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Spring 2014

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- London: developing a housing strategy for a global city
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Event to mark the 100th Anniversary of the IUHF – September 11-12 2014 – Munich
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International Union for Housing Finance

Housing Finance International

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Editor's introduction
The future of cities

↳ **By Andrew Heywood**

With 23.5 million in population, Shanghai is the largest city in the world, yet it receives less attention from commentators than Beijing, which is actually smaller in population at 21.2 million. This is one illustration of the way in which capital cities still maintain an edge in terms of their perceived importance. This is partly a political issue. Capital cities are normally the seats of national governments and therefore assume significance for their own populations as well as internationally that may well belie other factors. Of course political importance may well serve to promote other facets of development. As a result of the proximity to government and their role as symbol of a nation's status and success capital, cities often receive resources in terms of infrastructure and other investment that may well foster their economic and financial role internally and externally.

The planners in major cities and particularly in capital cities face a range of complex and difficult choices. They involve identifying and reconciling the different roles of such a city. In terms of housing, this can mean assessing the importance of the city in terms of domestic economic growth and of its contribution to the global economy with its inevitable consequences in terms of inward investment of finance and people. The imperatives generated by such an assessment must then be reconciled with the housing needs of the existing population of that city, who in many cases have ultimate political power over the strategies adopted and who are likely, in the end, to pay for them in large measure. As many national governments withdraw state support on grounds of fiscal austerity, the decisions for city-based planners can become ever more problematic.

Two capital cities with a global importance are featured in this issue of HFI. In our first article Marina Khmelnitskaya, who has previously written an important article for HFI on Russian housing markets, focuses her attention on Moscow. With a population of 11.6 million, Moscow is more populous than either New York or London. In contrast to Russia as a whole, the population of Moscow is growing rapidly, having increased by 15% in a decade. Ms Khmelnitskaya analyses the causes of high and rapidly rising house prices in the city and traces the key trends that determine housing costs across tenures. Her analysis is placed firmly in the context of Moscow's social and economic development.

London is the subject of two complimentary articles in this issue. Although at 8.4 million, it is less populous than Moscow, it is more significant relatively as a population centre within the UK, housing 13.3% of the UK population. We are very pleased to offer an article by David Lunts, Executive Director Housing and Land, with the Greater London Authority [GLA]. Mr Lunts offers an incisive insight into the challenges facing the GLA as the strategic housing authority in London and sets out the key elements of the new draft Housing Strategy for the capital. The strategy aims to promote development of 42,000 new homes a year across all tenures, in order to tackle the causes of rapidly rising house prices and a severe shortage of housing, which has resulted in lack of mobility, overcrowding and high levels of homelessness.

Overseas investment in the London residential property market has received considerable attention and is examined briefly by Mr Lunts. International inward investment in cities is not of course only a London issue. Paris is amongst those cities that have also experienced the phenomenon and the BBC has recently reported that Chinese buyers are currently investing £2.7 billion a year in Australia, notably in Sydney and Melbourne. Inward investment in commercial property often seizes fewer headlines but can be at least as important in shaping economic growth and ultimately housing demand. In our third article Mr K.I. Woo examines inward investment into the London commercial property market and shows how many of the same considerations apply to residential investment from the perspective of investors.

In this issue of HFI, in the second of two articles, Jorge Yarza moves from the broader regional perspective that informed his earlier contribution, to focus on Mexico. Mexico has a population of 112 million, which has grown by 70% during the last 30 years. In addition, there has been a strong movement of population from the rural to the urban areas. Mr Yarza analyses the demographic factors underpinning the housing market. He also examines the housing and mortgage markets, the interaction between the formal and informal housing sectors and the impact of various public initiatives to promote additional supply and sufficient mortgage finance. He includes the growing role of mortgage-backed securities in providing for additional expansion in the primary mortgage market.

The tendency for the level home ownership to plateau or fall in a number of advanced economies after a long period of sustained increase has been discussed in these pages before. However, the trajectory of home ownership over the longest term has received less attention. In a brief but fascinating article Alex Pollock compares the progress of home ownership as a tenure using data from the US, England and Canada and raises some very interesting questions about whether growth can continue without limit. Such comparative analysis deserves to be taken further.

Kenya has not recently received attention in the pages of HFI. We are therefore particularly pleased to receive an article from Frank Ireri, CEO of Housing Finance, the only stand-alone mortgage provider in Kenya and the second largest provider in the country. Building on a presentation to the 2013 Africa Union for Housing Finance Conference, Mr Ireri traces the development of Housing Finance from its inception on the initiative of the Commonwealth Development Corporation and the Government of Kenya 48 years ago. In addition to describing the activities of Housing Finance Mr Ireri puts these in the context of a helpful overview of the Kenyan mortgage market and recent initiatives to promote homeownership.

Finally, readers of HFI should be aware that this year the International Union for Housing Finance [IUHF] celebrates the 100th anniversary of its founding. To mark the occasion, the IUHF will be holding a major conference in Munich on 11th-12th September 2014. The conference will feature cutting-edge presentations on key housing finance issues and will also provide a unique networking activity for the many policy makers, senior housing and housing finance professionals and academics expected to attend. Look out for further details!

Contributors' biographies

Frank Ireri was appointed Managing Director of Housing Finance in 2006. He has more than 20 years banking experience having joined from Barclays Bank Africa where he was Head of Barclaycard Africa Operations, covering Kenya, Botswana, Zambia, Mauritius, Seychelles and Egypt. Frank is an Honorary Counsel member of AIESEC, a member of the Sub-Saharan Africa Chamber of Commerce Advisory Board, a member of the Habitat for Humanity Kenya Board and a member of the Madison 'Who's Who'. In 2011, the former Kenyan Head of State, H.E. Mwai Kibaki conferred upon him the Elder of the Burning Spear [EBS] in recognition of his distinguished service rendered to the Nation. Email: Frank.Ireri@housing.co.ke

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Invitation

Dear friends and colleagues,
ladies and gentlemen,

The International Union for Housing Finance celebrates its 100th anniversary on September 11-12 this year in Munich.

Founded 1914 in London, the International Union for Housing Finance has grown steadily and today has over 100 members in 45 countries all over the world. The growth in membership should be no surprise given the growing importance of housing finance and its impact on economic stability as well as prosperity.

Housing crises can drag down the global economy, as we have been painfully reminded during the last decade. Having an international platform for the exchange of ideas and experiences on housing finance is therefore today, more than ever, of great importance.

The International Union for Housing Finance has consistently offered this platform for a hundred years. One hundred years of important work by the International Union for Housing Finance should of course be celebrated. In addition to these celebrations, this event will offer attendees many opportunities to get in contact with other experts in housing finance and a stimulating programme of high-level sessions. More information can be found on the event website www.housingfinance2014.org.

We look forward to welcoming you to this jubilee event in Munich on September 11-12 2014 and we also invite you to join us for an exciting excursion into the beautiful environs of Munich on September 13.

Andreas J. Zehnder
President of the IUHF

Hartwig Hamm
Secretary General of the IUHF

PRELIMINARY PROGRAMME

Thursday, 11 September 2014

From 08:00 am
Registration of delegates

04:00 – 05:30 pm
Official opening and 1st session: Housing finance institutions and financial instruments

06:30 pm
Welcome reception for delegates and accompanying persons

07:00 pm
Dinner

Friday, 12 September 2014

09:00 – 10:30 am
2nd session: Housing finance institutions and financial instruments (continued)

11:00 am – 12:30 pm
3rd session: Regulatory developments in the field of housing finance

Lunch break

01:30 – 03:00 pm
4th session: Real estate economics

03:30 – 05:00 pm
5th session: Real estate economics (continued) and official conclusion

07:00 pm
IUHF jubilee event for delegates and accompanying persons

Housing Finance News from Africa: Policy investment in Africa's housing finance sector

↳ By Kecia Rust, Secretariat, African Union for Housing Finance

Growing attention to the regulatory and policy frameworks that make housing investment possible is evident across Africa, with governments at both the national and regional level committing themselves to the creation of enabling environments that will facilitate private sector participation in addressing their housing challenges. This is, of course, a pragmatic response to the challenges which government, increasingly, understands it cannot resolve alone. What is new, however, is that it is not just the housing and urban development-related departments that are engaged. Increasingly Central Banks, national treasuries, and finance departments are also focusing on the opportunities to be found in supporting the growth of effective housing finance markets.

In February, the African Ministerial Conference on Housing and Urban Development [AMCHUD] met for the fifth time, this time in N'djamena, Chad. Ten heads of state and numerous other senior politicians and officials from across Africa participated in the meeting over four days and elected Chad's Minister of Urban Development, Housing, Land Affairs and Administration, Mr Gata Ngoulou, as the chair of AMCHUD. The focus of this meeting was on "Case Studies in Financing Human Settlements in Africa: Appropriate Legislative Frameworks and Innovations in Implementation". A key objective of the meeting was to develop recommendations towards an appropriate legislative framework for human settlements financing. Clearly, African governments are recognising the need for new approaches towards the financing of human settlements across their countries. A paper commissioned for the event addresses innovations with respect to housing microfinance, mortgage finance, the use of pension funds to finance housing, the stimulation of social housing through fiscal incentives to developers, and the mobilisation of local resources to finance urban basic services. The paper offers legislative recommendations across all of these areas of innovation, and suggests where governments should focus their efforts.[1] While the outcomes of the deliberations have not yet been published, it is expected that the N'djamena Declaration will set out a path for African housing and urban development ministries to follow towards Habitat III, the post 2015 Development Agenda, the World Urban Forum 7, and the Urban Agenda in the context of the African Union discussions on Africa Agenda 2063.

Earlier this year, the Nigerian government launched the Nigeria Mortgage Refinance Company [NMRC] in partnership with the private sector. The initiative is aimed at lowering the funding cost of mortgages and providing mortgage-lending banks with increased access to liquidity and longer-term funds in the mortgage market – not dissimilar to the Tanzania Mortgage Refinance Company [TMRC] and the Egyptian Mortgage Refinance Company [EMRC]. Initial funding for the NMRC comes from a US$300 million, zero interest and 40-year tenure loan from the World Bank. At the launch of the NMRC, the Nigerian president, Goodluck Jonathan, said that the creation of an enabling environment for primary mortgage banks and other financial institutions to offer real mortgage facilities at affordable rates was a major step for the Nigerian Government. He also emphasised that this initiative involved efforts to improve land titling and land registration, speeding up governors' consent and improving foreclosure policies. Speaking at the launch of the NMRC, Nigerian Finance Minister Dr Ngozi Okonjo-Iweala, said that $250 million of the $300 million fund will be disbursed to the NMRC in instalments as two tier capitals based on performance indicators, and a further $25 million would be used to establish a mortgage guarantee facility for lower income borrowers. The last remaining $25 million extends the fund beyond mortgages, and is intended to be used to support the Federal Mortgage Bank to restructure itself in order to strengthen its programme on mass housing and also to on-lend to housing microfinance finance institutions.

A key gap facing investors in many national markets is the absence of housing finance-specific data to support their decision-making. A few years ago, the Kenyan Central Bank addressed this issue by including an explicit section in its annual report on the progress and development of the Kenyan mortgage market. The report includes key market statistics and highlights annual progress towards a growing sector. As of December 2012 (the December 2013 report is not yet out), Kenya's mortgage market comprised 19,177 mortgages to a value of about

[1] A summary of this paper will be offered in the next edition of HFI.

US$1.4 billion – a growth of 35.2% on the previous year. Kenya's mortgage market, while small by international comparisons, is among Africa's largest – following Botswana (2.29% mortgage to GDP), Rwanda (2.3%), Seychelles (2.9%), Tunisia (9.25%), Mauritius (12.99%), Morocco (13.85%) Namibia (18.21%) and South Africa (33.9%).[2] And still, 20,000-odd mortgages currently in place leaves an enormous space for growth as has recently been articulated by Kenya's finance minister. Indeed, the World Bank estimates that the potential market size could be as much as almost 250,000 mortgage loans of an average value of KsH 3.2 million ($39,000), providing a potential mortgage market size of Ksh800 billion or $9.9 billion.[3] While the housing department in Kenya will be looking to the housing opportunities this potential might resolve, the finance department is considering the growth opportunities for the nation's economy.

This year, the Tanzanian Central Bank has also issued a mortgage market report, highlighting dramatic growth of the industry in the 18 months before December 2013. In that time, the mortgage market grew almost three times, to about 2,750 mortgage loans, offered by 19 different banking institutions, with Azania Bank Limited holding 24.3% market share. Mortgage debt outstanding as a proportion of Tanzanian GDP is tiny by international and regional comparisons – at 0.36%. However, the Bank hopes that the TMRC will stimulate growth and support the planned-for construction of 50,000 affordable houses by the National Housing Corporation in the next five years.

This policy activity, evident in other countries as well, is both responsive to, and will lead, real interest among private sector players to engage in the urban housing opportunities clearly available across the continent. As market players seek out new investment opportunities, the policy and regulatory efforts of governments will have a substantial influence on what they will be able to achieve. It is very encouraging that governments are recognising and capitalising on this interest, gearing it towards their own goals of accelerated housing delivery and improved housing finance systems.

[2] CAHF (2013) Housing Finance in Africa: A review of some of Africa's housing finance markets.

[3] World Bank (2011) Developing Kenya's Mortgage Market.

Asia-Pacific Union for Housing Finance: News update Q1-2014

By Zaigham M. Rizvi, Secretary General APUHF

Thailand

In Thailand, the growth in land prices for Bangkok and the vicinity this year will be less than 3%, the lowest since 2010, according to Mr. Sopon Pornchokchai, the President of property consultants the Agency for Real Estate Affairs [AREA]. Although land prices have risen every year since 2000 at an average of 4.4% per annum, during Thailand's last political disruption in 2009 prices only rose 2.9%.

Despite continuing unrest, Bangkok's second-hand home market is expected to continue growing in 2014 in specific locations near the inner city and along the Purple mass-transit line.

In January, the Bangkok Post reported that while overall housing demand continues to be strong, developers are cutting back on new projects in 2014. At the same time, these cutbacks will boost demand for second hand homes, said Voradet Sivatachanon, President of the property brokerage franchise firm ERA Franchise (Thailand) Co.

To attract savings, Thai commercial banks, including the Government Housing Bank, have launched numerous "high-interest savings accounts. In early 2014, Angkana Pilun-Owad GH Bank's President announced that her bank will be launching a "high interest savings" campaign that pays 3 % per annum to encourage savings to celebrate the Chinese New Year.

The Government Housing Bank [GHB] launches during the first quarter of 2014 a special New Year low-interest-rate housing loan campaign. GHB recently set aside Bt40 Billion ($US1.3 billion) for its "First quarter 2014 special low-interest rate" housing-loan campaign. Of this amount, Bt30 Billion ($US1 billion) will be set aside for government officers, corporate-benefits customers, village sub-district administrative branch staff (monthly payments deducted from salary) and Bank project-partner retail customers. Interest on these loans will be 3.75 % per annum for the first year, 4.75 % per annum for the second year. From the third year until the end of the agreement, and thereafter interest will be charged on a floating rate basis.

Bangladesh

Dhaka-Bangladesh is facing a massive rural urban migration. Housing sector financial institutions in Bangladesh, although few in number, have been playing a vital role, as well as providing financial assistance, to develop the real estate sector. For the last two years, sluggish business has hindered the growth of finance in the real estate sector. Only Bangladesh House Building Finance Corporation [BHBFC] managed to maintain steady growth during this period. Due to electricity shortages, the Government is not committing to the provision of electricity to new housing developments, resulting in a fall in supply.

A culture of loan default has been a major problem for the financial institutions and they have been trying to minimize the default issue. Bangladesh Bank, the Central Bank of Bangladesh, has been striving to assist the financial institutions to deal with the challenge of loan default and formulating policies for that purpose. The CIB database is a good initiative in this respect. The time taken to foreclose on the property of a defaulter and the lengthy court proceedings remain another main impediment.

Afghanistan

IFC/World Bank has recently concluded a detailed housing market analysis/survey in Afghanistan, which also contains a set of recommendations for housing market stakeholders, primarily the Central Bank (Da Afghanistan Bank [DAB]). Another leading developer, the Harakat, has also conducted a housing market assessment. According to a survey by Harakat, an estimated 93.7% indicated the need for a Sharia compliant product. In order to promote Sharia-compliant housing finance, the DAB is in the process of setting up a Sharia Advisory Board and framing necessary regulations. The Central Bank of Afghanistan has also established a Credit Bureau which will further streamline the credit market by generating credit reports. The DAB is also in the process of introducing a Leasing Law as well. In view of the anticipated growth of the mortgage industry, the DAB is strengthening its Housing Finance function by the addition of more staff. The function is spearheaded by Mr. Asad Zafari, who is also Senior Adviser to the Governor-DAB.

Pakistan

Overall the outstanding mortgage portfolio in Pakistan has declined from the last quarter.

SBP took an initiative to gauge the level of financial inclusion in Pakistan. In this regard, the data from different Mortgage Financing Institutions [MFIs] was also collated using the required parameters. Results showed that in the current mortgage portfolio, 85% of borrowers (62,472) are male and the remaining 15% (10,752) are female. A similar ratio has been observed in terms of Net Present Loss [NPL] portfolio results.

A Mission of the International Finance Corporation [IFC] visited Pakistan during July-August 2013 to revalidate the business plan and feasibility report of the Pakistan Mortgage Refinance Company [PMRC]. The Mission held meetings with various stake-holders for the revalidation of the business plan and feasibility report of PMRC according to the current market outlook. After this revalidation, banks and HBFC (stakeholders) have reaffirmed their equity commitments. The company is expected to be incorporated soon.

The Government has announced a program to develop half a million low-income affordable housing units during the next 5 years. For this purpose it is working on a specific housing policy, setting up an institutional framework, and assuring the supply of serviced land at affordable costs. The program is expected to proceed largely on a public-private partnership model.

Europe: House prices and construction sector developments

↳ **By Mark Weinrich, Manager of the Department of International Affairs in the Association of Private German Bausparkassen**

It is one year ago that Eurostat, the statistical office of the European Union [EU], published for the first time house price statistics for the Euro area with its 28 member countries. The house price index is one indicator of the Macroeconomic Imbalance Procedure Scoreboard, which aims to detect and prevent macroeconomic imbalances within the EU. The index ended the third quarter of 2013 with negative annual growth rates: prices fell by 1.5% in the Eurozone and by 0.5% in the EU. The largest annual increases in house prices in the third quarter of 2013 were recorded in Estonia (+11.1%), Luxembourg (+6.5%), and Latvia (+6.2%), and the largest falls in Croatia (-16.9%), Cyprus (-8.0) and Spain (-6.4). The full data set can be found on the Eurostat website.

This continuous negative trend is also reflected by the data provided by Euroconstruct experts – although they are cautiously optimistic for this year.[1] The value of "total construction"[2] has fallen since 2007 in the Euroconstruct countries – with the exception of the year 2011 when a slight increase was reported. The construction of new housing played a significant part in this negative development. It plummeted in 2008 and 2009, after the overheated housing markets – particularly in Southern Europe – came under pressure. By contrast, building renovation did not drop so sharply and only temporarily. The renovation market is extremely important in Europe, accounting for about a third of total output – decisively more than in North America, where homes are newer. Given the necessity to maintain the existing housing stock it is quite evident that investments in the renovation market are less volatile. Building renovation is expected to grow by 1 to 1½% per annum over the next three years. But the construction of new housing is also supposed to grow in the Euroconstruct countries – by 2½% this year and 4% in the years 2015 and 2016, respectively. According to this prognosis, by 2016 residential construction volumes will reach 620 billion Euros (at 2012 prices); still clearly short of the record levels of 2006 and 2007 each with volumes larger than 780 billion Euros. One of the major reasons for the slow recovery in demand for housing in many countries is the high indebtedness of households, which rose prior to the crisis – mainly due to the acquisition of new properties.

Typical examples in this regard are Spain and Ireland. From 1997 to 2007 house prices and indebtedness of private households (in relation to disposable net incomes) went in only one direction: upwards. But since 2008 house prices in both countries have fallen drastically – in Ireland even more so than in Spain. However, the indebtedness of private households has decreased only slightly but remained at a high level. Evidently, the high debt burden Irish and Spanish households have to shoulder will continue to depress demand for new houses in both countries. The Netherlands face a similar situation: although house prices did not fall so drastically as in Spain or Ireland, continuously rising household indebtedness and a decisive cutback in government housing subsidies has curbed the demand for new housing.

In Germany, the situation looks quite different. Although house prices have increased since 2007 after a long period of stagnation, the indebtedness of private households in Germany decreased. This surprising development can be explained by rising real incomes and even more so by a reallocation of savings capital in other investment vehicles to real estate. Both factors have reduced the necessity of households to take on a high debt burden. The relatively low indebtedness of German households is likely to have a positive impact on demand for housing in the shorter term.

The United Kingdom has been able to stimulate the demand for housing with a series of government measures, of which the most important are the two phases of the "Help to Buy"-programme. This programme targets owner-occupiers. The first phase supports the affordability of the acquisition of new residential property with subsidised government equity loans and the second phase helps prospective buyers of new and second-hand property with limited equity capital to get a loan by guaranteeing the top slice of their loan. The second phase of the programme can therefore be seen as targeted towards stimulating the demand for housing but not on supporting the additional supply of new houses – which is much needed in the United Kingdom. The construction of new houses is likely to be inadequate in the near future (although it is increasing) and there will be many risks when the various government interventions are unravelled.

This short overview should have given a good insight into the current quite diverse developments in European housing markets. It should have also shed light on the significant differences in projected growth patterns for the next three years as the basic conditions and risks in the different markets vary considerably. The outlook of the Euroconstruct experts is cautiously optimistic but if their expectations were to be disappointed it would not be the first time.

[1] Euroconstruct's 19 countries include 17 EU Member States together with Norway and Switzerland.

[2] "Total construction" consists of all main construction sectors: residential construction, non-residential construction, building renovation and civil engineering.

How's housing finance at the end of 2013 in Latin America…?

By Ronald A. Sanchez Castro & Karla Gabriela López Yucra, UNIAPRAVI

In Argentina, the mortgage credits granted by the Argentine Credit Program [PRO.CRE.AR] for the last months of 2013 reached 158,176 families, which exceeded by 10 times the amount of mortgage loans throughout the financial system in 2012. Thus, by means of the PRO.CRE.AR Program, at the end of 2013 the total number of homes that the program has facilitated since its beginning across the country amounted to 89,450. On the other hand, according to the Mortgage Bank of Argentina in October 2013, 110,000 credits were issued for land and housing construction, as well as another 20,000, for new housing.

In Brazil in 2013, access to housing finance grew by over 30% in comparison to the previous year. According to the Brazilian Association of Real Estate Credit and Savings [Abecip], the real estate loans with saving resources reached R$ 109.2 billion in 2013; that is 32% above the level for the previous year. Positive aspects of the Brazilian economy such as low unemployment and the fall in the rate of default contributed to the increases in demand for credit. Another factor that may have driven the increase in real estate credit in 2013 was the decision of the National Monetary Council [CMN], which last year raised the housing funding ceiling with the resources of the Guarantee Fund for Length of Service [FGTS] from R$ 500,000 to R$ 650,000 and R$ 750,000 (depending on the region). Also, in 2013, the Caixa Economica Federal posted a record R$ 134.9 billion in contracts for home loans, which is 26% more than in 2012. The number of contracts also increased, from 1.2 million in 2012 to 1.9 million in 2013. The Minha Casa Minha Vida [MCMV] program ended the year with 3,240,000 units contracted, since the launch of the program; of this total, 2,240,000 homes were in the MCMV program in its second stage. Thus, in 2013 alone, about 900,000 units were contracted under MVMV program.

In Chile, according to the database of the Central Bank [BC], the interest rates of home loans in April and March 2013 peaked at 4.53 % [UF] for each month but until the end of the year the interest rates were on a declining trend, reaching 4.36% [UF] in December. Furthermore, according to the Superintendency of Banks and Financial Institutions [SBIF], the number of operations and the amount of housing loans in the banking system stayed in a positive trend throughout the year registering in the last month a total of 1,339,801 transactions amounting to $25,900,191 million. On the other hand, the subsidies to the middle-class sectors granted by the government during the last three years, led to the Ministry of Housing and Urbanism exceed its goal by the end of 2013, having issued 121,000 grants.

In Colombia, according to the National Administrative Department of Statistics [DANE], the amount of loans disbursed for the purchase of housing during 2013 continued with its upward trend, gaining in the third quarter a total of $ 2,223,424 million of pesos (at constant prices), of which $ 1,156,350 million of pesos was awarded for the purchase of new housing and $ 1,067,074 million for used housing. Furthermore, according to the same entity, the quarterly growth rates of the mortgage credits fell from the first quarter where it scored 12.9% to the third quarter where it was 3.7%. Moreover, it should be emphasized that there is fierce competition from Colombian banks to offer better rates on mortgage loans, which has benefited thousands of families, because between January and November 2013, 137,337 new homes were sold in the country.

In Costa Rica, in August 2013, the Board of the Housing Mortgage Bank [Banhvi] increased the housing subsidy to ¢300,000. According to the program, families whose monthly income is equal, or less, than ¢224,000 would receive a housing grant of ¢6,250,000.

In Ecuador, the Bank of the Ecuadorian Institute of Social Security [Biess] reported for the period from January to September 2013, a total of 21,696 mortgage loan operations, this represents an increase of 16.7% compared to 18,590 delivered during the same period in 2012. Moreover, in October of the same year, the President of the Board of Ecuadorian Institute of Social Security [IESS] announced that Biess would extend the term of mortgage loans to 30 years to facilitate the purchase of homes under $30,000 and cover the housing shortage in the country.

In El Salvador, according to the Salvadoran Chamber of Construction Industry [CASALCO], the amount of loans granted for the purchase of new homes, in spite of fluctuations, maintained its upward trend throughout 2013, reaching more than US$30 million in November. However, in spite of the amount of credit contributing to construction, it also kept fluctuating and experienced its lowest point in August with a total of US$590,000, and the final trend at the end of the year was negative.

In Honduras, the vice president of the Honduran Bank for Production and Housing [Banhprovi] reported in December 2013 that the company had ended the year with a total of about L4,500 million loans for housing construction and development of micro-entrepreneurs.

In Mexico, default within the mortgage portfolio continued its upward trend throughout the last year, reaching a total of $17,482.059 million of pesos in December 2013. On the other hand, according to BBVA Bancomer publications, last year private banking was the only sub-sector that showed a growth in originating mortgages (5%), while public institutions reported a contraction of 14%. Meanwhile, Banorte originated in 2013 a total of 19,000 million in this segment. Furthermore, the National Institute of

Housing Fund for Workers [Infonavit] reported that in November 2013 it had awarded a total of 570,000 loans while in the same month, the Housing Fund of the Institute of Security and Social Services for State Workers [FOVISSSTE] expanded its credit target from 75,000 to 90,000. Finally, the Ministry of Agricultural, Regional and Urban Development [Sedatu] reported that the subsidy of 12,600 million of pesos, which had been allocated for housing, would serve for the construction of 225,000 homes.

In Panama, according to statistics from the Superintendency of Banks of Panama [SBP], in October 2013 the credit portfolio of the National Banking System [SBN] exceeded by 12.3% the total volume issued in 2012, of which the mortgage industry accounted for the highest volume of loans totaling $ 2,449.2 million until October 2013. Also in September last year, the same institution reported that housing loans totaled $ 1.121 million, loans for infrastructure, $ 668.5 million; for construction of commercial property, $ 466 million and for additional materials and renovations, $ 841 million .

In Peru, the Association of Banks in Peru [Asbanc] reported in November last year that while the dollar credit balance had maintained a downward trend, the balance of mortgage loans in national currency had remained bullish until November 2013, reached to S/.17.054 million (quantity higher in S/. 4.597 than in November 2012). Meanwhile, the Chamber of Commerce of Arequipa [CCIA] reported that in the first nine months of last year the growth in mortgage loans in this city had been 27%. In addition the Mivivienda Fund reported that in late 2013 more than 36,000 Peruvian families had obtained access to housing finance during the year through the Mivivienda and Techo Propio program.

In Uruguay, according to the Mortgage Bank of Uruguay [BHU] in October last year more than 300 credits were provided, which was a record in their history of issuing credit. This led to the same bank granting 2,352 mortgage loans by the end of 2013 (representing 30% annual growth). Furthermore, according to the National Housing Agency [ANV], late payments on the restructured credit portfolio of the BHU decreased to 4.7% last year and late payments on the unrestructured portfolio dropped to 36.5%.

In Venezuela, according to the Bolivarian Construction Chamber, through the “My Home 0800 Plan”, which is part of the Great Housing Mission Venezuela [GMVV], in the period between 2011 and 2013 more than 547,000 homes were built. Furthermore, according to the Superintendency of Banking Sector Institutions [Sudeban] in December 2013 the balance of the mortgage loan portfolio reached 59,832 million bolivars, which represents a rise of 2,538 million bolivars (3.98%) compared to the previous month.

Japan Housing Finance Agency and Ginnie Mae sign Memorandum of Understanding

↳ **By Alven Lam, [Ginnie Mae], and Masahiro Kobayashi, [JHF]**

Mr. Theodore W. Tozer, President of the Government National Mortgage Association [Ginnie Mae], and Mr. Shinya Shishido, President of Japan Housing Finance Agency [JHF], jointly signed a Memorandum of Understanding [MOU] January 9, 2014, in Washington, D.C.

The MOU will strengthen their cooperative relationship in housing finance and housing market support.

The relationship between JHF and Ginnie Mae is extremely important as both partners contribute to stability in global financial markets. The MOU on housing and housing finance further strengthens that partnership; it will more easily facilitate the sharing of strategies and policies, enhancing the funding of Mortgage-Backed Securities [MBS] and investments.

Both Ginnie Mae and JHF hope to use the shared information gained through this partnership to gain an increased understanding of how to form, guarantee and sell securitized instruments to support homeownership growth in emerging countries in Asia and around the world.

Ginnie Mae, as a wholly owned corporation within the Department of Housing and Urban Development of the United States of America, guarantees timely payment of MBS with full faith and credit of the U.S. Government. Ginnie Mae raises capital from investors in the global credit markets to ensure liquidity for affordable rental and homeownership opportunities across the country. Through its MBS, Ginnie Mae finances Government-insured or guaranteed landing programs provided by the Federal Housing Administration [FHA], the Department of Veterans Affairs [VA], the Office of Public and Indian Housing [PIH] and the Department of Agriculture's Rural Development Housing and Community Facilities Program [RD].

JHF is an incorporated administrative agency, wholly owned by the Government of Japan. It was established in 2007 to succeed the Government Housing Loan Corporation of Japan [GHLC] that had been established in 1950. JHF does not originate mortgages, but purchases 35-year fixed-rate mortgages originated by private lenders and packages those mortgages into MBS. JHF is the largest issuer of MBS in Japan.

This is the first time in either agency's history that an inter-governmental MOU has been signed with another country, which highlights the importance of the bilateral relationship between the U.S. and Japan. With the understanding of the importance of housing and mortgage markets in stabilizing the global financial situation, the two organizations will develop joint research and forums to address related emerging issues.

Moscow: the housing market, causes of the ultra-high property prices, housing supply, sources of investment and shortage of affordable housing

By Marina Khmelnitskaya

1. Introduction

Moscow, the capital of the Russian Federation, with a population of nearly 12 million and an urban GDP of USD 320 billion, is ranked among the world's largest metropolitan areas (UN-Habitat, 2013, p. 46 and 164). The A. T. Kearney's '2012 Global Cities Index' – assessing a city's political, cultural and business impact - places Moscow among the world's top twenty most influential cities (A. T. Kearney, 2012). The City Prosperity Index compiled by the United Nations Human Settlements Programme and measuring among other factors the quality of life, equality, the state of the urban environment and infrastructure, includes Moscow among the group of cities with 'solid prosperity factors' (UN-Habitat, 2013).

Over the last twenty-twenty five years Moscow has experienced a dramatic transformation from a socialist city to a capitalist one, the political and commercial heart of one of the worlds' emerging and fastest growing economies. During this time, Moscow has joined the list of cities that are home to what can be called 'the world's super class' (Beaverstock, 2012, p. 388; also see Paris, 2013). Only New York and London were places of residence to more dollar billionaires than the Russian capital.[1] Certain prestigious areas of central Moscow – *Ostozhenka* Street specifically – are listed among the world's most expensive locations according to their property prices – USD 21,000 per square metre (ibid, p. 385). House prices for the less affluent Muscovites – averaging USD 5,000 per square metre – also strike an observer as being comparatively high.

This contribution examines the Moscow housing market, searching for the causes of the ultra-high property prices, examining housing supply, the sources of investment and the shortage of affordable housing. First I will present a general social and economic portrait of Moscow and then provide more detail on the current state of its residential property prices. After that the article

Map 1 Moscow and the Moscow region

Map source: http://www.vmireinteresnogo.com/article/day-of-the-moscow-region

[1] According to 2009 Forbes List of Billionaires 55, 28 and 27 dollar billionaires were residents of New York, London and Moscow respectively (cited in Beaverstock, 2012, p. 382-3).

moves on to explore the reasons behind the costs of housing in the Russian capital.

2. Social and economic capital over the last 25 years

Administratively the city of Moscow represents one of Russia's 83 regions and is governed by an elected mayor and the city parliament. The population of Moscow in 2012 was 11.613 million (8.12% of the entire Russian population) according to official data.[2] It is estimated, however, that Moscow may house up to another two million illegal migrants, bringing the total number of residents to approximately 14 million.[3] Moscow is surrounded by the Moscow region, *Moskovskaya Oblast'* or *Podmoskov'e*, (see Map 1) which is governed by an elected governor and has a population size of 7.199 million (5% of the Russian population). The region is largely urbanised – 80.1% live in towns. While administratively separate, these two units, Moscow and the Moscow region, are highly interlinked, with between one and two million dwellers of Moscow satellite towns – such as Balashikha, Mytishchy or Odintzovo, among many - commuting to work in Moscow every day according to estimates (Urban Agenda, 2013, p. 22). Thus when speaking of Moscow it is worth keeping in mind that together with surrounding areas it represents a massive urban agglomeration inhabited by approximately 20 million people. In this article I focus primarily on the city of Moscow, referring occasionally to the Moscow region and also to the 'new' Moscow territories later in the article.

While the territory of Moscow amounts to 0.01% of Russia and that of the Moscow region - 0.27%, Moscow itself produces 22.5% of national GDP (in 2010 RUB 8.4 trillion, USD280 billion) with the Moscow region contributing another 4.7%. Over the last twenty years Moscow has moved on from an industrial to a post-industrial economy, with over half of the urban GDP generated in the services sector (Urban Agenda, 2013, p. 12).

This high level of economic development means that the income levels and living standards of the Muscovites are among Russia's highest. An average monthly income in 2011 was equal to RUB 47,319[4] which compared to Russia's average of RUB 20,755. In the Moscow region average income was substantially lower than in the capital: RUB 25,605. Incomes in Moscow, together with the rest of the country have been growing at especially high rates during the mid-2000s, at some 8 to 10% annually. During the years following the financial crisis it should be noted that income growth flattened, to a mere 0.1% in 2011. However, returning to Moscow prosperity, the high levels of income inequality in the city should be acknowledged as well. The income of the highest earning 20% of the population in 2011 was higher in Moscow than elsewhere in the country: 55.1% versus the Russian average of 47.4%, while the bottom 20% earned proportionally less (3.8%) than the same group in the rest of Russia (5.2%). Nonetheless, in ultimate terms the share of individuals with monthly incomes exceeding UDS 1000 in Moscow was 42.4% against just 14% throughout the country.

Attracted by the prospects of higher earnings many thousands of migrants have moved to Moscow over recent years. The city of Moscow has been growing steadily during the post-Soviet period at rates between 0.6 and 1.8% per year. A similar trend has been observed in the Moscow region. This stands in stark contrast to the demographic situation of Russia as a whole. The country's population has shrunk from 148.3 million in 1990 down to 142.7 million in 2008 and slightly up to 143.1 million by the end of 2011 – a gain of 0.1%. Over the last decade the population of Moscow has grown by 15%.

3. Housing and house prices in Moscow

These socio-economic transformations as well as government policy have had a significant effect on the city's housing situation. In terms of the ownership structure, if by the start of the 1990s over 70% of all accommodation in the country was state owned, the policies of housing privatisation and new housing development by the present period have reversed the situation (see Khmelnitskaya, 2013). Currently 77.1% is privately owned in Moscow, and 22.1% is held in state ownership; in the Moscow region a higher proportion is privately owned: 82.9%, and another 2.5% and 14.7% are owned by the state and municipalities respectively.

After the post-communist economic adjustment during the 1990s and the economic crisis of 1998, housing construction has been booming in Moscow as well as in the rest of the country

Table 1: Provision of social housing, 2010-2011

	Number of households placed on waiting lists for social housing, 000s		As a proportion of all households, %		Number of households allocated social housing, 000s		As a proportion of all households placed on waiting lists, %	
Region/year	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**
Russia	2,818.0	2,799.2	5.5	5.1	243.6	180.8	8.6	6.4
Moscow	120.4	111.3	3.1	2.5	9.7	5.7	7.1	4.7
Moscow region	70.5	69.6	2.8	2.5	3.5	3.2	4.5	4.5

Source: Rosstat, www.gks.ru

[2] This article uses statistical data of the Russian State Committee for Statistics, Rosstat. The data is available at www.gks.ru.

[3] Presentation by Andrey Treivish, Professor, Department of Geography, Moscow State University, at the conference 'City development in the modern context: society, authorities and experts' 13-14 June, Higher School of Economics, Moscow, cited in Kuricheva (2013).

[4] Higher incomes, RUB 54,632, were earned only in oil-rich Nenetz autonomous district in Eastern Siberia. The average income in St. Petersburg, Russia's second largest city was equal to RUB 25,995 per month.

[5] Rosstat, Statisticheskiy sbornik: Regiony Rossii. Sotsial'no-ekonomicheskie pokazateli - 2012 g., Available at www.gks.ru, Table 5.23. Zhilishchniy fond.

[6] Ibid. Table: 5.25. Obshchaya ploshchad' zhilikh pomeshcheniy, prikhodyashchikhsia v srednem na odnogo zhitelia.

since the early 2000s (See Table 4 below for a between-region comparison). If in 2000 Moscow housing stock totalled 185 square metres, by 2012 - that number increased to 218 million square metres.[5] Thus, the increase was 14%. Yet, from the view point of the actual accommodation available per person the increase was less impressive. In 1990 an average floor area available per person was 17.8 square metres, by 2011 this improved to just 18.7 meters. In the Moscow region by contrast the situation improved to a greater extent – from 16 to 29.6 square metres per person during the same period. This can be compared to Russia's average increase from 16.4 in 1990 to 23.0 square metres in 2011.[6]

As far as the provision of social housing is concerned Moscow and the Moscow region have also been somewhat lagging behind the rest of the country as evident from Table 1.

The prices of Moscow housing however are substantially different from those elsewhere in the country (See Table 2). Because of the astronomically high prices many Muscovites choose to buy beyond the Moscow Ring road, generally seen as a border line between Moscow and the Moscow region,[7] where prices are lower.

Moscow is certainly not uniform with regards to its house prices. An important factor affecting the price of properties is the area of the city. The prestigious city centre, West and South West display higher prices compared to other areas (See Table 3). If a standard - 50 square metre - apartment in Moscow's less prestigious areas can cost approximately RUB 9-10 million, new elite apartments located in the centre are currently sold for: RUB 17.5 million for a studio; two-room apartment[8] - RUB 25.8 million; three-room - RUB 36.3 million (see: www.irn.ru, accessed 27 November 2013). Figure 1 demonstrates the historic distribution of house prices in Moscow for the least and most expensive 20% of the market, as well as the averages for 1999-2013.

The ultra high prices of Moscow properties make homes less affordable. A study by a Russian housing economist demonstrates that if Russia's average price to annual income ratio for the secondary market in the third quarter of 2011 was 12.9, for Moscow it was 24 - the highest in the country. The primary market appears to be more affordable: the country's average was 11.7, while in Moscow the ratio was 18.8 (Burdyak, 2012). At the same time, the rental income that can be earned on Moscow properties does not appear especially high. Currently it stands at the level of 4-5% of the property price. In other words, for a standard apartment of 50 sq. metres worth RUB 10 million, monthly rental income would equal to RUB 45,000. This gives a price to rent ratio of around 22 (Zotin, 2013).

Table 2: Average primary and secondary house prices in selected Russian regions*, RUB/square metre (2000-2011)

Region/year	2000		2003		2006		2007	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Russia	8678	6590	16320	13967	36221	36615	47482	47206
Moscow	16281	15414	35364	34681	88590	101334	113501	127874
Moscow region	9663	7460	17442	15864	35264	41202	51747	52819
St Petersburg	11186	10046	22081	19267	45460	48679	80251	58995
Sverdlovsk Region (main city Yekaterinburg)	7577	6559	16004	14419	39349	32435	54261	47009
Novosibirsk region (main city Novosibirsk)	6796	6260	15632	16014	28458	31645	43288	49170

Region/year	2008		2009		2010		2011	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Russia	52504	56495	47715	52895	48144	59998	43686	48243
Moscow	127246	155271	131218	158915	144342	170131	129524	163203
Moscow region	62433	72826	60673	62344	60233	66364	69119	65895
St Petersburg	88729	79186	90162	84195	78243	80134	78851	87384
Sverdlovsk Region (main city Yekaterinburg)	42418	50536	42455	43337	51341	45150	42011	47745
Novosibirsk region (main city Novosibirsk)	46217	53697	41397	48060	38263	46430	34129	46661

* Data for St Petersburg, Yekaterinburg and Novosibirsk are used here to provide comparison because these are Russia's largest cities after Moscow.

Table 3: Moscow house prices by area, USD per sq. metre, November 2013

MOSCOW AREA	HOUSING PRICES, USD/SQ METRE, 25 NOVEMBER 2013
City Centre	7.834
South – West	6.055
West	5.835
North-West	5.347
North	5.121
North-East	4.965
East	4.813
South	4.683
South-East	4.534
Areas outside the ring road	4.285

Source: www.irn.ru, accessed 27 November 2013

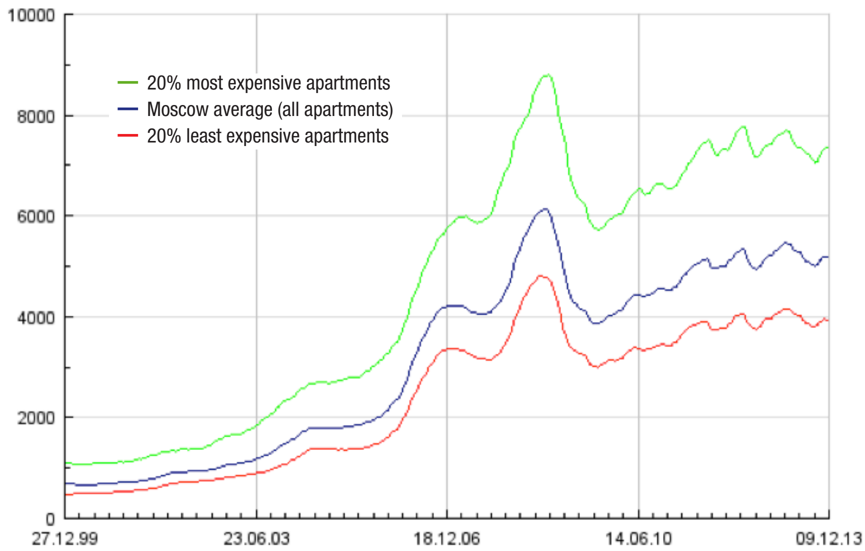
[7] However, technically this is not accurate. There are a number of districts that are administratively part of Moscow located outside the ring road, Zelenograd twenty kilometres West of Moscow, for instance, see Map 1 and Map 2. In addition, from July 2012 the territory of Moscow was extended to include a large area to the South-West of the city, see Map 2. I will return to this important development later in the article.

[8] The room count in Russia tends to include the living room as well as the bedrooms.

Given the increase in housing prices, construction rates have been going up in Moscow as well as in the Moscow region. The latter in fact is an absolute leader among Russian regions in terms of the volume of new housing construction (See Table 4). The Moscow region in 2011 contributed 13.2% of all new housing construction in the country, whereas only 2.9% of new houses were built in Moscow proper. On a more general note, the acceleration of housing development in the country has been a Russian government priority throughout the last two decades, considering the history of the housing shortage during the late-Soviet period (Khmelnitskaya, 2013). Yet, in practical terms, the rates of housing construction have increased substantially with the return of economic growth in the early 2000s. A recent government programme - "Provision of affordable and comfortable housing and communal services to the Russian citizens" adopted in November 2012 (Pravitel'stvo RF, 2012) - is aiming to consolidate the efforts of various private and state players in respect of housing development. According to this programme residential construction in Russia as a whole is to reach 92 million square metres in 2020.[9]

To conclude this section, Moscow is the largest city in Russia and a fast growing urban metropolis. Moscow house prices compared to those in the rest of the country are three times greater for the new-build and nearly three and a half times greater for second-hand housing markets. How can one explain these large price differentials?

Figure 1 **Moscow house prices dynamic: average, most and least expensive USD per sq. metre, for 1999-2013**



Source: www.irn.ru, accessed 20 November 2013

4. What accounts for high house prices in Moscow?

A number of factors have combined to drive Moscow house prices to the current levels. Among these are Russia's star economic performance during the 2000s; the level of the socio-economic development of Moscow and its position within Russia's wider urban structure; the increased availability of mortgage credit during the recent period; restricted housing supply; and the lack of available land in the city.

The annual growth rate of Russian GDP of 6-7% per year observed prior to the onset of the financial crisis in 2008 has usually been attributed to the high prices of oil and gas that generated a windfall of profits for the Russian economy. These translated into higher household incomes and the growth of domestic demand. Given historically high demand for housing, a part of this new wealth was channelled into housing investment.

Table 4: Construction rates in selected Russian regions, million square metres

Region/year	1990	2000	2003	2006	2007	2008	2009	2010	2011	m^2 per 1,000 population, 2011	Ranking within Russia, 2011
Russia	61695	30296	36449	50552	61221	64058	59892	58431	62265	436	-
Moscow	2257	3342	4443	4780	4825	3264	2704	1768	1808	156	78
Moscow region	2380	2611	4115	6484	7805	7881	8452	7939	8244	1153	1
St Petersburg	1064	1081	1758	2376	2637	3212	2603	2657	2706	549	14
Sverdlovsk Region (main city Yekaterinburg)	2041	617	779	1284	1659	1702	1591	1770	1822	424	30
Novosibirsk region (main city Novosibirsk)	1094	505	566	1073	1275	1392	1216	1380	1505	562	12

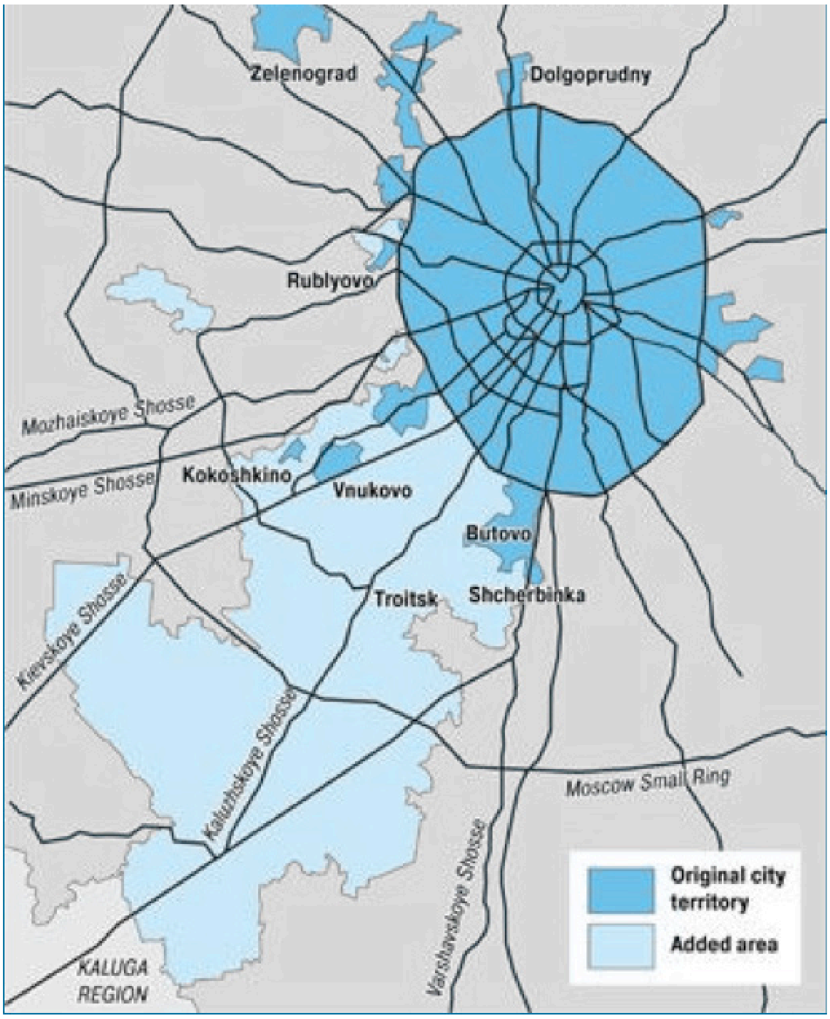
[9] 62.25 million square metres of new housing were built in Russia in 2011.

In this wider context of economic growth during the mid-2000s, the Moscow housing market has begun to be seen as a particularly desirable destination for investment. Moscow acts as a hub for Russia's political, economic, financial and social activity, attracting people and resources. The migrant inflow to the city addressed earlier supports the demand for housing in the capital (Burdyak, 2012, p. 133). The gravitational pull of Moscow is enhanced by the particularities of the country's urban structure. Russian geographers argue that by comparison with developed economies, such as the USA or France, Russia lacks large cities with the population size of six to seven million. The second largest Russian city, St. Petersburg, has approximately 4.5 million inhabitants, whereas the third largest, Novosibirsk, - has just under 1.5 million (see Karachurina, 2012, p. 19-20). This produces a hyper-concentration of resources in Moscow and contributes to the attractiveness of its housing market.

Another factor that should be considered in relation to the high price levels on Moscow properties is the increased availability of mortgage finance. While, in the early 2000s mortgage lending in Russia was in its infancy, it has grown significantly over the last decade (for more detail see Khmelnitskaya, 2013, 2014). The aggregate volume of mortgage credit issued during 2013 is expected to reach RUB 1.3 trillion (USD 40 billion). While this may still be modest as a proportion of GDP (2.7% in 2011) and there remains a large growth potential, it may be noted that Muscovites during the 2000s were more active than residents of other regions in taking out mortgages. 17% of housing transactions relied on mortgage credit in Moscow in the first half of 2010, against Russia's average of 13.9%. In the first half of 2013, one in five purchases in Moscow were funded with a mortgage loan, yet the share was substantially higher for the dwellers of the Moscow region, where during the same period every third house purchase was cleared with the use of a mortgage credit (see: http://www.ahml.ru/ru/agency/analytics/statsis/, accessed 5 December 2013).

The above mortgage borrowing figures point to another feature of Moscow and the wider Russian housing market - it is an equity-dominated market in which most transactions are funded by savings or equity raised from the sale of a previous property. The growing prominence of equity-based transactions in mature housing markets which had earlier on been primarily funded by credit is discussed in Heywood (2012).

Map 2 Moscow and the new territories to the South-West as of 1 July 2012



Map source: http://www.themoscowtimes.com/news/article/shoigu-asks-putin-to-return-piece-of-greater-moscow/462271.html

In Russia, however, the savings directed towards the housing market or at least some part of this cash could have been saved as bank deposits. Yet, research shows that the Russians have little trust in their banking system and as, for instance, Vernikov (2012) notes compared to their Chinese counterparts they save significantly less. Housing and especially the Moscow housing market provides the Russians with what they perceive to be a low-risk alternative. What is more, this pursuit of a safe haven for investment is further enhanced by the belief that to own property is far better than renting it. This phenomenon has developed in Eastern Europe after the fall of communism as Lux and Sunega (2010) demonstrate with the case of the Czech Republic (also Zotin, 2013).

Finally, two factors must not be overlooked: the lack of available land for residential construction and the high costs of construction. Both restrict supply of new housing in Moscow and

[10] Only one other Russian region, Krasnodar in the south of Russia, where Sochi is located, displays a similar high inward migration level, of 56-57 migrants per thousand local residents.

are reflected in house prices. Starting with the former, Moscow within the Ring Road had largely been developed during the 20th century and was geared towards industrial production. In the last twenty-five years, however, the city lost most of its industry and as noted moved towards a service economy. Yet, the city environment has not caught up. Moscow continues to contain large industrial areas, *promzony*, which contain vast land reserves. The development of this land thus offers the most potential for residential construction within Moscow's 'old' borders in the future (see Urban Agenda, 2013).

4.1 The 'new' Moscow

The *promzony* represent only a part of what concerns Moscow urban planning experts at present. The current Moscow administration, headed since 2010 by mayor Sergei Sobianin, is highly reluctant to give building permissions and particularly so in the historic city centre, as a reaction to the chaotic construction of residential and commercial real estate during the 1990s and during the economic boom of the 2000s. This uncontrolled development has produced large imbalances in the development of the urban fabric. For instance, the historic centre contains 40% of all work-places in Moscow, while only 9% of Muscovites reside in it (ibid. p. 22). This results in enormous daily traffic flows, which often paralyse the city and have obvious negative implications for its economy, environment and the social climate.

The idea that Moscow city-planners proposed in the late 2000s was to extend the territory of Moscow towards the south-west along the Kaluga motorway (see Map 2). While still seen as highly controversial, the idea was implemented in the 2010 General Plan and became reality from July 2012. As a result the territory of Moscow was increased 2.4 times or by 148 thousand hectares (see: http://www.mos.ru/en/about/borders/printable.php?print=1, accessed 4 March 2014). The hope is that the 'New Moscow' will help to overcome the overcrowding of the old territories, by shifting the centre of commercial and administrative activity south-westwards and away from the historic city centre, thus giving a chance to develop a poly-centric urban structure and allowing space to upgrade the city's transport system.

An important task for Moscow is to improve housing affordability. The city planners expect that over 100 million square metres of housing will be built in the new territories. The vision expressed by Moscow chief architect, Sergei Kuznetsov, is that priority will be given to construction of affordable housing. The new areas, at the same time, should display greater architectural diversity, with smaller residential blocks where all necessary services from shopping to schools to hospitals are located within walking distance (Urban Agenda, 2013, p. 28). The extent to which this vision is to become reality remains to be seen. At present the development of the new territories follows an urban instead of a 'suburban' scenario (Sokolova, 2013). The new residential districts being built there closely resemble those already existing on the Moscow outskirts. The average prices, however, are substantially lower, RUB 90 thousand per square metre (approximately USD 3,000) and are comparable to the house prices in the surrounding Moscow region (Yur'eva, 2013).

4.2 The costs of construction

The high costs of construction and the administrative barriers that have to be overcome by property developers stand among the important reasons behind exceptionally high house prices in Moscow. To appreciate the extent to which these slow down and interfere with the process of housing construction we can refer to the results of a study conducted by the Fund 'The Institute for Urban Economics' in 2011 in a number of large Russian cities - including St Petersburg and Yekaterinburg among the largest, but excluding Moscow (Kosareva et. al., 2012).

This research demonstrates that from the stage of receiving construction permission through to the registration of property rights, the process of development of a standard multi-family building of 200 apartments can take between 946 and 1,055 days. In addition, the official payments made by a developer in the process of arranging all appropriate permits averaged at 33% of construction costs. For the hypothetical residential building of 200 apartments this would be equal to RUB 25 million (USD 900 thousand). The process of connecting the building to the local utility infrastructure would involve the highest proportion of costs - 80%.[11] As high as these figures may appear, it was suggested by other commentators that in case of the highly expensive Moscow the costs of housing development - which could also include a certain unofficial component - could be far greater and exceed the cost of construction by three to four times (*Otechestvennye zapiski*, 2012).

In summary, while many of the factors considered above apply to Russia as a whole, some are particular to Moscow - specifically its unique geo-political and economic place within the Russian economy. Altogether, they are responsible for the enormous price difference which is observed between Moscow and the rest of the country. But how will this situation develop in future?

At the time of writing (December 2013) the economic outlook was certainly different from that of the mid-2000s. In October 2013, the IMF, for instance, downgraded Russia's GDP growth forecast from an estimated 2.5% to 1.5% for 2013 and 3.25% to 3% in 2014. (IMF, 2013, p. 2; GlobalRiskInsights, 2013). For the next five-year-period the IMF generally predicts slower growth in Russia and weak external and internal demand. It is also noted that structural reforms are essential as the economy has been operating at near full capacity. Besides, the Russian population is ageing rapidly. The oil price - the driver of the Russian economy - has stagnated in the mean time at the level of USD 105-110 per barrel.

Amidst this gloomy economic forecast an opinion has been expressed that a housing bubble has been created in Moscow and that it may burst soon. Housing prices have been stagnant for a while, see Figure 1. The price to rent ratio of 22 is high suggesting that Moscow properties are over-priced. Therefore, according to some experts a 20% price correction can be expected (Zotin, 2013). And yet, the oil price still remains rather high, and the IMF five-year-ahead forecast predicts 3.5% GDP growth for the Russian economy, which is still more robust than the current forecasts for the euro-zone. While both of the two scenarios - the price reduction or a slow growth - could potentially come true; at present, house buyers in Moscow still appear to be confident that nothing bad can happen 'because it is Moscow' (ibid).

5. Concluding remarks

Moscow is a large, diverse and dynamic world city. As the A.T. Kearney (2012) report states: 'The world today is more about cities than countries, and a place like Seoul has more in common with Singapore and Hong Kong than it does with smaller Korean cities'. Indeed, as demonstrated, Moscow with its ultra-high property prices and poor affordability resembles more closely London, Paris, New York or Shanghai

[11] Of the 33%.

than other Russian cities. Yet, Moscow is still in important ways influenced and shaped by within-the-country dynamics.

The issue of housing affordability and housing development is increasingly taken by the Moscow city administration and by the Russian federal leadership as a part of a more encompassing endeavour of improving the 'quality of life' in Moscow as well as in other Russian cities. Such an approach, for instance, is reflected in the 2012 government programme "Provision of affordable and comfortable housing" referred to above. The aim of government policy according to the programme goes beyond housing construction targets. The objective is 'to create a comfortable living and working environment for the public, which would contribute to the high quality of life more generally' (Pravitel'stvo RF, 2012, p. 15). In the meantime, 'Moscow - the Joy of Life' was chosen as a slogan by the international team of architects and urban planners which at the moment are developing a master plan for Greater Moscow, to be completed in 2014 (Institut regional'nykh issledovaniy, 2012; Urban Agenda, 2013, p.25). The improvement of housing affordability and housing diversity in the city are important elements of this work. However, to compete on the global stage for investment and talent, Moscow should also address such vital issues as upgrading urban infrastructure and the transport system and developing environmental sustainability and public spaces, as well as improving the quality of urban governance and community participation.

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London: developing a housing strategy for a global city

↳ **By David Lunts, Director of Housing & Land, Greater London Authority [GLA][1]**

1. London: the challenge

London is one of the world's very few truly 'global cities', and in the last twenty years or so it has been undergoing something of a renaissance. Its population is booming, its economy is growing, its jobs market is thriving, and its social and cultural life has never been more exciting. London regularly tops international league tables of cities in which to live and do business and less than two years ago it staged one of the best summer Olympics and Paralympics ever seen, not least thanks to the impressive and thorough regeneration of Stratford, of which staging the games was an integral part.

But all this success comes at a cost. London is now a city faced with a massive shortage of good quality homes that are affordable to the majority of those who live and work in the capital. The Mayor's 2020 Vision last year described this as "*perhaps the gravest crisis the city faces.*"[2] Addressing this shortage is essential to ensuring that London's economy continues to grow and that London retains its status as the greatest city on earth. Meeting this challenge will not be done easily or quickly – it is a twenty-five year challenge, stretching over a number of Mayoral terms, economic cycles and spending rounds.

Demand for housing has increased substantially in the last few years. The 2011 census revealed that London's population had grown by around a million in the previous decade, its fastest rate for a hundred years. Its current population, around 8.4m in 2014, is second only to the 8.6 m peak recorded in 1939, and it is expected pass that milestone by 2016 and reach 10m by 2030, making it the most populous city in Western Europe.

This rate of London's growth is approximately equivalent to one new borough every three years, and is as high as that experienced in the next 22 largest UK cities combined. Yet, while the city's population has grown by 1,500,000 people since the mid-1980s, forming 750,000 new households, there have only been around 500,000 new homes delivered in that time.

This imbalance between housing supply and housing demand has been partly fuelled by London's impressive recovery from the economic downturn. Employment in London fell sharply in the last recession, with the number of jobs falling by 3.3% between September 2008 and September 2010, compared to 1.8% in the rest of England. But London subsequently saw a much stronger recovery, with 11.4% growth in jobs between September 2010 and September 2013, compared to 2.2% in the rest of England. Indeed, the Centre for Cities recently showed that London accounted for 80% of national private sector jobs growth during this time.[3] Employment growth in London has been particularly rapid in the last year, with an estimated 257,000 workforce jobs added.

This positive economic news has added to housing demand, and boosted the confidence of prospective purchasers, further encouraged by recent Government initiatives such as Help to Buy. This has fed into higher house prices: the Land Registry reported an annual London house price rise of 11.2% in 2013, taking the average price to £403,000. In the rest of England & Wales, prices rose 4.4% to £167,000, making the average London home 250% more expensive than the national average. This ratio is now at its highest level since at least 1973.[4] Equally, rents are significantly higher in London than the rest of the country, and have also been rising significantly – it was reported recently that the average rent in the capital hit £1,417 a month in the second half of 2013, compared with £701 across the country, a rise of 10.5% in twelve months.[5]

The decade to 2011 also saw a rise in average household size in London to 2.5 people, the first such rise in at least a century. This almost certainly reflects the sharp increase in the cost of both renting and buying homes, itself partly caused by the historic under-supply of new homes, and probably reflects a greater number of 'hidden' or 'concealed' households – sons and daughters living with parents for longer than they would like to, and flat sharers sharing for longer - increasingly unable to independently access affordable homes as separate households. The Office for National Statistics reported recently that London has the

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1 The GLA is the strategic governing body for London. It is made up of the Mayor and the London Assembly. The Mayor is responsible for setting policy and the London Assembly is an elected body for the capital made up of 25 Members who scrutinise the Mayor's policies. The GLA has responsibility for strategic areas of economic development, transport and housing, and is responsible for delivering the Affordable Homes Programme in the city. In other areas it shares powers and public services delivery with the 33 local authorities in London, comprised of 32 boroughs and the City of London Corporation.

2 http://www.london.gov.uk/sites/default/files/2020_vision_web.pdf

3 http://www.centreforcities.org/40/press/press-releases/annual-health-check-of-uk-cities-shows-that-the-capital-is-booming-while-other-c.html

4 http://www.landregistry.gov.uk/__data/assets/pdf_file/0020/71192/HPIReport20140122.pdf

5 http://www.theguardian.com/money/2014/feb/26/london-buy-to-let-rent-double-uk

highest percentage of 'concealed' households of any English region, at 3.3%, compared to an English average of 1.8%. The highest rate in England was in Newham, with 7.5% of all households being 'concealed', with Brent taking second place.[6]

Although many cannot access the private rented sector [PRS], this has not stopped it nearly doubling in recent years. It now accommodates 26% of London's households, up from 14% in 1991. It is likely to be the only sector that ends 2014 with a larger percentage of households in London than it started with. Its popularity would not (solely) appear to be because tenants prefer the flexibility of renting, as a generational divide appears to be opening up between older owner occupiers who bought when housing was more affordable, and younger people whose aspiration to own is severely challenged by high and rising house prices. Correspondingly, the owner occupation rate in London peaked at 57% in 1991 but has fallen consistently in the last ten years to just under 50% in 2011. Meanwhile, although the overall proportion of households in the social sector has been falling less rapidly than that of owner occupation, and currently accounts for around 25% of all London households, it has been a relatively high proportion of new supply in recent years.

But worsening affordability is being felt most acutely by working households on low and middle incomes, many of whom require state support to pay their rent. London Councils, the umbrella body for the boroughs and City of London Corporation, estimated in October 2013 that around half of people receiving housing benefit in the PRS had at least one family member in work, and that working households accounted for 96% of the 17% rise in people claiming housing benefit since April 2011.[7] Rising house prices and deposit requirements from lenders have forced many more people to rent; a shortage of overall supply has helped push up rent costs and, as a result, many more people need help with housing costs than in the past, including those who might otherwise consider themselves to be on reasonable incomes.

The economic case for providing adequate housing for these people, the group that drives the London economy, and therefore the national economy, is compelling. If these skilled essential workers were to leave the capital, it could strike a fatal blow to economic growth and competitiveness. The GLA has estimated that there could be a projected shortfall of 50-90,000 homes for professionals over the next ten years, which could result in potential loss of economic output of £15bn to £35bn. A year ago the Confederation of British Industry's [CBI] 'London Business Survey' found that its London members ranked housing as a bigger barrier to London's economic competiveness than transport, the first time this has ever happened.[8] More housing that is affordable to normal working Londoners will increase the size of the labour market, aiding London's competitiveness. Further, housing construction supports jobs through the supply chain, and for every £1 spent on construction, £2.84 is generated in GDP.

The above is not to say that the picture in London is entirely negative. Supply is picking up, even to the extent that brick shortages are now being experienced. Roughly 25,000 new homes were built in 2011/12, up from 18,000 in 2010/11, but below the output in the previous four years. Some 8,750 new affordable homes were built in 2011/12, at 44% of the total number of completions it is the largest share for affordable homes since 1983. These constitute part of the 67,000 affordable homes that have been delivered since 2008, and the Mayor is on track to deliver over 100,000 affordable homes over his two terms, the most delivered in the capital for decades.

More broadly, the number of new orders for housing construction was up 40% last year compared to 2012. The most recent available figures, for the third quarter of 2013, also show that new housing starts were up 30% on the same quarter in 2012. Further, NHBC figures recently revealed that more homes were registered last year than at any point since their electronic records began 26 years ago, up 60% compared to 2012. These are all encouraging signs.

But more is needed. Supply needs to double from recent annual average output to meet rising demand and address the backlog. Meeting this ambitious target would imply a higher rate of building than at any time since the 1930s building boom, which saw much of outer London emerging from the open countryside that preceded the Green Belt.

2. Meeting the challenge: a strategy for London

In order to measure the exact scale of housing demand, and capacity to meet that demand, the GLA recently produced, respectively, the Strategic Housing Market Assessment [SHMA] and Strategic Land Availability Assessment [SHLAA]. These have formed the evidence base underpinning the new housing requirements for London, as set out in the Mayor's draft Housing Strategy and the Further Alterations to the London Plan [FALP].

These set out the ambition to build at least 42,000 homes a year for twenty years to deal with rising demand and to meet the existing backlog of supply. Within this annual total, the draft Housing Strategy sets out an expectation that 15,000 homes will be affordable, and 5,000 will be delivered by institutional private rented sector developers, in recognition of the likely size of that sector in the medium term.

Accordingly, the Mayor's draft Housing Strategy looks at a range of constraints, and a range of solutions to each of them, and sets out the Mayor's intentions for his affordable housing investment, the detail of which is in his 'Funding Prospectus'. The latter sets out the basis on which the Mayor is seeking bids for the 2015-18 Affordable Homes Programme, which will deliver the strategy's 15,000 affordable homes each year. This will deliver 10% more homes for the equivalent money spent, on average, than the current round.

Of these affordable homes, it is intended that 60% will be let at affordable rents, constituting an equal split between lower, 'Capped rent', and 'Discounted rent'. Homes provided at the lower capped rent are intended to meet the needs of a range of households which is likely to include downsizers, households affected by estate regeneration and those in need of long-term support. They are aimed at those in greatest housing need and least able to afford to pay market rents. Discounted rent homes would be aimed at working households who may be in receipt of housing benefit, with rent set up to a limit of 80% of market rents or the LHA limit, whichever is lower.

The remaining 40% of the 15,000 affordable homes that we want to see each year will be

[6] http://www.theguardian.com/money/2014/feb/06/300000-concealed-families-share-home-ons

[7] http://www.londoncouncils.gov.uk/policylobbying/welfarereforms/resources/TrackingWelfareReforminLondonaLondonCouncilsupdate.htm

[8] http://www.standard.co.uk/news/london/londons-housing-shortage-surpasses-transport-as-biggest-barrier-to-growth-8457520.html

for Low Cost Home Ownership [LCHO], where ownership is shared between a social housing provider and the individual, with the latter paying rent on the share they do not own and having the option of increasing his or her share of ownership as time goes on. As set out above, Londoners on middle incomes are increasingly being locked out of home ownership, and helping them into this tenure is a priority. This is why the Mayor has committed £100m to stimulate intermediate housing supply and products, and wants to increase the number of LCHO homes by 50% between 2015 and 2018, and to double the overall number by 2020 and again by 2025, helping an estimated 250,000 Londoners.

All new homes funded by the GLA will continue to be built to the high design standards that are now set out in planning guidance, including minimum space standards and a requirement that homes should be accessible and adaptable to people at all stages of life. It is the Mayor's strong desire that, notwithstanding the Government's intentions, these space and design standards should apply to every home built in London, not just those in receipt of public funding, although it remains to be seen whether this will be possible.

The capital also has some of the worst housing conditions in the country, so improving the quality of London's existing homes also remains a key priority. To achieve this, the Mayor has set a target that at least ninety per cent of council stock will meet the Decent Homes Standard by 2017. £148m has recently been added to the decent homes programme in addition to the £800m already committed in the current spending round, and this will bring 9,500 homes up to a decent standard of living.

London needs to bring land forward to support delivery. The GLA is committed to prioritising and accelerating the building out of the Opportunity Areas.[9] These 33 areas (increased to 38 in the proposed FALP) could collectively provide 300,000 homes and over half a million new jobs, representing 70% of all the new homes required in a ten–year period. Planning frameworks have been developed for many of these, and boroughs and the GLA are working together in all these areas to maximise development opportunities.

The draft Housing Strategy has also introduced the new concept of Housing Zones. These are areas within those locations in London of greatest development opportunity where efforts to boost the supply of new housing – of all tenures and types – will be focused. Measures to encourage supply could include targeted tax incentives, simplified and supported planning processes, targeted land assembly and new affordable housing funding mechanisms. The Mayor, working in concert with the relevant boroughs, would seek to optimise housing development in these zones, accelerating the pace of development or bringing homes forward that would not have been developed at all without intervention.

In addition, a 'London Housing Bank', with in-principle initial funding of £200m from Government, could be used to bring forward new development. It might do so by buying units in a development off-plan in order to guarantee sales and help development viability and financing; the bank could then let those built homes at affordable rents for a fixed period before being sold on, or could sell them on the open market, possibly with a value uplift that could be reinvested into the bank's funds. This could therefore create a revolving fund of investment in new supply.

The Mayor also inherited over 600ha of public land in 2012, mainly brown field land in east London. This landholding alone has the potential for 23,000 homes and 100,000 jobs, and the GLA is seeking to have a plan for disposing of all of this land by 2016. We have already disposed of land in the Royal Albert Dock: the Mayor announced in May 2013 a deal with a Chinese developer, ABP, to transform the site into the capital's next business district, which will act as a Gateway into Europe for Chinese and Asian business. It is anticipated that 20,000 jobs will be created and when complete the development will be worth £6bn to the UK economy. The first phase of over 60,000 sq m is expected to be complete by 2017. This is in addition to successes in the Olympic Village, which, post games, is being reborn into a new award-winning community of 2,818 new homes comprising of 1,439 homes mainly available as private rent through a long-term, professional investor into London's PRS, as well as 1,379 affordable homes offering the choice of buying or renting to people with a range of income levels.

In order to provide fast and cost effective procurement of public sector landholdings by developers, the GLA has set up the London Development Panel, which is already saving time and money on procurement and may in future be supplemented by a similar panel to help smaller builders access public land and development contracts. The GLA also proposes to support innovative deals on its own landholdings to increase housing supply and will work with boroughs on the intensification of town centres and consideration of re-designation of industrial land, where this is appropriate.

London also needs to support a development industry that can deliver. The GLA will encourage new entrants to the market and work with boroughs to help unblock the stalled sites of existing London developers. Where this is not possible, a 'use it or lose it' planning permission may be considered, backed up by the Mayor's compulsory purchase powers. Non-developing housing associations will be assisted to unlock their financial capacity on unencumbered assets, and more structured disposals will replace the conversions that underpinned the affordable rent programme – in order to better protect the existing stock of social rented homes.

But after the land and the resources have been identified and the homes have been built, there needs to be a fundamental re-think about who these homes are for. The definition of housing need must be broadened to include ordinary hard working Londoners whose modest earnings are dwarfed by the capital's housing costs.

The Mayor's Housing Covenant started this process by seeking to reward effort through an improved housing offer. In future, the GLA will give greater priority to developing intermediate housing, that is, housing for those who cannot afford to access the private market – to rent and to buy – but who do not qualify for social housing as part of its investment programmes. Given the increasing importance of the private rented sector in London's housing market, the Mayor will launch a London Rental Standard, a set of core standards expected of private landlords and lettings agents in the capital. This will be launched soon in 2014, and will seek to accredit 100,000 private sector landlords and agents by 2016.

And to recognise that the covenant is about helping those who need support but may not be in a position to work, the Mayor will invest in specialist housing that helps older and disabled people to remain independent and continue to be part of their communities.

[9] 'Opportunity Areas' are locations identified in the strategic planning guidance for London, the London Plan as (usually) ex-industrial brown field sites with significant potential for new housing development.

London has an ageing population: the number of over 64-year olds is projected to grow by two thirds to reach 1.5m by 2036. Mayoral planning guidance states that 10% of new homes should meet the Lifetime Homes Standard. But new developments in well designed and located neighbourhoods, to meet the needs of the 'active elderly', should enable older people to downsize, freeing up larger rented and owner occupied properties. The Mayor is keen to encourage more such housing suitable for older people, and has announced £30m to increase supply – funding allocated to 35 developments delivering almost 700 specialist homes.

The Mayor is also keen to ensure that social housing better rewards work and contribution. Boroughs will be encouraged to give greater priority in their allocations policies to local working households to help ensure mixed and sustainable communities on new developments. A requirement that a proportion of lettings on new developments should go to working households could become a condition of funding for future developments as will the use of fixed term tenancies, except for the elderly and the long term disabled.

In view of the increasing role that boroughs are likely to play in developing housing, the GLA will end the current practice of compulsory sharing of allocations of tenants to social housing between boroughs. Instead, the GLA is proposing to take a share of allocations on major affordable housing developments that will then be made available on a pan-London basis. This approach recognises the unique nature of larger schemes, and use of the GLA's land and resources.

And, of course, there remain the challenges of overcrowding, homelessness and rough sleeping. Great strides in tackling these have been made since 2008. Building larger homes will play an important role in tacking overcrowding and, to further assist boroughs in their endeavours to free up under-occupied social-rented homes, the GLA will enhance its housing mobility schemes for social tenants, including the Seaside and Country homes scheme to help older tenants move out of London, freeing up larger-sized homes in the social sector.

The Mayor will also continue to commission a range of pan-London services to support boroughs to deliver a sustainable end to rough sleeping. The Mayor's 'No second night out' scheme has reduced the proportion of rough sleepers spending more than one night on the street from 41% to 25% in his first term, and wants to see this success continue. The Mayor is spending £34m between 2011-15 to commission pan-London rough sleeping services, and will continue to work towards the ambition that no one should live on London's streets.

The above sets out a quick summary of the many the challenges facing London, as well as the range of solutions that the GLA is proposing to address the supply crisis. But there is another aspect of the housing debate in London that has caught a lot of attention recently. Many have suggested that a cause of London's housing supply and affordability problems is that of foreign ownership of homes, specifically those foreign purchasers, often of new build homes, who buy property as an investment and then keep it empty. The Mayor rightly supports incentives to ensure that properties that are kept empty for long periods of time are brought into use. However, this 'problem' is often overstated.

London is a global city and therefore will inevitably have an international element to its market. An open and reliable legal system which supports private property rights and the ability of people to move here for work from around the world is key to its appeal. Punitive measures against those who invest in new homes may undermine delivery not only of those new developments, but also of the affordable housing and other planning gain contributions that they generate, as well as the Stamp Duty Land Tax receipts generated for HM. Treasury.

Last year Knight Frank found that, although 69% of new build homes in prime London were bought by non-UK nationals, many of these buyers were actually UK residents. Only 49% of these new build homes in prime London were purchased by non UK residents. Further, in inner London as a whole, 80% of new build homes were sold to UK residents and in outer London this rises to over 93%. Even where homes are bought as second homes, the majority are lived in, either by the owner's family or by tenants, thus helping meet overall housing need.

Foreign ownership figures are far lower for sales in the much bigger market for existing homes (new-build homes only account for 10-15% of all homes sold in London each year). Research published by the LSE showed that only 6.5% of total house sales by value in London were to overseas buyers. Further, in November 2013 the Bank of England estimated that foreign inflows into the London housing market accounted for only around 3% of all transactions.

It is also often claimed that overseas home owners significantly contribute to the problem of empty homes. While it is possible that they may be disproportionately represented in this category, in the broader context this is not significant. Around 3% of London's homes are empty, and only 0.7% of London's housing stock has currently been empty for over 6 months. This is the lowest level of empty homes since the 1970s and it is a much smaller percentage than the rest of the UK, where overseas buyers are much less in evidence. Indeed, there are now 12,000 fewer empty homes in London than there were when the Mayor was elected in 2008 and the Mayor is funding programmes to bring a further 1,000 homes back into use in the next three years.

So, despite eye-catching stories in the London media about high value properties in some streets left empty by their foreign (and non-resident) owners, the problem of London's housing market is not the result of overseas sales but a historic under-supply of homes at all tenures and price points for over 30 years. Notwithstanding this, the Mayor is pressing developers to always market new homes both at home and abroad, a demand to which they are positively responding.

London faces an enormous challenge in the coming years and decades. It must provide affordable, sustainable and high quality homes for its existing and future populations in an environment where central government housing grant for affordable housing has reduced significantly – and is not likely to substantially grow in the short term – and where the private sector has yet to develop the capacity to fully meet housing demand. There is no single magic solution that will solve the problem. However, the policies set out above, combined with many others, should signal the seriousness of intent, and the ambition to meet London's housing need, of the Mayor and the GLA. Aiming for anything less is untenable if London is to keep supporting a dynamic workforce, a healthy, growing economy, and maintain its preeminent position as the world's leading global city.

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Asian investors as a major growing force in the central London commercial property market

By K I Woo

1. Overview

Although many Asian investors have purchased London residential properties and have attracted significant media attention, their commercial property investments have quietly become a major force in the UK market.

Asia's three decades of unprecedented economic growth has spawned huge private and public investments pools that have recently begun diversifying into London.

The pools include huge pension funds, sovereign wealth and private real estate funds as well as high net-worth individual investors.

Late last year, Goodwin Gaw, Managing Principal and founder of Gaw Capital Partners, a real estate private equity fund management company that focuses on real estate markets in Greater China told Bloomberg that many of his clients look at the London commercial market for specific investment needs.

"London for us is purely diversification, flight to safety and a way to generate yields," he said.

Gaw, whose Hong Kong headquartered company manages more than $US7.15 billion in property assets added that investors looking for capital appreciation would still consider Asia as their best bet.

2. Major London commercial property investments

Asian investors made numerous major commercial property investments in London during 2012 and 2013.

CoStar a property information provider recently reported that 2013 was a six-year high for commercial property transactions across the UK largely driven by a sharp upturn of overseas investors' interest in central London properties.

Across the UK, Co-Star said transactions of £52.7 billion were completed, two-thirds in London and the southeast of London.

One of 2013's largest commercial property investments was the Singapore Wealth Fund GIC's £1.7 billion purchase of a 50% interest in the City's Broadgate office development.

Large Asian commercial property investments in central London initially became noticed in early 2012.

Malaysia's Sime Darby Bhd and SP Setia Bhd paid £400 million for London's Battersea Power Station in July 2012.

In September 2012, Downtown Properties Inc., an affiliate of Gaw Capital Partners, bought the Vintners Place building for an undisclosed price at 68 Upper Thomas Street in the City of London financial district, leased in part to Jefferies Group Inc.

The purchase was made with the Korea Federation of Community Credit Co-Operatives and the Korean Teachers' Credit Union according to a statement from the fund manager.

The 26,000-square-meter (277,000-square-foot) building is located on the bank of the River Thames, close to Blackfriars rail station.

Data from Jones Lang LaSalle also indicates that the Korean Teachers' Credit Union and Malaysia's State pension fund spent about £1.77 billion on London commercial property purchases in 2012.

China Investment Corp, China's huge £410 billion sovereign wealth fund also made a significant 2012 London commercial property investment by purchasing Deutsche Bank's London headquarters for £250 million.

In 2013, a series of high-value central London commercial property purchases by Asian investors perked global investors' ears.

Chinese life insurer Ping An purchased the Lord Rogers-designed Lloyd's building for £260 million in July. Gaw Capital Partners advised Ping An Insurance on the purchase and it was the first direct overseas property acquisition by a mainland China insurance company.

The Financial Times said Ping An acquired the distinctive "inside-out" building from Commerzbank. The Richard Rogers-designed building, home to the world's largest insurance market, was bought on a net yield of 6.1% – slightly above average for the City.

Gaw Capital Partners also purchased Waterside House in London in 2013 with a group of South Korean investors at a reported $US321 million. The 237,800 square feet, Waterside House is located in one of the largest regeneration developments in Europe and is one hundred percent occupied by Marks & Spencer, where the property serves as its global headquarters.

The Hong Kong Monetary Authority [HKMA], the Special Administrative Region's de-facto Central Bank also made a splash in 2013 by purchasing a 50% interest in a London's luxury-shopping district for more than £100 million ($US167 million).

The HKMA invested in a joint venture with the UK's Great Portland Estates to develop Hanover Square Estate.

The joint venture will redevelop the site into three new buildings above the Bond Street Crossrail station in the heart of the West End's luxury shopping district. The buildings will house 163,500 sq ft of office space, 32,700 sq ft of shops on New Bond Street and six high-end residential flats.

"Our Hanover Square holdings represent one of the most exciting development opportunities in the West End," Toby Courtauld, Great Portland's chief executive told the Financial Times.

HKMA uses its Exchange Fund to manage the Hong Kong dollar's peg to the US dollar. The vast majority of its HK$2.9tn ($US373 billion) of assets are held in highly liquid US dollar assets and bonds.

However, a minority of the funds are invested in local equities and in recent years it has been diversifying those holdings into private equity, property, emerging market bonds and other assets.

Another notable Asian commercial property transaction in 2013 was the Malaysian pension fund Kumpulan Wang Persraan's purchase of a city office block for £215 million.

A PWC report indicated that one-third of overseas Asian property investments were in London in 2012.

3. Why central London?

The demand for central London property, which has also been felt in the West End retail district, has fuelled a development boom that is at odds with the ailing construction market elsewhere in the country

After its London purchase in late 2013, the HKMA said that London has proven to be a strong, liquid real estate market with robust demand for grade A office and retail assets over different market cycles. "Properties in the West End in particular have had a positive growth trajectory underpinned by very limited supply."

Other Asia investors were reportedly particularly attracted by central London demand for office space where take up increased 41% in 2013 to 13.1 million square feet.

At the same time, supply has reportedly fallen from 16.5 million sq. feet in 2012 to 16.1 million sq. feet at the end of 2013. Vacancy rates at the end of 2013 were at 7%, the lowest since 2008.

An early 2014 Forbes article said Knight Frank predicts that central London office rents will hit record highs by 2018. With cash-on-cash yields in excess of 4.5%, Asian investors have been happy to buy into what seems to be relatively stable high yielding property investments.

Another important element mentioned by Gaw is central London property yields which at about four per cent are much higher than comparable properties in other leading financial centers.

In addition to positive supply and demand factors, central London and in particular the UK has always been viewed as a "safe haven" for investment.

The UK's transparent property ownership laws, its market liquidity, language and political security have always attracted overseas and especially Asian buyers.

In addition, the pound's weakness until this year also made central London seem attractive for many Asian buyers.

Zhang Yuliang, chairman and president of Greenland, said: "London is the global financial centre as well as the most open and diversified city that enjoys the most mature economic development, making it the first option for our investment in Europe."

BNP Paribas Real Estate estimated that investments in London's West End office market rose to £5.1 billion in the year to June 2013, up 68% from 2012. International buyers were reportedly responsible for 67% of the total investment.

4. Why Asian investments will continue growing

Asia's decades of continuous growth and most importantly, the concomitant growth of its sovereign wealth and pension funds will undoubtedly ensure that central London will remain an important investment destination.

Most importantly, Asia's pension and social security funds have now grown into relatively huge pools of capital that are just on the brink of diversifying into buying "alternative" international commercial properties.

Korea's Teacher's Credit Union [KTCU], with total assets of $US20 billion has made several central London property investments. The KCTU however, is dwarfed by the country's $US360 billion National Pension Fund [NPF].

A recent Bloomberg report indicated that the NPF planned to increase its alternative investments in 2018 to 10%. A significant portion of these alternative investments will be overseas commercial property investments.

Pension and provident funds throughout Asia are continually increasing their assets under management as their economies grow. All of them will invest a certain portion in overseas commercial properties, especially as initial alternative investments.

Thailand's $US31 billion Social Security Fund has begun investing in overseas "alternative" investments.

Asian sovereign wealth funds such as those from Singapore and China have also begun investing in overseas property investments, especially in central London. (See chart 1)

China's huge insurance industry that has more than Y8.3 trillion ($US1.36 trillion) under management has only slowly tip-toed into international alternative investments, Ping An's 2013 purchase of the Lloyd's building may be just the start of a future avalanche of UK property purchases.

A recent South China Morning Post [SCMP] article indicated that China's industry regulator quietly allowed insurance companies in 2012 to put as much as 20% of their assets into the property market.

Asian investors as a major growing force in the central London commercial property market

Although a majority of the property investments will be in China, overseas commercial property investments are expected to be significant and continually increasing. Perhaps more importantly, SCMP said that data from China's two largest insurers showed property investments were still in the low single-digits.

In the meantime, China's insurers have been gradually building specialized teams that will lead their property investments.

A senior Jones Lang LaSalle capital markets official said in the same article that China's insurers would likely follow the global trend of investing in office buildings first, and then moving into mixed-use projects and other market sectors at a more mature stage to diversify their portfolios.

China's three decades of economic growth has also resulted in the growth of many large companies that have begun overseas expansion.

In a recent Forbes interview Knight Frank's Stephen Clifton noted that a growing number of Chinese companies are acquiring office and business space in central London for overseas operations.

"We are aware of more than 30 companies or institutions occupying space in London, the largest being the Bank of China which purchased its 110,000 sq. feet headquarters building next to the Bank of England in 2009, more than doubling its presence."

Clifton said his company currently employs 640 people in greater China and was continuing to grow its Shanghai, Beijing and Hong Kong offices.

'We see Hong Kong and mainland investment in London as an important part of our business going forward."

Prime Minister David Cameron's recent announcement in Davos, Switzerland of Wanda Group's (one of China's largest conglomerates) proposed £3 billion investment in regeneration projects, may be a sign of more future Chinese UK property investments:

"This will help to create jobs in Britain and it's a great example of how we can benefit from foreign investment."

In January, Greenland Holding Group, a Shanghai-based conglomerate also announced it was investing £600 million for the Ram Brewery development site in London's Wadsworth area. The company had previously announced that it would be investing in a high-end Canary Wharf residential development project.

"Greenland has investments in almost all Chinese cities, so globalization is a necessary choice for big companies like us." Greenland's Chairman and President Zhang Yuliang said at the signing ceremony.

The China Daily recently reported that Chinese investment is heading to London on an unprecedented scale and many experts said that as cash from these investments cascade through the economy it will have a dramatic effect on the country.

"For us, Chinese investment is important," said Edward Lister, London's deputy mayor.

Ageing demographics are also forcing Japan' huge pension system to search for higher yields through alternative property investments.

Recently, Japan's largest trading housing Mitsubishi Corp. announced that it will raise up to £500 million from Japanese institutions to invest in the London commercial property market.

Mitsubishi said it was responding to requests from domestic insurers and pension funds to provide access to assets that could beat Japanese government bonds' meager yields.

Mitsubishi which will be launching the fund with Swiss investment Bank UBS and will initially focus on refinancing developments of malls and apartment complexes in the Greater London area.

Tak Ishikawa, Chief Operating Officer of Mitsubishi asset management division said the Japanese Government Pension Investment Fund, the world's largest institutional investor, with about Y120 trillion ($1.17 trillion) in assets is under pressure to replace bonds with stocks and other higher-yielding assets to boost the campaign by Shinzo Abe, prime minister, to revive risk appetite across the country.

Japan's rapidly ageing population, he said, has forced many pension funds to the point where annual payouts exceed contributions, meaning they need investment income to bridge the gap.

"We're expecting the outflow of money to increase from the Japanese market to the overseas market, as investors seek alternatives to foreign bonds," said Tadatsugu Matsutani, head of business development in Mitsubishi's asset management division.

Housing in Mexico: structural opportunities, short term challenges

By Jorge Yarza[1]

Section One - Present Conditions

1. Overview

Mexico is one of the fastest growing countries in the American region. With over 112 million people and more than 30 million houses inhabited. The country has had an important expansion of population during the last three decades, and its population has grown 1.7 times in the last 30 years. This growth in population and an intensive migration from rural areas to the urban communities, has created an expansion of the urban areas and housing construction.

Mexico had 112.3 million people in the country, according to the Census of 2010. The urban migration to cities has meant that 55.9 million live in 55 cities. The country's largest cities are: Mexico City Metropolitan (20.1 million), Guadalajara (4.5 million), Monterrey (4 million), Puebla (2.3 million), Toluca (1.8 million), Tijuana (1.6 million), Leon (1.4 million), and Ciudad Juarez (1.3 million).

1.1 Housing stock in Mexico

In 2010, the Census reported that there were 35.5 million houses, of which nearly 28.1 million were occupied, 2.1 million were for temporary use and 5.2 million were not inhabited.

In 2012 the existing inhabited housing stock had an estimated value of over 1.5 trillion US Dollars, equivalent to 1.3 times the Gross National Product [GDP] of Mexico. The value of the social segment represents 22% of the value and near to 52% of the number of houses. The middle and residential segments account for 69% of the value and 26% of the total number of occupied houses. The minimum and rural housing accounts only for 9% of the value, even though it represents 22% of the number of houses.

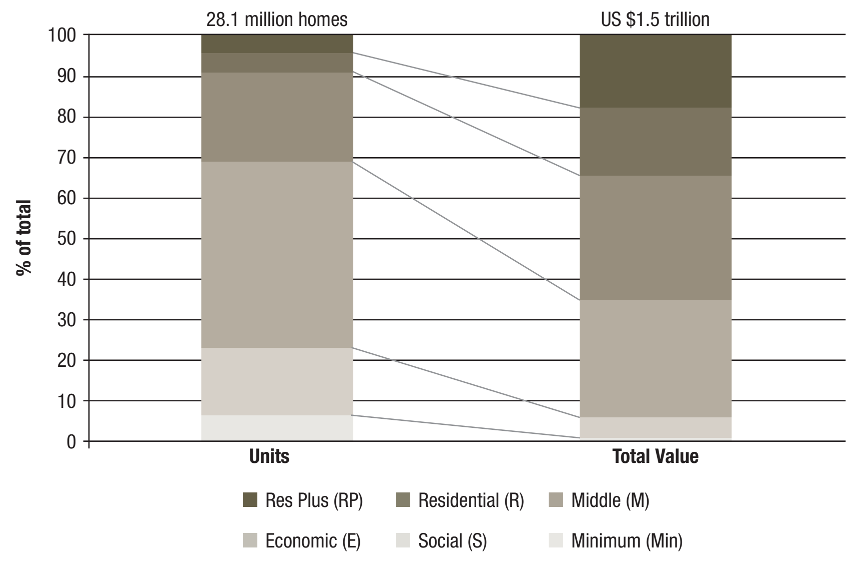
According to Softec, and the Mexican Mortgage Association, in Mexico, the housing market can be segmented in the following scheme.

Only 17% of the housing stock is mortgaged. Softec, a leading consultancy firm in Mexico estimates that the total value of the housing stock is over USD$1.5 trillion.

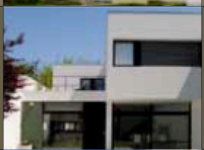
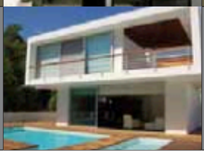
The vacancy rate of 14% of the housing stock, (5.2 million houses) represents a decline as a percentage, as in 1995 the rate was 19%. The percentage of Mexican uninhabited housing is comparable to the rate of the US (13%) or Spain (15%).

This is not an anomaly, as this phenomenon (vacant housing) allows for mobility, and means that the growth of uninhabited housing is lower than the growth of the formal housing stock. Moreover, the number of uninhabited homes varies based on the size of the cities and regional

Chart 1 Volume and value of the occupied housing stock 2012



[1] The author is President of the Inter-American Union for Housing Finance (UNIAPRAVI) and Senior partner in Softec, a leading Mexican consultancy firm. He wants to thank the personnel in Softec whose contributions helped him in the research for this paper.

Type		Price range	Area	Caracteristics	Annual income
Minimum (M)		VSM <60 <Ps. $118,000 <US $9,300	30 m²	1-2 Rooms. Generally not titled, electricity, possibly water, and sewage. Mostly self-built	E <2.0 MW <US $3,500
Social (S)		VSM >61-160 <Ps. $118,000 - $315,000 US $9,300 - $24,800	35-50m²	Kitchen, living-dining area, 1-2 BRs, 1 bath, 1 parking, titled, all services. Houses and apartment condos	D 2.0-5.5 MW US $3-9,500
Economic (E)		VSM >161-300 Ps. $315,000 - $590,000 US $24,800 - $46,500	50-75m²	Kitchen, living-dining area, 2-3 BRs, 1 bath, 1 parking, titled, all services. Joined houses and apartment condos	C & D* 5.5-11.0 MW/SM US $9-19,000
Middle (M)		VSM >301-750 Ps. $590,000 - $1,480,000 US $46,500 - $116,200	65-130m²	Kitchen, living room, dining room, 2-3 BRs, 2-3 bath, 1-2 parking, service qtrs., titled, all services. Joined houses and apartment condos	C & C+ 11.0-26.0 MW/SM US $19-45,000
Residential (R)		VSM >751-1,670 Ps. $1,480,000 - $3,300,000 US $116,200 - $258,800	90-200m²	Kitchen, family room, living room, dining room, 3-4 BRs, 3-5 bath, 2-4 parking, service qtrs., titled, all services. Houses and apartment condos	C+ & A/B 26.0-65.0 MW/SM US $45-112,000
Residential Plus (RP)		VSM >1,670 >Ps. $3,300,000 US $258,800	100-350m²	Kitchen, family room, living room, dining room, 3-4 BRs, 3-5 bath, 3-6 parking, service qtrs., titled, all services. Houses and apartment condos	A/B >65.0 MW/SM >US $112,000
Vacation (V)		VSM >20,680 >Ps. $40,000,000 US $3,200,000	50-500m²	New homes in vacation destinations sold for more than US $100,000. Kitchen, family room, living room, dining room, 1-4 BRs, 1-5 bath, 1-6 parking, titled, all services. Houses and apartment condos	A/B >65.0 MW/SM >US $112,000 National & foreign

behaviour. In Mexico, the percentage of vacant housing is highest in the rural areas and in urban regions where provision of services (health-care, education, municipal services) is below the national average level. Moreover, this level depends on the quality of the homes and the distance to and from the workplace.

During the next few years (2014 to 2025), the number of new households in Mexico will increase by nearly 10 million - and they will demand over 7 million new houses in the middle and large cities. The quality and condition of the houses will depend on a series of factors, such as the availability of financing for infrastructure, construction loans, developers' capital, subsidies and mortgages.

The major challenge is to plan, finance and develop 7 million formal houses in the largest 50 cities in Mexico by the year 2025. This will require investment in infrastructure, housing and mortgages with a value of more than 250 billion USD.

2. The housing sector in Mexico

Developer-built homes are those that are built for sale, and generally sold with full title transfer. These homes follow building guidelines, have access to municipal services (streets, water, light, sewage, etc.), pay taxes, permits, and licenses, and the land or condominium is registered and titled to the buyer.

Developers produce approximately 50% of the total units built in the country. Developers can contribute 70% of the new homes in the formal sector. This market is often referred to as "formal." This type of home can usually be resold, refinanced, and mortgaged.

Self-build includes formal houses and informally built houses. Self-build housing production accounts for over 50% of the houses built every year. Informal houses have at least one major legal issue; most of them do not have a proper title. An important percentage do not comply with the construction and urban regulations

and the actions required to modify and rectify these deficiencies can involve a lengthy and costly process.

The quality and condition of the houses will depend on a series of factors, but if the trends continue, a high percentage will be produced as informal housing.

Every year the housing stock of Mexico grows by 900,000 houses. Of these houses, it is estimated that over 25% are informal houses that do not comply with legal requirements or standards in relation to property title, building condition and access to public services that in theory should be met. Informality is part of the social and economic reality in the country and housing and labour informality are facts of life.

2.1 Formal production of housing produced by developers

Sales performance within the housing market is mainly the result of two factors: the first is that there is underlying demand in the market, generated by demographics, and the second is the availability of credit from financial institutions.

In 2010, the housing market hit rock bottom, when an estimate of 370,000 new units were built and sold by developers. 2011 showed a moderate recovery. However by 2012, there was a 3% decline, leading the number of units built and sold to total 380,000, with an estimated sales value of $18 billion US dollars.

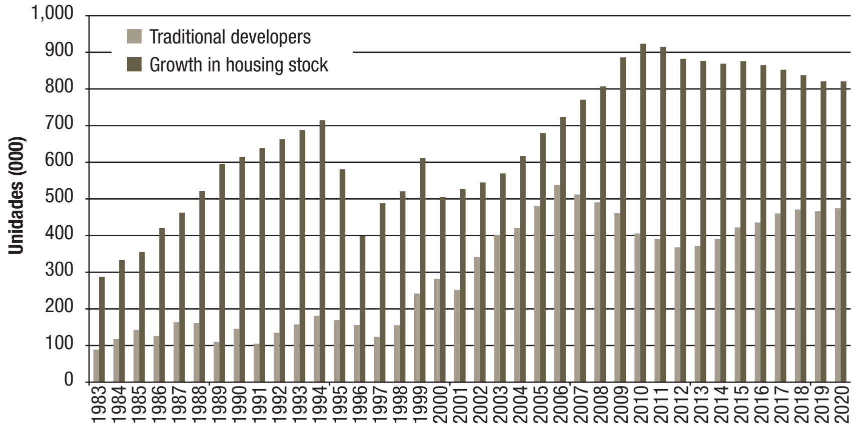
Due to the financial, operational, and market issues that formal housing companies have faced, their share in serving the new housing demand will remain around 45% to 50% for the next few years.

This will depend on how well developers adapt to the new market reality where competition comes not only from other housing developments, but also from current buyers' decisions in relation to the options to purchase a used home, or to rent.

2.2 Expectations for the housing industry in 2013

For the housing industry, 2013 began with a series of initiatives to improve or solve various issues that have limited the sector's performance. Some of the main issues are still the scarcity of financing for construction, the diversification of mortgage and lending programs to meet Mexican families' housing needs, the strengthening of the used housing and rental market, and the changes and adjustments to the housing policies that the new administration has proposed.

Chart 2 Growth in housing stock and developer-built homes



Examples of informal housing

Chart 3 Estimated developer built homes 1991-2012

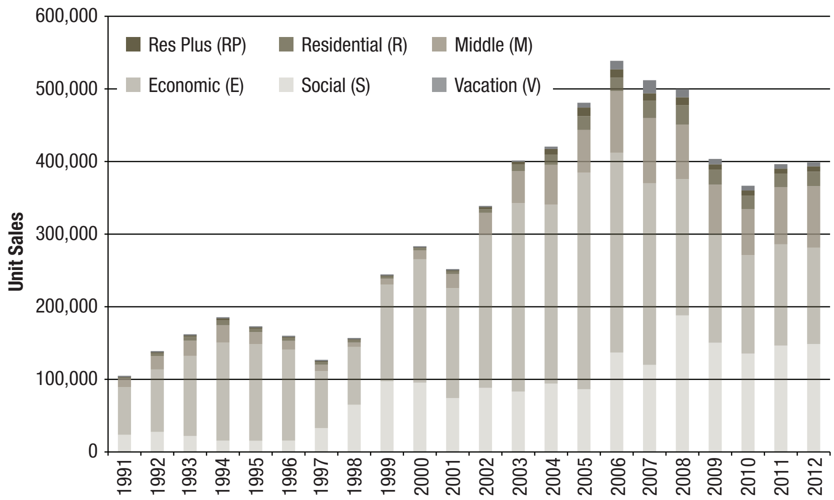
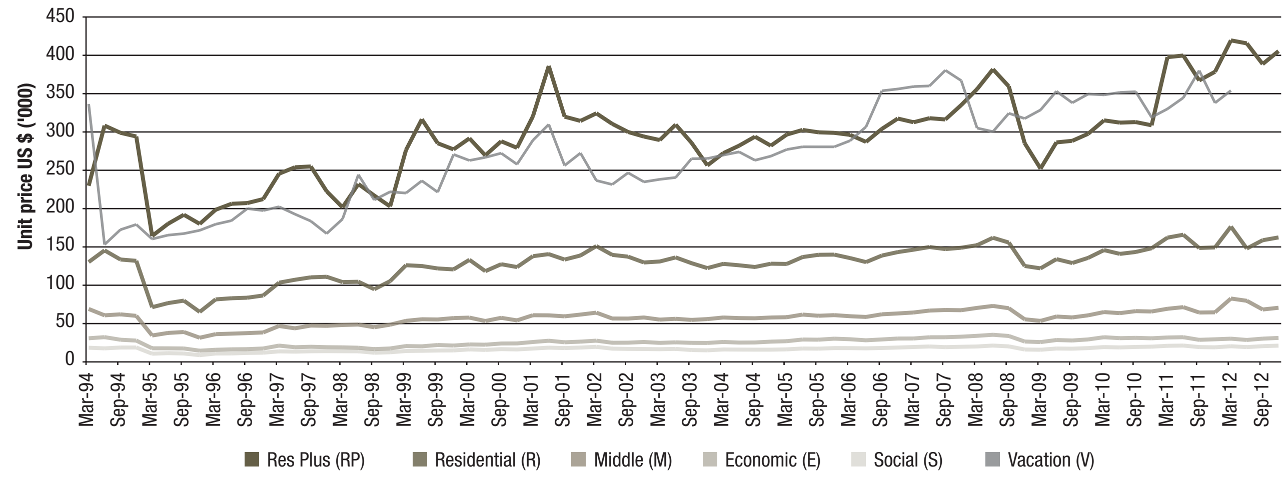


Chart 4 Unit home prices in US$ (thousands)



USD Home Prices	1991	1992	1993	1994	1995	1996	1997	1998	1999	200	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
S	11	13	19	19	9	12	14	13	15	17	19	17	15	16	18	19	20	20	17	20	21	22
E	22	24	29	28	15	18	19	18	21	25	27	26	25	26	30	30	33	33	28	31	32	32
M	51	55	63	60	32	39	48	49	58	55	62	57	56	58	61	63	67	68	59	66	70	73
R	115U	137	135	132	66	87	112	105	122	126	140	128	123	128	140	143	149	153	131	150	163	167
RP	243	274	263	294	182	213	225	203	279	285	318	289	257	282	299	316	334	350	287	313	412U	417
VU				336	162	180	205	187	222	268	292	233	239	270	277	288	358	374	317	353	360	364

Moreover, homebuilding companies and the other players in the industry will have to re-define and improve their structures and strategies to shift to the model that the new federal administration has developed to launch the new housing policies.

The level of sales and construction of housing in 2013 has declined by about 8%, mainly as the result of two issues: the first is that financial institutions have employed more stringent credit conditions in their origination policies, effectively reducing demand.

The second factor is the reduction in construction loans and capital on the developer's balance sheet, reducing the capacity to produce houses. One of the key elements that affect the production of formal housing is the availability of construction loans. Between 2008 and 2013, the value of the portfolio of construction loans placed by bank and mortgage institutions decreased by 36% from USD$9.5 billion, to 6.1 billion USD. This reduced the capacity to produce formal housing by developers.

2.3 House prices in Mexico

In Mexico we have not observed a price bubble in the housing sector. The prices of new homes have remained within a reasonable range in most of the segments of the market.

Softec publishes trends in prices by segments and regions. The colour of each of the lines is related with the segments of the market. The characteristics of the houses and the material that each segment, or group of houses uses, is different. The behavior of prices is not homogenous or hedonic, but it reflects in a practical way the conditions of prices in the market. There are elements that influence the pricing structure of houses in each segment, such as cost, structure of materials, the mix of components, the price of land and the mortgage rates.

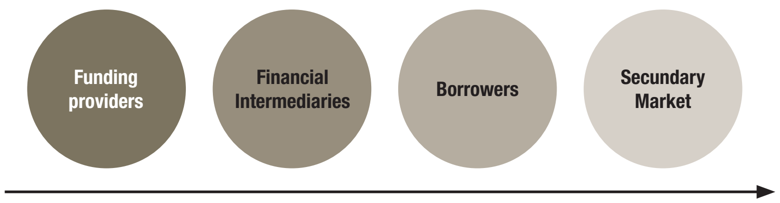
Except for the upper end (Residential Plus) segment of the market, it can be observed in the graph above, that prices have increased moderately in real terms in the Mexican housing sector.

3. The mortgage sector in Mexico

Four participants are necessary to have a sophisticated mortgage market. Each has different requirements and expectations; as long as they are balanced, the market will be functional. These participants are:

- Funds providers
- Financial intermediaries
- Borrowers
- Secondary market participants

Chart 5 Participants in a mortgage market

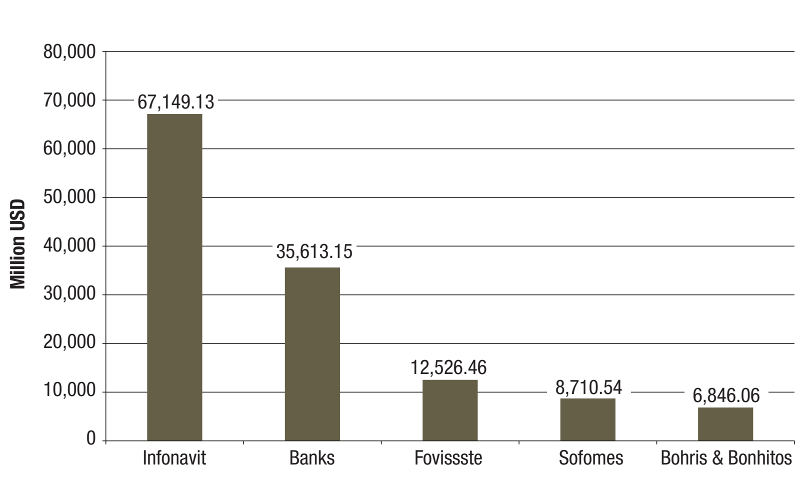


3.1 Mortgage key players in Mexico

Instituto Nacional de la Vivienda para los Trabajadores/ National Housing Fund the Employees (INFONAVIT), Fondo Nacional para los Trabajadores del Estado/ national Fund for the Governmente Employees (FOVISSSTE) (both are government sponsored agencies which operate similarly to saving and loan institutions), Sociedad Hipotecaria Federal (National housing development bank), and the commercial banks are the main mortgage providers.

INFONAVIT was created in 1972 as an answer to the constitutional requirement that private employers provide homes to their workers. In the beginning, INFONAVIT deposits and loans had a maximum fixed interest rate of 4%. INFONAVIT was hampered by the high inflation of the 80's. During this time, it lost its capital base, and capacity as a savings and pension scheme.

Chart 6 Mortgage portfolio 2012



Until 1992, the INFONAVIT collected through a conciliation of accounts with the Ministry of Finance. At this time, major structural changes were introduced and the institution became a more efficient and result-oriented savings and mortgage loan organization. The board of INFONAVIT is made up of workers, employers and government representatives. However, the beneficiaries and equity holders are the workers.

Between 2001 and 2012, INFONAVIT became the most important lending institution in the country with international service and quality standards. During, Mr. Victor Borras's term as managing director (2001-2012), the Institute managed to expand its market coverage, restructure delinquent accounts, make it more market sensitive, and carry out a comprehensive transformation.

FOVISSSTE was created in 1972 as an answer to the constitutional requirement that state employers provide homes to their workers. It was established to grant loans for the acquisition, repair, expansion, or improvement of state workers' homes.

FOVISSSTE has been managed as part of the health and social security system for Federal government employees and teachers. While it has a similar structure to INFONAVIT with a housing loan provider and fund manager, FOVISSSTE's board is made up of representatives of 5 ministries of the Federal Government and representatives from the 3 most important unions of Federal Government employees.

Sociedad Hipotecaria Federal [SHF] is a Development Bank that provides affordable mortgages to households. SHF is mandated to ensure that mortgages are available to the population at large, and to create a market for Mortgage Backed Securities. It was chartered in October 2001, and is currently owned by the Mexican Federal Government, but could allow private capital to be incorporated in the future. It acts as a secondary banking institution. The loans it funds are thus managed by financial intermediaries, such as banks and Mortgage specialized institutions.

The goal of Sociedad Hipotecaria Federal, is to promote the development of the primary and secondary mortgage lending markets for housing, by providing credit and guarantees for housing construction, acquisition, and improvement, as well as increasing the production capacity and technological development related to housing.

Banks have historically concentrated on the mid to high end of the market. With the exception of BBVA-Bancomer banks are niche players in the Mexican mortgage markets. They withdrew from the market between 1996 and 2002 as a consequence of the 95-97 debt crisis. In that period, the banking industry was mostly sold to international financial institutions: Banco Mexicano and Serfín to Banco Santander of Spain, Bancomer to BBVA of Spain, Inverlat to Scotiabank of Canada, Banamex to Citigroup, and Bital to HSBC.

3.2 Interest rates in Mexico

Interest rates continued to stay at similar levels to the rest of the world in 2013. Short-term 28-day CETES (Government Bonds) have remained constant at levels of 4.2%, with an estimate of 4.4% for 2013.

The interest rate scenario in 2013 leads us to think that it will remain stable, reflecting Mexico's moderate country risk. The higher international cost of borrowing could put pressure on local rates considering the potential increase in US treasury bonds rates estimated by analysts for 2014. If Mexican economic stability continues, the current country risk spread will most likely stay the same and continue to offset the increase in international rates.

3.3 The mexican mortgages

Mortgage rates in Mexico have been indexed to either inflation or bank funding rates since the hyper-inflation of the 1980s. This was done in order to make mortgages affordable and loan to repayment ratios attractive to consumers.

In Mexico, the most common mortgages are those indexed to the minimum wage or to inflation plus a fixed real rate. There are also fixed-rate fixed- term mortgages, and in some cases, dual-index mortgages.

INFONAVIT and FOVISSSTE have price advantages, because of their preferential funding system through payroll collection of the employers' contribution to their employees. They lend at inflation plus 6% to 10%%, depending on the amount borrowed. With 4.0% inflation, their effective mortgage rate rises to between 10% and 14%. SHF loans have been reaching the public at 12% to 15%. Bank loans oscillate between 10 and14% with a fixed rate and term.

Origination fees are 1 to 5% and borrowers are required to pay for a life insurance policy that covers at least the balance of the loan. Mortgage loans range from 5 to 25 years term.

Some stability has been seen in the interest rates offered by the mortgage institutions in Mexico. This is because mortgage payments are indexed to variations in the minimum wage or inflation and, because monthly payments are indexed, the monthly payment has been adjusted by 4 to 6% per year.

In the last six years, the evolution of the mortgage lending system, the policies to foster housing development and the changes in homebuyers' needs, preferences, and payment capacity have pushed the main players of the industry to improve their performance indices and their responses to the market.

In 2012, mortgage conditions in Mexico were affected by the troubles in Europe and the US, where the mortgage sector is viewed as a troublesome sector. The delinquency rates in Spain and Italy have soared; foreign banks with operations in Mexico have been hit by the problems that their headquarters are facing.

Mortgage financing programs have played the key role in the process of driving the housing industry's growth (2000 to 2009). The availability of financing in a market with limited credit available for purchases, and then the relaxation of programs in terms of caps on housing value, co-financing, the uses to which credit can be put, credit access and rating mechanisms, have all enabled the sector to grow.

3.4 Mortgage backed securities

In the last few years, there have been significant changes in mortgage institutions, generating a different view of the credit outlook. Mortgage backed securities give access to the domestic and international money markets, which enables mortgage lenders to grow based on demand and avoid restrictions due to restrictions in local liquidity.

3.5 Mortgages originated 2012.

Mortgage lending amounted to US$22.2 billion in 2011, increasing to around USD$23.3 billion by 2012. This market continues to be dominated by INFONAVIT, which has remained as the largest financial institution in the country. FOVISSSTE and banks with free resources now represent 20% of the loans on the market.

Chart 7 **Nominal bank mortgage 1998-2012**

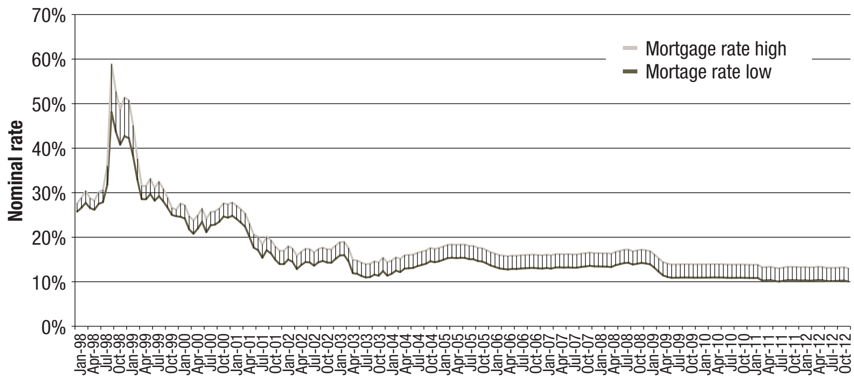


Chart 8 **Securitised loans**

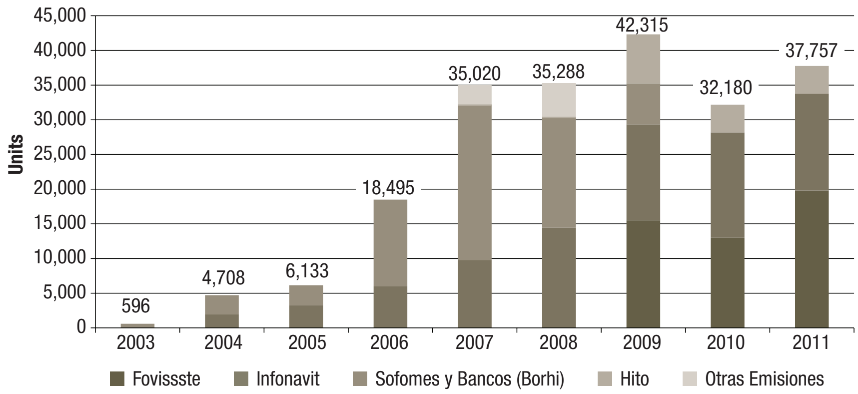
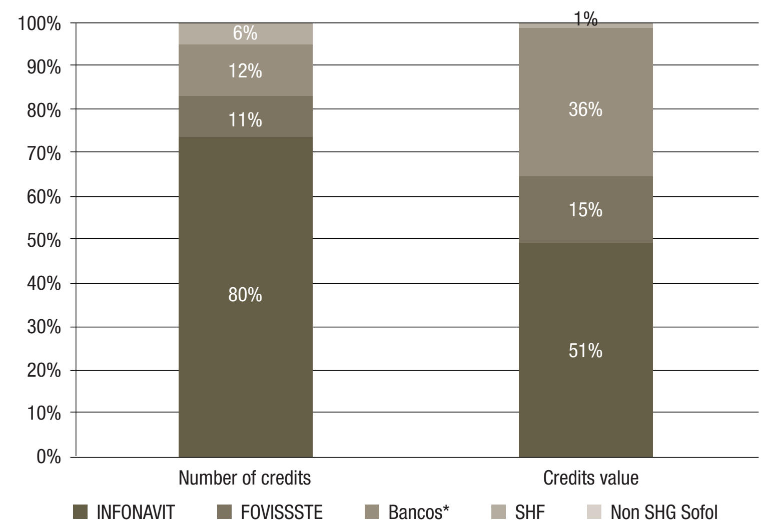


Chart 9 **Market share in value and number of originated loans in 2012**



Section Two - Structural opportunities and demand drivers

1. Demographics and household formation

Mexico has a relatively young population. According to the 2010 census, 63% of the total population is between 25 and 55 years old, which is the age group that is most likely to buy a home. The average age is 26 years.

Household formation is estimated from marriages and divorces. New households and marriages plus divorces appear to have a relatively the highest correlation to the demand for new houses. The 25-50 year-old segment of the population is the most dynamic in terms of housing demand. This segment continues to grow significantly as a consequence of the Mexican baby boom of the late 60's and 70's.

This segment of the population will demand new homes. Because the sharp growth in rates of household formation, continue during this decade, this market will demand 10 million new units by 2025.

This demographic group will also drive sales of autos and consumer electronics, among others. Mexico's challenge lies in the creation of jobs, homes, and cities for this new group of more educated and discerning consumers.

Chart 10 Population and age groups 1970-2030

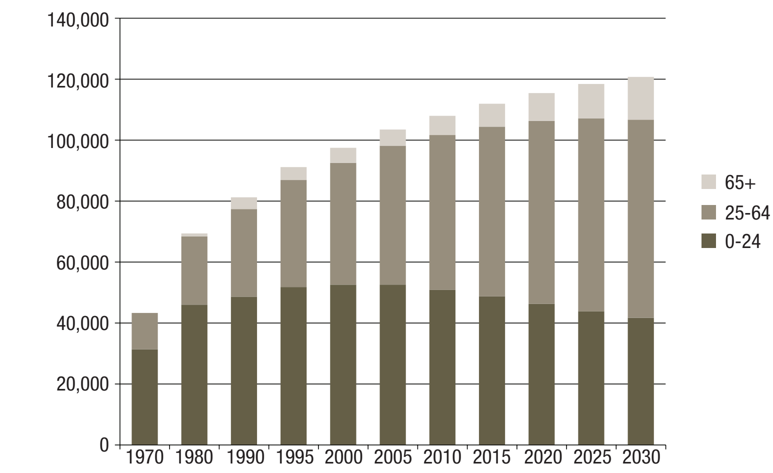
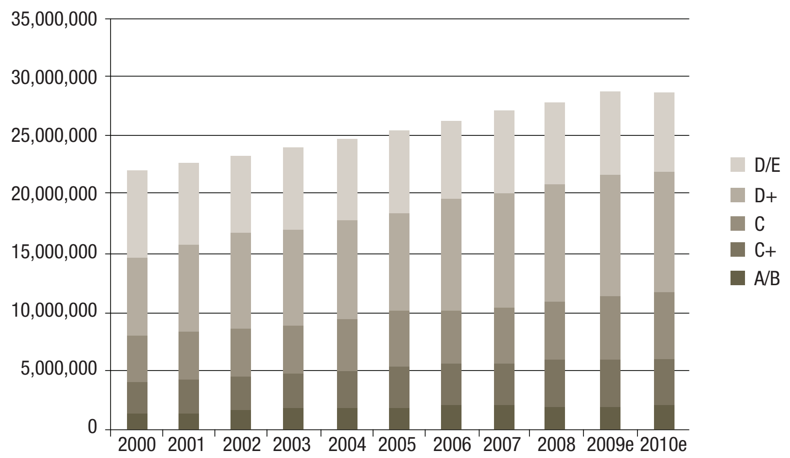


Chart 11 Socioeconomic level of homes



2. Income growth

The growth of GDP per capita is key to Mexico's opportunities: the type and quality of the goods Mexicans purchase will rise as they gain greater purchasing power.

The growth of national GDP per capita is the result of a combined effect including the enormous vigor and growth of certain regions of the country where general economic indicators continue to expand, and wellbeing is rising.

When it is defined by activity rather than income, Mexico's middle class has similar objectives, goals, and desires to that of the US or Europe. Qualified factory workers, mid-level office personnel in private and public service, and small business people have income levels that run from USD$8,000 to USD$25,000 a year. This group wants to buy a house, a car, send their children to college. They expect that, with education and hard work, their kids will live better than they did. Understanding this motivation and lifestyle gives a clear view of the type of product that each segment would like to purchase. The number of families with higher incomes, (segments A/B and C+), have risen in the last 12 years. Also, the lower segment of the market has declined as a percentage of the total number of families in Mexico. This means a growth in middle class formation and upward mobility in general.

The market's demand structure points towards constant growth of the housing stock. Softec estimates that each year, an average of 900,000 new housing units will enter the housing stock in Mexico, not only as a result of household formation, but also as a result of Mexican families' economic mobility, changing structures, and lifestyles.

A high percentage of the population is still studying and is not yet part of the workforce. We are experiencing the effects of the Mexican *baby boom*. The driving force of housing demand is the formation of new families and households.

The growth of the housing stock covers all the types and segments of housing–urban and rural;

therefore, the opportunities to find a market to serve are quite broad for housing companies.

3. Consumer perceptions

While the first-time homebuyer market will remain the prime opportunity in the next 10 years, movement up the housing ladder, the population of Mexicans over 60, vacation homes, and international retirees are generating new and alternative markets for housing in and near urban and resort areas.

In the short term (2014-2018), the processes of mobility, liability payments, improvement of families' income levels, and overall changes in cities' family and urban structure are expected to generate a new stage of growth in the sector, as these processes of change in serving families' needs to improve their housing will be demanded by those customers who are buying a house for the first time.

This means that the population demands education, job opportunities and spaces to develop their lives. People are more informed; they use digital tools to compare their different options. Families are moving out of the traditional patterns and are considering other lifestyles. All these elements will have an influence on the houses that will be required in the future.

The role of the Government is very important. For it creates the conditions for new developments and city planning. The Government also channels resources to the housing sector through subsidies and development banks.

4. Public policies 2012-2018

In February 2013, President Enrique Peña Nieto announced five public policy guidelines:

Example of residential homes in Mexico

1. To achieve a greater and better inter-institutional coordination. SEDATU [The Ministry of Agrarian, Land, and Urban Development] has been created to be the coordinating body of housing policy in our country, and chair the Inter-ministerial Commission on the matter. The main goal is to standardize criteria regarding housing.
2. Move towards a sustainable and intelligent urban development model. Credits and subsidies from the Mexican Government will be re-channeled to encourage orderly urban growth, which will favor the vertical development of central cities.
3. To responsibly cut back the housing deficit. The Federal government estimates a demand of around 9 million homes. For this purpose, it proposes to launch over one million actions to parcel, build, expand, and improve homes, both in the countryside and in cities. Private banking will be supported in the offering of real estate credit.
4. Seek to provide Mexicans with improved housing. Over 320,000 thousand home improvements will be carried out yearly. In the specific case of the countryside, over 100,000 thousand improvements in rural areas per year.
5. The plan announced by President Enrique Peña Nieto has proposed the creation of an Urban Development Fund (FONDEUR) for Mexico's competitive cities with guidelines and resources to improve cities' development.

Specifically, the new federal administration considers the generation of a new model focused on promoting the housing sector's orderly and sustainable growth; improving and regularizing urban housing; and building and improving rural housing.

Section Three - Market growth 2013-2018

The economic outlook in general is positive, and the economy is expected to continue to grow in the future throughout Mexico.

The basic economic condition of families is improving and in the next ten years we will see an upward mobility of families in Mexico. This means that the economic dimension at an individual and family level will improve.

Given that housing is the major asset in a family, the expectation is a growing market for houses. The upward mobility will also be related to the formation of new jobs and commercial activities.

In the next ten years urban development, including offices, commercial centres, factories and services, will be the major driver in the development of the cities in the region.

Currently, Mexico is undergoing a stage of reinvestment due to economic factors that have a direct effect on real estate dynamics, and on demand, which is becoming more and more discerning and educated in its decisions.

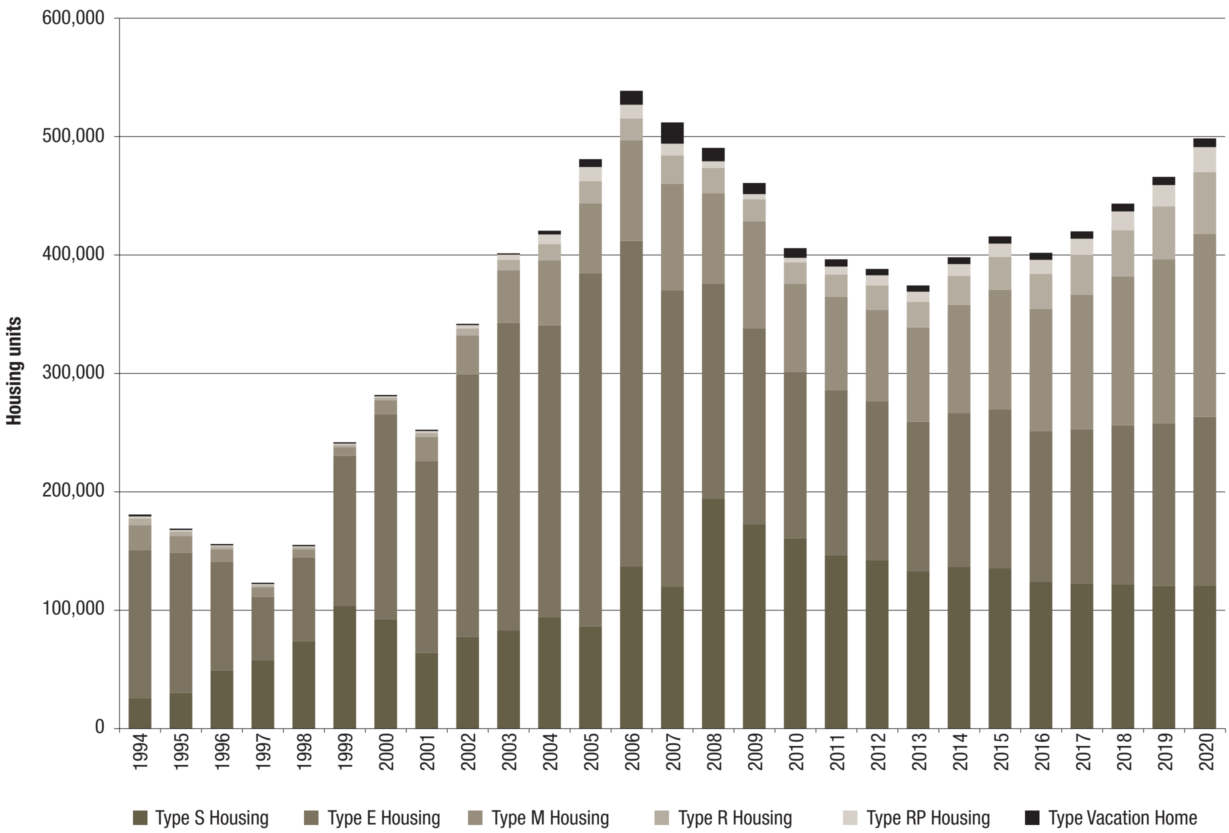
Considering the demand drivers and the introduction of public and private long term policies to develop the housing and mortgage market, the expectation is for a growing market in the next few years.

The process of real estate development in every business line and market segment requires specialized financing mechanisms and regulation to optimize the comprehensive system of competitive cities.

Mexico is working on generating city planning public-private policies for the next 20 years. *The participation of public and private sectors is essential to keep a long-term vision and sets the economic and social development as the key driving force.*

Mexico is at this moment an area of opportunity. New companies and schemes will emerge and those who understand the momentum and trends will be in an excellent position to be part of the development of the housing, real estate and mortgage markets.

Chart 12 Segmented market unit sales 1994-2020



Long-term home ownership trends: the U.S., England and Canada

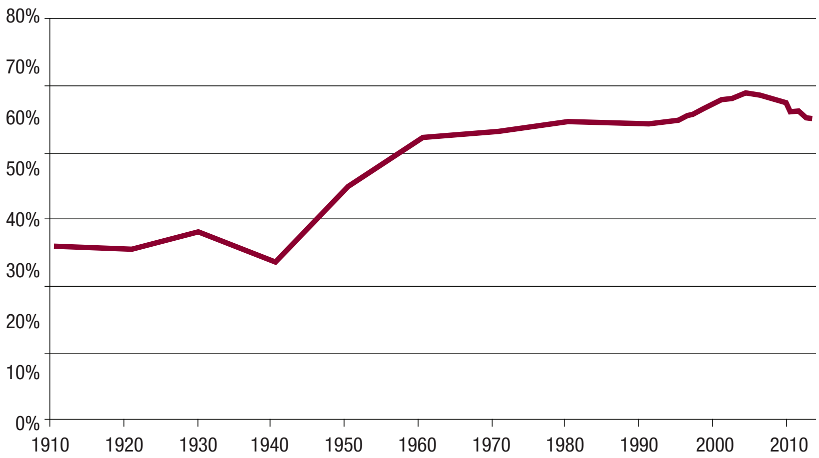
By Alex J. Pollock

1. What do home ownership rates look like when viewed in a very long term perspective?

1.1 The United States

Chart 1 shows the hundred year history of the U.S. home ownership rate

Chart 1 Long-Term U.S. Home-ownership Rate, 1910-2013



Source: United States Census Bureau

A century ago, in 1910, the U.S. homeownership rate was 46%. It rose to 48% in the great boom of the 1920s, then called "the Coolidge Prosperity," after the U.S. President of the time. This was when the U.S. government had its first home ownership promotion: the "Own Your Own Home" campaign, begun in 1922 under then-Secretary of Commerce (later President) Herbert Hoover.

With the great bust of the 1930s, U.S. home ownership had dropped to 44% in 1940. The decade brought numerous government programs to support home ownership, from the creation of the Federal Home Loan Banks under Hoover, to the Roosevelt administration's New Deal creations of the Home Owners' Loan Corporation (dissolved with a small cumulative net profit in 1951), the federal savings and loan charter, federal savings and loan deposit insurance (became insolvent in the 1980s), the Federal Housing Administration, and in 1938, the Federal National Mortgage Corporation, now called Fannie Mae (went broke on its 70th anniversary in 2008).

U.S. home ownership really took off in the renewed and extended boom which followed the end of World War II. It rose to 55% in 1950 and 62% in 1960, a huge step-function increase which has not been repeated. It kept increasing, though at a much slower rate, in the next decade, to 63%.

This was the golden age of the savings and loan associations as the principal U.S. mortgage lenders. In those days there were more than 5,000 savings and loans. Their total assets multiplied by more than 38 times between 1945 and 1975. Their trade association, then called the "United States League of Savings Institutions," became a national political power to be reckoned with. (Today it no longer exists, having been merged into the American Bankers Association. The number of saving and loans has fallen by about 85% from 1975.)

As the runaway Great Inflation caused by the 1970s Federal Reserve neared its end, by 1980 home ownership had reached 64%, and houses had proved to be a good hedge against the inflation. But also by then, the savings and loans in the aggregate were insolvent on a mark-to-market basis. The decade of the 1980s saw their collapse, including the collapse of their federal deposit insurer.

Into the vacuum left by the failure of the savings and loan sector stepped Fannie Mae and Freddie Mac, nationwide mortgage companies with special Congressional charters conferring special privileges, which became the newly dominant forces in U.S. mortgage finance. While they were in process of taking over the mortgage market, the home ownership rate ended the financially disastrous and eventful 1980s where it began, at 64%.

Now began the golden age of Fannie and Freddie. In the 1990s, they were greatly admired, especially by themselves, and often told politicians that a mortgage sector based on mortgage-backed securities [MBS] guaranteed by "government-sponsored enterprises," as Fannie and Freddie were called, was "the envy of the world." Their assets and profits grew rapidly, their stock prices boomed, and they amassed formidable political power and clout.

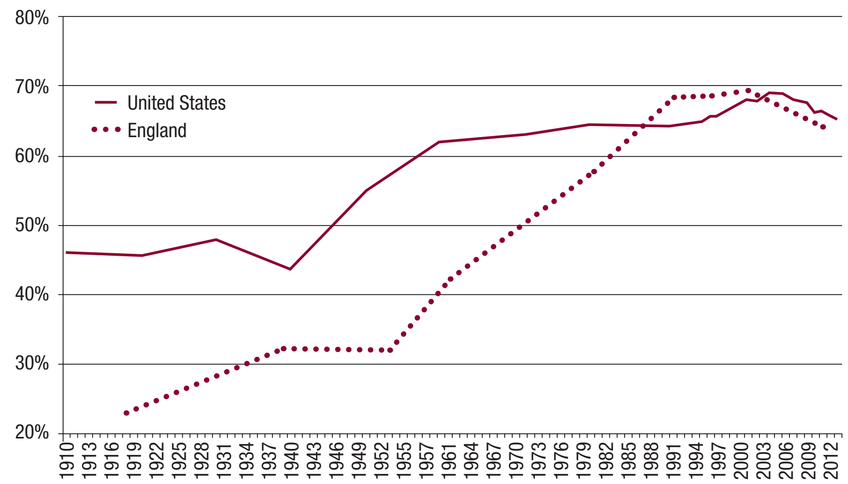
In the mid-1990s, the administration of President Clinton decided that home ownership should be pushed higher, and that this could be done by what they called "creative" mortgage lending, in other words, by lowering mortgage credit standards. It ordered Fannie and Freddie to buy many more so-called "affordable," i.e. lower credit quality, mortgage loans, and promoted the idea to private lenders, who energetically joined in what was for some years a profitable venture (until it was a disaster). The subprime MBS expansion had begun. In time, Fannie and Freddie became the biggest buyers of subprime MBS.

By 2000, home ownership had reached 67%, and the spectacular American housing bubble was under way. The peak home ownership rate came in 2004, when it reached a temporary 69%. Then the housing bubble shriveled in the crisis of 2007-2009, which included a previously unimaginable level of mortgage defaults and the failure of both Fannie and Freddie.

By 2010, home ownership was back down to 67%. Continuing down, it fell to 65% in 2013, close to where it had been in 1980. Overall, looking across the bubble rise and fall, there has been a 40-year plateau in the mid-60% range, during which time the U.S. has experienced two housing finance disasters.

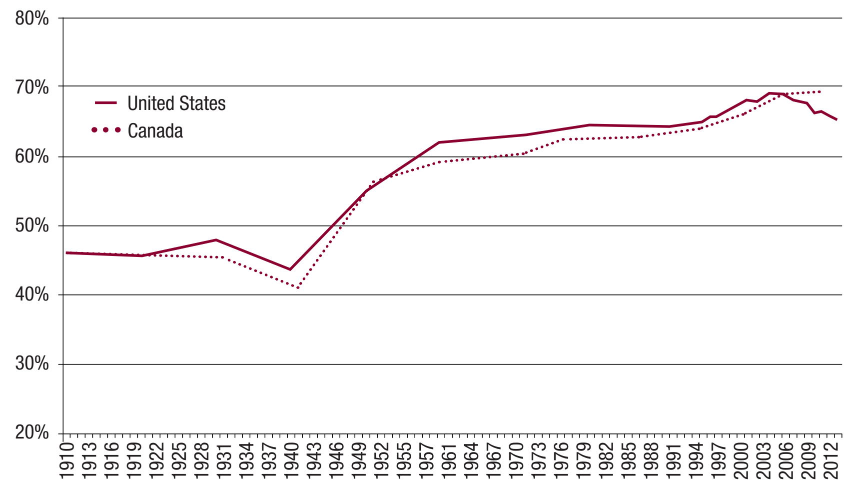
How do these home ownership developments compare to those of two other economically advanced, financially sophisticated, and similar countries, England and Canada?

Chart 2 Long-Term Home-ownership Rates: U.S. & England



Source: United States Census Bureau and United Kingdom National Statistics

Chart 3 Long-Term Home-ownership Rates: U.S. & Canada



Source: United States Census Bureau and Statistics Canada

1.2 England

The history of the home ownership rate since 1918 in England, along with the U.S., is shown in Chart 2. They display very different paths, but end up in about the same place.

A century ago, England was primarily a nation of renters, with home ownership at 23% in 1918, half the U.S. level at the time. (We may speculate that this at least partly reflects the American national experience of having expanded into new frontier lands for over two centuries.)

By 1939, as World War II began, English home ownership had risen to 32%. It was at the same level in 1953, but progressed quickly during the next three decades, reaching 58% by 1981. At that point, it was still 6 percentage points below the U.S. rate.

During the years of Prime Minister Thatcher's reforms, English home ownership first matched and then surpassed that of the United States, reaching 68% in 1991. After a housing bust in the early 1990s, it rose again to 70% in 2002. Interestingly, this is slightly higher than the peak rate that was reached two years later in the U.S.

Then to England also came the housing finance bust and international financial crisis, and the first run of the 21st century global panic was on an English mortgage lender, Northern Rock, in 2007. By 2011, English home ownership was back down to 64%, very close to where the U.S. is now.

1.3 Canada

Canada and the U.S. both settled vast frontiers, share a 3,000-mile border, and are very similar economically though with about a 10:1 difference in scale. They have very different banking and housing finance sectors, with Canada bank-centric and the U.S. MBS-centric, but have an extremely similar home ownership history, which has parted company directionally only recently.

Chart 3 shows the long-term paths of Canadian and U.S. home ownership. The similarity is obvious.

In 1921, Canada's home ownership rate was 46%, the same as the U.S. The two lines of the subsequent history of these rates track very closely, as they rise over time. Canada reaches 69% in 2006, as the U.S. did in 2004.

But then the histories diverge. Canada had a housing price correction in 2008-2009, but not a housing bust. It did not have a housing finance collapse. Its house prices recovered, and then have gone marching upward to ever higher levels up to now. Its home ownership rate held at 69% in 2011, our most recent report.

Are Canadian house prices now in their own bubble? Many observers think so. Will it deflate or collapse? If so, home ownership will probably fall, as happened in the U.S. and England–perhaps back to the mid-60% range?

2. Closing questions

In the post-bubble markets of the U.S. and England, without making credit mistakes, can home ownership rates increase again? Or does the mid-60% range represent some sort of limit? What may we learn about home ownership from an upcoming soft or hard landing to Canada's house price escalation?

A future update of this interesting history may tell us.

Housing Finance "A key player in the Kenyan mortgage sector"

By Frank Ireri

1. Introduction

Kenya is currently enjoying a decade long property boom in the home ownership sector, which has propelled growth of the mortgage industry.

Housing has been identified as one of the principal sectors that has revitalized economic growth in Kenya with shelter being recognized as one of the tools of development.

Investment in housing and related infrastructure and services has triggered forward and backward linkages through additional investments in building materials, production, transportation and marketing.

Over the recent past, robust and sustained economic growth has boosted investment in the real estate sector thereby providing affordable housing for the growing Kenyan population.

The ongoing construction boom has upstream and downstream activities and strong linkages with other sectors of the economy. In addition, mortgage market development supports the expanding towns and cities with the accompanying productivity gains.

2. Rapid population growth

According to the 2009 Population and Housing Census, the country's population stood at 38.6 million and was estimated to grow to about 41.4 million by 2012.

The census indicated that the population was increasing by one million people per year and is projected to peak at 46.7 million by 2017.

The majority of the Kenyan population resides in the rural areas although recent data indicates that there has been an increase in the rate of urbanisation mainly caused by increasing rural-urban migration and the rate of natural population increase in urban areas.

The urban population increased from 5.4 million in 1999 to 12.2 million in 2009. It was estimated to have increased to 14.24 million in 2012 and is projected to increase to 17.64 million in 2017.

The dwelling units enumerated in rural areas are more than four times the units in urban areas while the physical state of housing stock was better in urban than in rural areas.

There has been a push by the government to address the growing demand for housing stocks in both urban and rural areas resulting in a number of policy changes.

In 2010, the Central Bank of Kenya made some policy changes geared towards empowering commercial banks to extend more credit to the real estate sector.

The Government accepted these proposals, which resulted in the amendment of the Banking Act with effect from January 2011.

The changes led to mortgage finance companies being allowed to operate current accounts, a measure intended to enable them to mobilize additional deposits; and banks on the other hand were allowed to advance up to 40 percent of their total deposit liabilities up from 25% for purchase, improvement or alteration of land.

The Centre for Affordable Housing Finance in Africa [CAHF], estimated a housing backlog of about 2 million units by the end of 2011.

To meet this accumulated demand, in addition to catering for new needs, about 250,000-300,000 units need to be supplied into the market every year, which the government has identified in its Medium Term Plan [MTP] covering 2013- 2017.

The Second MTP puts emphasis on formulation of a sound policy framework for rational planning, a suitable legal framework and development and management using the requisite technology to promote sustainable urbanisation in the realisation of the Kenya Vision 2030.

The Kenya Vision 2030 is the national long-term development blueprint that aims to transform Kenya into a newly industrializing middle – income country providing a high quality of life for all its citizens by 2030.

Another study conducted in 2011 by the World Bank, titled "Developing Kenya's Mortgage Market" shows that the industry still has a lot of potential as Kenya has a large housing gap which is growing every year and is increasingly prevalent in urban areas.

Kenya's mortgage market is the third most developed in Sub-Saharan Africa after South Africa and Namibia with mortgage assets accounting for the equivalent of 2.5% of the country's GDP. The potential size of the mortgage market the World Bank estimates is currently around Shs 800 Billion (US$9.9Bn) around 13 times the current level.

Housing Finance [HF], Chief Executive Officer, Mr. Frank Ireri identifies access to long term funds as the largest constraint to the property market development in Kenya.

"Property financing is a capital intensive investment that cannot entirely rely on customer deposits for long-term investments," says Mr. Ireri.

3. Players in the financing market

There are a total of 43 commercial banks that operate in the market and are licensed to offer mortgage products. However, HF is the only stand-alone mortgage financier in Kenya.

The mortgage space in Kenya has experienced cut throat competition in recent years with figures from the Bank Supervision Annual Report 2012 showing KCB Savings & Loans [KCB S&L], which is the mortgage lending arm of KCB, as the market leader, in terms of mortgages outstanding, at 26%. HF controls 25% of the market with Standard Chartered Bank and CFC Stanbic completing the top four.

HF has for the last forty eight years, supported development of the property market assisting thousands of Kenyans to own and build homes.

The founding investors of Housing Finance were the Commonwealth Development Corporation and the Government of Kenya with respective shareholdings of 60 % and 40 % in the Company.

HF's main objective was to promote government policy of "encouraging thrift and home ownership". This was to be achieved by providing the public with mortgages.

The firm was listed at the Nairobi Securities exchange in 1992 and today has a broad base of shareholders.

Housing Finance has expanded over the years and today has three subsidiaries that are instrumental to its operations namely, Kenya Building Society Limited (KBSL), Housing Finance Insurance Agency and Housing Finance Foundation.

The company has progressed from being just a mortgage financier to providing integrated property solutions for the Kenyan Market. Such developments can be seen with the introduction of Property Point, a subsidiary of Housing Finance.

Housing Finance Group ongoing business diversification strategy has boosted growth with the firm registering a 63% rise in profit before tax for the full year ended 2013. The Group's before tax profit grew to US$ 17 million (Shs 1.48 billion), up from US$ 10 million (Shs907 million) posted for a similar period in 2012.

The Groups' two key subsidiaries, Kenya Building Society (KBS) and Housing Finance Insurance Agency (HFIA) together contributed 18% to before-tax profit.

A fast growing concept for delivering housing has been through joint ventures. Joint venture agreements between various financial institutions and landowners are slowly gaining prominence in Kenya. These joint ventures are enabling financial institutions to raise their involvement in the supply of middle to lower income housing.

With increased investment from private sector firms and different incentives put in place by the Government, it is estimated that a total of 4.3 million housing units will be delivered by 2030. Of these, 2.2 million units, representing 52% of the total will be for low income urban households.

The revival of Housing Finance property development subsidiary, Kenya Building Society in 2012, is expected to accelerate building affordable homes for Kenyans on a large scale. The firm has already successfully completed construction of a middle class estate located in Nairobi's Komarock suburb comprising 162 housing units.

Increasing appetite to finance mortgage projects, delivery on cost management initiatives and anticipated stable macro-economic factors are factors expected to sustain the firm's growth strategy over the next 5 years.

The company will be concentrating on organic growth and will be focusing on connecting with customers through building strong relationships and providing personalized and targeted solutions for their investment needs. The company's focus is on four key pillars: customer, growth, real estate investment & development and funding.

"Kenya has a young growing population and it is urbanizing rapidly. Urban housing and improvement of rural homes are priorities in the social pillar of the country development Blueprint Vision 2030," said Mr. Ireri, Chief Executive of Housing Finance.

The low and middle income class forms a high proportion of the Kenyan population and the trend is expected to continue increasing.

The increase in population especially in the urban and peri-urban areas is pushing up the demand for housing units and hence there is currently more pressure on the supply of affordable housing units for this populace.

The high demand for housing has seen prices of land in urban areas continue to increase over the years beyond the reach of many ordinary Kenyans. This is a major obstacle towards affordable housing developments.

"The strategy of Housing Finance is to provide Kenyan society with home acquisition solutions through mortgage financing. This strategy is achieved through optimizing on funding and the supply of houses which the Kenyan populace can afford," says Mr. Ireri.

Mr. Ireri believes the company has positioned itself strategically through partnering with the Government and other players in the construction industry to help it achieve this objective.

"One of the strategic initiatives being undertaken is entering into partnerships, collaborations and joint ventures with persons with huge tracts of land where Housing Finance can leverage on to develop substantial number of housing units," he adds.

4. Counties to drive growth

Financial institutions have begun to tap opportunities in the counties as most counties lack decent housing. A fast growing model has been through public private partnerships and joint ventures to intensify property development and to sustain growth in the long term.

In association with the private sector and county government, the national Government plans to increase the supply of modern housing units especially for the low-income segment of the market where supply lags behind demand.

The Government will address this problem by facilitating the construction of 200,000 units annually through public private partnership arrangements.

In addition, the Government has indicated plans to develop integrated investment plans for six key metropolitan areas and reform the National Social Security Fund [NSSF] to increase available investment to the housing sector

The promulgation of Kenya's new constitution on the 27th August 2010 set the stage for equitable sharing of resources between the central Government and the county governments. With the opening up of the 47 counties, there has been huge demand for offices, houses for staff taking up jobs in the counties and residential houses for those who view the various counties as the next investment hubs.

Although in its infancy stage, there are numerous opportunities for all 43 financial institutions to work with the national and county governments to finance the putting up of residential and office buildings.

However, the fastest growth is expected in counties around the capital, Nairobi. Under the 2008 newly created Ministry of Nairobi Metropolitan Development, Nairobi Metropolitan Region is proposed to expand and cover over 3,000km2. In the last 100 years, the city boundary has been extended to cover a greater region.

It has been extended to include rich agricultural and livestock areas in Kiambu, Kajiado and Machakos districts. The city boundary covered 77km^2 in 1927 and this was expanded to 686 km^2 in 1963

The lack of affordable construction combined with difficulties in accessing land makes it difficult to expand access to homeownership.

5. Housing reforms take shape

The Government two years ago introduced new building codes in a move aimed at accelerating the delivery of affordable housing.

Although many builders have over the years attempted to embrace new technologies to reduce the cost of building materials, the country's various planning departments refused to approve their designs and building units, citing failure to adhere to the building code.

Today the various county authorities have adopted use of new building codes to ensure houses meet the new building requirements.

Although the Government is trying to address the issue of housing shortage, the public is yet to appreciate the benefits of the new building technologies that can deliver housing in a shorter span of time.

However, new technology is set to revolutionize the Kenyan construction industry as builders seek to lower construction costs.

Some industry players have already adopted the use of prefabricated technology that can lower the overall cost of construction, reduce the time taken to build a house and hence open doors for more affordable housing.

Already, several companies have expressed interest in building technology by supplying prefab homes to low and middle income Kenyans. One such company is Elsek Construction, founded in 2001 in Istanbul Turkey.

The firm has brought fibre cement and galvanized steel construction into Kenya's housing sector through its local subsidiary – Elsek & Elsek (K) Ltd.

The technology uses walls made of fibre cement boards which are bullet proof up to 9 mm and fire proof up to 800 degrees Celsius. The walls are made of cement, stone and chemical glue for strength and windows are double glass or glazing for high insulation.

The Government has been actively involved in promoting building technologies that are cheaper and affordable to the vast majority of the citizens.

Alternative building technology using Expanded Polystyrene [EPS] is now available in the country. An EPS production factory was established in May 2012 at a cost of around US$ 12 million (Shs 1 billion) by the state owned National Housing Corporation [NHC] to produce quality and affordable construction materials using new the technology that will go a long way in the provision of adequate and affordable housing.

NHC is currently constructing 44 pilot housing units for a police station in Nairobi using EPS technology.

Apart from addressing the issue of building materials, the government has also looked into some punitive laws affecting property ownership.

6. Review of property laws

Through the introduction of the Land Registration Act and the Land Act, 2012, the land laws have been simplified and harmonized. This legislation has also introduced transparency and accountability when dealing in land.

The laws have also seen the introduction of equitable mortgages and revolving charges which have made lending easier and reduced the conveyancing process.

The introduction of the long-awaited Housing Bill will see the creation of the Kenya Housing Authority which will be mandated to monitor and evaluate the housing sector, conduct research on housing and also drive aspects of social housing in Kenya.

The Bill will provide for a Guaranteed Mortgage Scheme that will protect lenders against risks in housing and make lending more attractive.

Financial players have also been actively seeking ways to ease the home ownership process. In the market today one can get a construction solution popularly known as Makao (place to stay) building solution.

This product is convenient for those who have land and wish to build. Under the solution, a developer gets all the necessary professionals to supervise the project, from start to finish and at a fixed cost.

The house is delivered within an agreed time while still maintaining high quality standards. Customers can realize savings of up to 20% on the normal cost of construction.

Cyclical mortgages have also become popular especially following the introduction of counties. These are mainly suitable for individuals with cyclical incomes such as farmers or owners of educational institutions who receive their money quarterly.

The Government, through the Retirement Benefit Authority [RBA] resolved that pensioners can use 60% of their contribution towards the acquisition of a home.

The mortgage industry today also allows customers to use up to 60% of the accrued retirement benefits to acquire a home. Mortgage finance providers like Housing Finance give up to 115% financing for a property.

Another innovative product fast sweeping the mortgage market is Collateral Indemnity Replacement, a solution that allows access 100% mortgage financing.

Housing Finance was the first company to introduce the solution dubbed, 'Ezesha' (meaning enabling) to give customers easy entry into the home ownership arena.

Ezesha, the only product of its kind in the Kenyan market, allows Housing Finance customers access up-to 105% mortgage financing. The product will allow the customer to take the extra 15% above the recommended HF loan to value amount against an insurance policy that is taken by the customer.

A majority of the financiers, including Housing Finance offer customers at least 90% of the value of the property as part of prudent lending.

However, financing 90% presents a challenge for many customers since they have to raise the remaining amount which is usually 10% deposit amount to developers as well as raise additional funds (about 5% but up to about 8-10%) to cater for professional fees (legal and valuation fees) and the stamp duty.

Financial institutions have developed savings products targeted at first time home buyers following a raft of tax incentives introduced by the Government in 2006. These products target younger home buyers with regular income and a regular savings capacity. Up to US$ 46 (Shs 4,000) a month can be put in the scheme and is tax exempt.

Savings can accumulate up to US$ 34,800 (Shs 3 million) with the interest earned being tax free. There is a minimum monthly contribution of US$ 11.6 (Shs 1,000). Similar products are also available from other lenders.

The Income Tax Law makes specific provisions for a Home Ownership Savings Plan [HOSP]. There are few limitations on how the scheme can function, but interest earned on the savings is tax exempt and the amount saved is tax deductible.

This represents a significant benefit, although it is only limited to US$ 46 (Shs 4,000 a month). Any withdrawals from the scheme need to be used for housing purchase or construction within 12 months of the withdrawal.

The industry has been lobbying Government to extend the tax benefit to allow for a more rapid accrual of the necessary deposit and provides lenders with an increased pool of long term deposits.

If this is then complemented with further funds from demand deposits and capital market funding, Treasury departments of lenders have a good funding mix for managing their assets and liabilities

Despite the industry loosening requirements to accelerate home ownership, there is a robust credit system to check default. Although in their nascent stages, Kenya has private credit reference bureaus formally licensed by the Central Bank of Kenya under the provisions of the Banking (Credit Reference Bureau), 2008 Regulations.

The industry has been seeking ways to raise long term funds from the capital markets to finance the sector. Lenders have also been exploring ways of lengthening the term of deposits.

Housing Finance in 2010 successfully floated a Shs 10 billion (US$ 117 million) 7-year corporate bond in the securities market with pre-determined interest rates to cushion the company against high interest payments because of price volatilities. The country's Capital Markets Authority in October 2013 gave the firm a nod to raise a further Shs 20 billion (US$ 235 million) corporate bond through the issuance of medium term notes.

Medium term notes have become popular in the Kenyan debt market as they do not require collateral, offer flexibility especially related to the repayment structure and related qualifying expenses are tax deductible.

Jamii Bora Bank, which targets low income earners, in 2013 raised Shs1 billion (US$ 11 million) through a corporate bond sale, to expand its mortgage loans business.

Housing Finance has also secured a US$ 20million loan facility from the International Finance Corporation for expansion projects.

IFC has invested more than Sh39.6 billion (US$456million) in Kenya. IFC, the private development lending arm of the World Bank has partnered with 18 Kenyan banks to offer financial support to small and medium enterprises.

The REITS Regulations 2013 are also expected to set the stage for the creation of Real Estate Investment Trusts [REITS] schemes which will be listed on the Nairobi Securities Exchange [NSE].

REITS are expected to help developers access the capital markets and boost liquidity for larger projects thus reducing the financing costs by enabling firms raise more equity and rely less on debt, which is often quite expensive.

The ongoing reforms and market innovations are together expected to boost property development in Kenya.

INTERNATIONAL UNION FOR HOUSING FINANCE

IUHF
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Established in 1914, the International Union for Housing Finance (IUHF) is a worldwide networking organisation that enables its members to keep up-to-date with the latest developments in housing finance from around the world and to learn from each other's experiences.

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- The Union runs a website - www.housingfinance.org. Please pay a visit!
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For more information, please see www.housingfinance.org
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