in upgrading slum and squatter housing environments.

During the past three decades, the NHA has continually been designated the government's focal point to provide better housing opportunities for low and lower-middle income purchasers. Today, many of its efforts are based on joint private and public developments.

In 2004, the Thai housing market was relatively buoyant for middle and upper-middle income-level homes, with housing completions totalling about 56,000 units in greater Bangkok area alone. The market for this sector is expected to continue expanding with an economy that is still growing at about six percent per annum.

Currently, the Thai government has initiated several joint private and public programs to address the needs of the urban poor and lower-income households. A brief synopsis of two of these programs is shown below:

1. Baan Eur-Artorn Low-Cost Housing Program

- Low-cost housing development to enhance economic growth
- Target – 600,000 homes between 2003 and 2007
- NHA to execute project
- Homes for lower-income people, including civil servants and government enterprise employees.
- Selling price to purchaser Bt390,000 per home (\$US9,750)
- Government subsidy Bt80,000 (\$US2,000) per home.
- Government Housing Bank to provide low-interest loans to buyers – limited NHA guarantees
- Slow Progress – difficulty delivering final product within designated costs

2. Baan Mankong – National Slum Upgrading Program

- Urban Poor Communities in Thailand – 2000 survey – 1.14 million households, 5.13 million people
- Squatters on public, private or temple lands
- Program to create secure tenure and provide basic infrastructure and improve housing in these settlements as a basic right on a nationwide scale
- Alternative to delivering new housing units by delivering comprehensive long-term solutions
- Linking development of secure housing with the larger and more comprehensive process of community development, encompassing economics, environment and public health
- Implementation and execution by community people and community networks with local development organization support (See Appendix for December 2004 project update)

HOUSING FINANCE OVERVIEW – THAILAND

In 1953, the Thai government established the Government Housing Bank (GHB) with the special objective to provide housing finance. During its first 20 years, the GHB acted both as a housing finance institution as well as real estate developer. Its housing development role was supplanted by the National Housing Authority's creation in 1973. (For a more detailed description of the GHB go to the English section of www.reic.or.th)

Although the Government Housing Bank has a 38 percent market share and is the largest single housing mortgage provider in Thailand, the 12 commercial banks, with their large deposit bases, together have a more than 50 percent market share. (See Table 1)

Today, the Government Housing Bank services more than 900,000 home-owners with a wide-array of fixed interest rate loans with amortization periods of up to 30 years and fixed interest rates up to five years.

Table 1 : Key Features of Financial Institutions in Thailand (as of September 2004)

| Financial Institutions | Operation began in | Total Assets * (Million Baht) | Total Deposits (Million Baht) | Total Credits (Million Baht) | Home Loans (Million Baht) | Home loans to Total Credits (%) |
|--------------------------------------|--------------------|-------------------------------|-------------------------------|------------------------------|---------------------------|---------------------------------|
| Commercial banks | 1888 | 7,728,481 | 5,710,833 | 5,072,716 | 516,456 | 10.18 |
| Government Housing Bank | 1953 | 657,342 | 560,592 | 392,459 | 374,858 | 95.52 |
| Government Saving Bank | 1949 | 469,200 | 284,182 | 314,375 | 94,803 | 30.16 |
| Finance companies | 1969 | 396,116 | 259,780 | 266,394 | 5,857 | 2.20 |
| Life insurance companies * | 1929 | 290,049** | 386,270 | 44,417 | Na | Na |
| Credit Foncier companies | 1969 | 2,063 | 1,462 | 1,067 | 190 | 17.81 |
| Export-Import Bank of Thailand | 1993 | 56,025 | NA | 48,929 | NA | NA |
| Small Industries Finance Corporation | 1992 | 33,976 | NA | 25,251 | NA | NA |

Source : Bank of Thailand

Note: *as of September 2004 ** as of Mar 2004 THB 40 = USD 1

The GHB has also often been called to act as a catalyst for economic recovery. To jumpstart the economy after the 1997 economic crisis, the Thai government selected the then moribund housing industry's revival as a way to ignite the recovery and restore public sentiment and confidence. (See Case Study.) The GHB was asked to play a critical role in the program's success.

With the Thai economy now growing consistently at a robust six percent per annum, government policy has embraced social as well as economic rationales for creating affordable housing for low and lower-middle-income households. It is supporting these policy measures by creating an environment that stimulates the demand for and supply of housing.

These measures include:

1. Ensuring low interest-rate environments
2. Developing a reliable Real Estate Information Center
3. Developing long-term transportation and urban planning strategies
4. Improving Consumer Protection laws for homebuyers
5. Developing an active secondary housing market

A long-term Government Housing Bank goal is diversifying its current funding sources, 86 percent of which come from domestic deposits and promissory notes. During the past several years, the GHB has issued FRCDs overseas and longer-term domestic bonds to develop a wider investor appetite for its debt. (See Appendix table 4)

OTHER INNOVATIVE FINANCING PROGRAMS

We have included a brief description of several innovative financing programs that Thailand has undertaken in the past several years. (See Appendix for additional descriptions.)

Case Study: Government Housing Bank – Government Pension Fund

- Launched in 2001 to jump-start crisis-ravaged economy
- Surplus of unsold homes
- Thai government officials and Government Pension Fund members given lower interest loans and lenient income qualification standards to buy homes
- Maximum loan amount 100 per cent of appraised value
- Low initial year monthly payments - graduated mortgage payments
- Huge success - 38,298 loan applicants
- By end of 2004, loans made to 25,311 applicants for new homes
- Program absorbed significant part of housing oversupply and revived the housing industry just as the economy began recovering

Asset Capitalization Programs

- Introduced 2003
- Main driver – Many lower-income individuals' assets can't be used as collateral for loans
- Creating ways to capitalize these assets – Unleash lower-income individuals' productivity by allowing them to borrow against these assets
- Rental rights used as collateral to apply for individual loans
- Allow more people to escape poverty trap

Royal Navy - GHB Asset Capitalization Program

- Established in late 2003
- Homes for government employees at Sattahip Royal Navy Base
- 492 two-story detached homes on land leased 30 years from Treasury Department
- The Treasury Department increased then-conventional one-year leases to 30 years as part of the Government's Asset Capitalization Program
- Home mortgages from Government Housing Bank
- Homes built under NHA auspices

- Individual monthly payments - approximately Bt1,500 (\$US\$ 35) per month
- Completion date - late 2005

Real Estate Information Center

- Established by Thai Cabinet Resolution August 17, 2004
- Commenced operations September 1, 2004
- Developed by Government Housing Bank under Ministry of Finance Supervision
- Objective to be a reliable and up-to-date center for real estate information in Thailand
- Currently has 30 employees (see website www.reic.or.th)

BIG HOUSING CHALLENGES/ISSUES

1. The big housing challenge is building enough appropriate housing for the low and lower-middle income urban poor in Thailand.

The Baan Eur Ah-torn project has admirable objectives but it has been difficult achieving its stated production-goals. Even with zero land costs, developers in Thailand are

finding it difficult to build houses profitably at the designated sale prices that translate into affordable monthly mortgage payments for the urban poor.

Many private housing developers say that they avoid this market because margins are too thin. However, more economical alternative construction models are continuously being evaluated. Many Thai developers are now considering constructing mass-produced housing modules that can bring costs down to levels that can support the current sale price and yet still yield a reasonable developers' profit.

2. A second housing challenge is developing the infrastructure and legal mechanisms for converting slum and squatters rights into legal rights that satisfy all stakeholders. This will be a long-term Thai policy challenge.

3. The third housing challenge is further developing the secondary home-resale market. Some studies show that in Thailand, the number of existing homes for sale far exceeds new homes available for sale. Most existing home sales are by-owner or through so-called amateur brokers. Further developing the roles of professional real estate brokers and sales agents may be a critical way to stimulate secondary homes sales.

Currently, no specific real estate broker or sales agent licensing law exists in Thailand and no government body exclusively regulates real estate brokers and agents. The real estate broker or agent is generally viewed as a middle man or person who brings buyers and sellers together and negotiates the sale and/or purchase of real property with the expectation of compensation.

Real estate industry officials have for years lobbied the government to enact Real Estate Broker and Sales Agent licensing laws, but their efforts so far have fallen on deaf ears.

Another key way to increase secondary home sales is by reducing various income and transaction taxes on existing-home

sales. Recently, the Minister of Finance announced a general policy to stimulate the secondary home-resale market. These policies are also intended to enhance the new home market, drive economic growth and improve the Thai general public's quality of life.

BIG HOUSING FINANCE CHALLENGES

1. The big housing finance challenge in the long-term will be developing an infrastructure that will deliver all purchasers the optimal and most appropriate low-cost mortgages available.

On the product side, it means continuous innovations and introducing new products that meet the changing needs of a fast-developing young economy. Thailand's young population will be buying more and more homes during the next several decades.

2. Policy makers must ensure that the country has a financial and legal infrastructure that can rapidly adjust to the quick-changing needs of the financial institutions that deliver mortgages to the country's home buyers. Laws must be continuously up-dated to ensure that foreign capital can be readily invested in the funding of these institutions as they inevitably grow to service the mushrooming housing needs of a rapidly expanding young Thai population.

KEY QUESTIONS BROUGHT TO BELLAGIO

1. What other appropriate and viable solutions are there for delivering housing to low and lower-income households?

2. What alternative and appropriate long-term strategies are there for developing an optimal real estate financing environment for a fast-developing country, such as Thailand, in transition?

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APPENDIX

Table 2 : Residential Mortgage Loans/All Types of Loans and the Thai Economy

| Items | 1990 | 1995 | 2000 | 2002 | 2003 | 2004 Q3 |
|---|-------|-------|-------|-------|-------|---------|
| Residential Mortgage Outstanding Loans (RL) - billion USD | 138 | 574 | 689 | 764 | 914 | 1,001 |
| GDP - billion USD | 1,979 | 4,250 | 4,309 | 4,623 | 6,145 | 6,618 |
| All Types of Loans - billion USD | 2,184 | 4,186 | 4,917 | 5,433 | 5,939 | 6,501 |
| RL : AL (%) | 6.3 | 13.7 | 14.0 | 14.1 | 15.4 | 15.4 |
| RL : GDP (%) | 7.0 | 13.5 | 16.0 | 16.5 | 14.9 | 16.0 |

Source: Bank of Thailand

Table 3: Baan Mankong: Progress update as of December 2004

| Regions | Number of Provinces / cities | Number of projects | Number of communities | Number of families | Budget approving (million Baht) |
|---------------------|------------------------------|--------------------|-----------------------|--------------------|---------------------------------|
| Bangkok & Periphery | 2/41 | 38 | 65 | 6,437 | 244.3 |
| Center Region | 6/6 | 19 | 29 | 1,740 | 55.5 |
| Eastern Region | | | | | |
| Southern Region | 7/8 | 25 | 29 | 1,740 | 41.7 |
| Northern Region | 8/8 | 18 | 43 | 2,679 | 45.5 |
| Northeastern Region | 8/12 | 28 | 32 | 2,407 | 82 |
| Total | 33/55 | 128 | 198 | 14,681 | 467 |

Source: the Community Organizations Development Institute (CODI)

Table 4: Major GHB's Source of Funds at Year-end 2001-04

Amount: Million baht

| Item | 2001 | | 2002 | | 2003 | | 2004 | |
|--------------------------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | Amount | Borrowers (%) |
| 1. Deposits & promissory notes | 217,209.75 | 75.06 | 251,773.76 | 80.34 | 298,084.80 | 84.22 | 349,778.45 | 86.04 |
| 2. Domestic borrowing | 5,300.87 | 1.83 | 3,000.00 | 0.96 | 6,498.50 | 1.84 | 14,405.68 | 3.54 |
| 3. Overseas borrowing | 8,871.94 | 3.07 | 8,660.68 | 2.76 | 8,338.00 | 2.36 | 8,329.42 | 2.06 |
| 4. Bonds | 58,000.00 | 20.04 | 50,000.00 | 15.94 | 41,000.00 | 11.58 | 34,000 | 8.36 |
| Total | 289,382.56 | 100.00 | 313,434.43 | 100.00 | 353,921.30 | 100.00 | 406,513.55 | 100.00 |

Source: The Government Housing Bank

Additional Innovative Financing Programs:

1. Micro-Finance Provider – Community Organizations Development Institute (CODI)

- Commercial Banks – urban poor don't qualify as customers
- CODI in Thailand – established 1992
- Establish savings and credit schemes within individual communities
- Funding offered to community or people's organizations
- Allows community to control development process
- More importantly – strengthens bargaining position re: evictions, plans for land acquisition and control of family finances
- Has become collaborative development mechanism belonging entirely to communities within the same constituencies – developing group decisions
- CODI heavily involved in Baan Mankong

1. Hire-Purchase Programs

- Introduced 2004
- Low-income individual with no prior credit records to purchase homes
- Occupies home under a hire purchase contract
- Payments of three to five years before house registered as sold
- After proving themselves as credit worthy - becomes purchasers and obtain mortgage

3. Securitization

- GHB to securitize part of its portfolio in 2005
- Diversify funding and portfolio risk

4. Mortgage Default Insurance

- Insurance for risk associated with loans that exceed normal 75 to 80 per cent loan to value ratios
- Also will support values for future securitization portfolios
- 2002 World Bank-funded feasibility study

- April 2005 – Cooperating with Canada Mortgage Housing Corporation (CMHC) and International Finance Corporation (IFC) to develop action plan for establishing Mortgage Default Insurance for Thailand
- Partial Funding from CIDA Inc