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The Quarterly Journal of the International Union for Housing Finance

- The growth and institutionalisation of South Africa's rental housing sector
- Vietnam's housing market: a snapshot
- Shared ownership – learning from the UK
- How European finance can meet urban housing needs
- Lessons learnt from the Vestia affair; have the changes been effective
- Housing finance and its economic linkages – a think piece

International Union for Housing Finance

Housing Finance International

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E-mail: weinrich@housingfinance.org

➔ **Publisher:**
MARK WEINRICH

➔ **Editor:**
ANDREW HEYWOOD

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For further details, please contact Mark Weinrich
(weinrich@housingfinance.org)

International Union for Housing Finance
Rue Jacques de Lalaing 28, B 1040-Brussels - Belgium
Tel: +32 2 231 03 71
Fax: +32 2 230 82 45
www.housingfinance.org
Secretary General: Mark Weinrich

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Editor's introduction

Success in Washington a springboard for the future

"The best congress I've been to!" One delegate's words summed up the consensus at the 30th IUHF Congress in Washington. Held from 25th-27th June 2017, the Congress attracted delegates from 29 different countries, who came to participate in a series of challenging sessions on global trends in housing finance and to meet colleagues and contacts from around the world.

Some people have suggested that in this internet age such events are no longer needed since all the information we need and more is available online. This Congress proved them wrong; there remains no substitute for face-to-face contact and "live" debate.

As global uncertainty reigns and as the winds of change blow over Washington itself, it is not surprising that much of the focus of the Congress was on the big issues, with speakers and delegates looking both forwards and backwards towards recent events. Although it is now almost a decade since the Global Financial Crisis [GFC] hit the financial sector, its impact is still being absorbed, and some of the liveliest debates focussed on that impact and on the appropriate reaction of government, regulators and the housing finance industry itself.

As always, there were differing opinions on such key issues such as whether the regulatory pendulum had now swung too far as a reaction to the GFC. Have prudential and consumer regulation now been tightened to the point where consumers and even national economies are now disadvantaged as finance institutions struggle to fight their way through red tape and respond flexibly to their needs? Have other pressing problems such as the future role of the state guaranteed GSE's Fannie Mae and Freddie Mac in the US been classed as too difficult to tackle, with the result that necessary and fundamental change has been avoided? These and other questions were the subject of rigorous discussion and analysis.

It is widely recognised that understanding the past and its impact can be the key to understanding the future. The Congress focussed not only on the past but looked forward also. This event provided a valuable basis for considering the likely causes and impact of any future market and/or financial downturn. That crises occur periodically is certain. Predicting them however, is neither easy nor popular. Nevertheless, there are some key issues that deserve discussion if future turbulence is to be successfully managed. Can we see signs that certain housing markets such as the UK and US are reaching the top of their cycle? What are the chances that current global uncertainty may ultimately resolve into a serious economic downturn? Would any downturn place excessive strain on the financial system as happened in 2007? It would be easier if the future usually resembled the past but experience tells us that life is never that simple. As a Congress delegate put it over coffee "Too often we end up fighting the last war."

This Congress provided a platform for informed and creative discussion of the big issues of the day and offered insight into many of the questions facing those charged with managing and strategically directing the operations of housing finance institutions that are key to the futures of so many communities across the world. It also offered a springboard for furthering understanding the shape of things to come.

Many of the discussions at the Congress will continue in articles placed in forthcoming issues of *Housing Finance International*, thus enabling the work of the Congress to go on.

Given the wide scope of the discussions at the 30th World Congress, it is appropriate that this issue of HFI covers a broad range of topics also. The private rental sector seldom receives the attention it deserves from analysts and researchers, in part because the sector frequently is not geared up to sponsor research, while governments too often neglect to collect the quality of data that is often available on the social rented sector. We are therefore pleased to include an article by Josie McVitty, *The growth and institutionalisation of South Africa's rental housing sector*. Ms McVitty examines how the rental sector in South Africa has become more formalised and professional in approach, to the point where investment in the sector is now embodied in REITS (Real Estate Investment Trusts) that are quoted on the Johannesburg Stock Exchange.

Forty years ago, Vietnam was a country still recovering from a long and destructive war. Since then its economy has been transformed and it has now become a tourist destination of choice. In her article, *Vietnam's housing market; a snapshot*, Huynh Duong traces the development of the housing market in Vietnam and contrasts a period of rapid growth with continuing challenges on both the supply and demand sides, including an uncertain mortgage lending environment despite recent government intervention. This is a very useful overview for those wishing to gain an insight into Vietnam's housing markets.

For many years, the UK has had a record of developing innovative schemes to expand access to homeownership. The Right to Buy, under which almost two million social rented homes have been sold to tenants in England is perhaps the best-known example. In an in-depth article, Shared ownership- learning from the UK, Anna Clarke takes an in depth look at shared ownership, a hybrid tenure under which households can part-own and part-rent their homes. There are now over 165,000 shared ownership homes in England and the tenure also exists in Scotland, Wales and Northern Ireland. Shared ownership has been heavily promoted by government as a way of enabling those on modest incomes to gain a foothold on the housing ladder.

In Europe, housing policy is traditionally seen as a national rather than an EU concern. However, in an important article, How European finance can meet urban housing needs, Ad Hereijgers looks at how the recently emerged Urban Agenda for the EU is, through the EU Housing Partnership, promoting better regulation, funding and sharing of good practice. The article focusses particularly on how urban challenges including a shortage of social housing, stretched affordability and the need to promote energy efficiency can be addressed, notably through the work of the European Investment Bank [EIB].

Two years ago, Jan van der Moolen, published an incisive article in Housing Finance International, setting out the causes and implications of the collapse of Vestia, the largest housing association in the Netherlands. Now, two years on, Jan van der Moolen uses these pages to examine the regulatory changes put in place following a Parliamentary investigation in 2014 and their impact on the housing association sector. His article makes some valuable points about the need to strike an appropriate balance between preventing problems through tight and onerous regulation and leaving room for initiative and customer focus amongst those organisations that are regulated.

Contributors' biographies

Anna Clarke is a Senior Research Associate at the Cambridge Centre for Housing and Planning Research, in Cambridge University. She undertakes research into a range of housing policy issues and led recent work on shared ownership for the Council of Mortgage Lenders looking to explore lenders' views of the sector.

Claudia Magalhães Eloy is a consultant on housing finance and subsidy policy in Brazil, who currently works for FIPE [Fundação Instituto de Pesquisas Econômicas] and has worked for the World Bank [TA] and for the Brazilian Ministry of Cities and Companhia de Desenvolvimento Urbano e Habitacional of São Paulo [CDHU]. Claudia has also participated in the development of the National Housing Plan, in the analysis of the Housing Finance System. She holds a PHD in Urban Planning at the University of São Paulo [USP], a Master in City Planning at the University of Pennsylvania, a Master in Public Administration at Bahia's Federal University [UFBA] and a BA in Architecture and Urban Planning [UFBA], with a specialization in Real Estate Finance at the Brazilian Economists Order [OEB]. She also attended Wharton's International Housing Finance Program.

Ad Hereijgers, housing economist and urban planner based in The Netherlands. Director business development of EFL Expertise, a pan-european platform of consulting firms responding to the needs and challenges of affordable housing companies and governments across Europe. Trusted board room advisor to national government and housing associations on innovative policies and its frameworks for implementation. International housing development experience in New York.
EMAIL: *ad.hereijgers@efl-expertise.com*

Duong Huynh served as housing consultant to government, multi-lateral, and private institutions across Southeast Asia, the Gulf, and Africa between 2012 and 2017 at the Affordable Housing Institute. She holds a B.Sc. in Architecture from MIT and is an MBA candidate at Wharton. She now works in real estate development in Boston.

Josie McVitty is an urban development and affordable housing specialist, with professional experience in public policy as well as private sector investment in property development. Most recently, she has been based in Johannesburg working with International Housing Solutions, a private equity firm which invests in housing development for rental and for sale to the affordable market.

Alex J. Pollock is a distinguished senior fellow at the R Street Institute in Washington DC. He was President and CEO of the Federal Home Loan Bank of Chicago 1991-2004, and President of the International Union for Housing Finance 1999-2001.

Zaigham M. Rizvi is currently serving as Secretary General of the Asia-Pacific Union of Housing Finance and is an expert consultant on housing and housing finance to international agencies including the World Bank/IFC. He is a career development finance banker with extensive experience in the field of housing and housing finance spread over more than 25 countries in Africa, the Middle-East, South-Asia, East-Asia and the Pacific. He has a passion for low-cost affordable housing for economically weaker sections of society, with a regional focus on Asia-Pacific and MENA.
EMAIL: *zaigham2r@yahoo.com*

Kecia Rust is the Executive Director of the Centre for Affordable Housing Finance in Africa, and manages the Secretariat of the African Union for Housing Finance. She is a housing policy specialist and is particularly interested in access to housing finance and the functioning of affordable property markets. Kecia holds a Masters of Management degree (1998), earned from the Graduate School of Public and Development Management, University of the Witwatersrand. She lives in Johannesburg, South Africa.

Jan van der Moolen was the former CEO of the Dutch financial supervisory authority on housing associations up to 2013 and has a long career in the social housing domain. He now is a consultant, chairman of several non-executive boards and still considered as an expert on social housing. [2.17]
EMAIL: *janvandermoolen@kpnmail.nl*

Mark Weinrich holds graduate degrees in political science and economics from the University of Freiburg, Germany. He is the General Secretary of the International Union for Housing Finance and the manager for international public affairs at the Association of Private German Bausparkassen.

Housing News Update from Asia Pacific Union of Housing Finance

Malaysia

↳ **By Datuk Chung Chee Leong, Chief Executive Officer, Cagamas Berhad**

House prices continue to increase in Malaysia but at a more moderate rate

The annual growth in average house prices – measured by the Malaysian House Price Index [MHPI] – was lower at 5.5%p in Q4 2016, compared to an average of 9.5% during 2010-2015. The slower growth in house prices was mainly associated with the scaling back of investment purchases, particularly in the higher-priced segments. The year-to-date annual growth in overall housing transactions declined by 11.5% and 3% (2015: -5.7% and -8%) in volume and value terms respectively. The decline in the value of transactions was driven by the soft demand in the higher-priced segments. Unsold housing units increased to 14,792 units (2015: 10,163 units) as at the end of December 2016, mainly in the more expensive and high-rise segments. Rather than lowering prices, some property developers opted to convert high-rise residential units to commercial accommodation (such as hotel suites) in efforts to clear unsold housing stock.

Demand for affordable housing remained strong due to demographic factors such as Malaysia's relatively young labour force and continued urbanisation. Sustained demand for affordable housing supported the continued expansion in end-financing by banks for the purchase of residential properties. During the year, a total of 456,197 (2015: 474,225) housing loan applications were received by banks. The majority (61%) of applications were for the purchase of houses priced below RM500,000 of which half were for houses priced below RM250,000. The rejection rate for housing loan applications fell further to 23.6% (2012-2015 average: 26.1%), reflecting greater alignment between bank lending standards and borrowing behaviour.

About 72% of housing loan borrowers were first-time buyers of houses priced below RM500,000. Overall, about 84% of housing loan borrowers had only one outstanding housing loan. Such borrowers have strong incentives to maintain loan repayments in an event of financial stress or negative equity on their homes, compared to investment buyers. The share of impaired and delinquent housing loans also remained stable and low at 1.1% and 1.5% respectively.

India

↳ **By Zaigham M. Rizvi**

India promotes low-income housing under Priority Sector Lending

Directed lending is the practice of extending loans on preferential terms and conditions to certain priority sectors that have limited access to formal credit at reasonable rates. Many countries used directed lending programs (or directed credit programs) to meet development objectives in the 1950s and 1960s with varying success. For instance, in Japan and South Korea, well-run directed credit programs helped shape industrial sectors in the early years of development.

India's program of directed credit, also known as Priority Sector Lending [PSL], has been in operation since 1969. The program requires commercial banks – public, private, and foreign – to extend loans to agriculture, exports, small business, housing, and economically weak sectors in general. PSL featured in India's credit policy of 1967–68, which was devised in response to shortfalls in agricultural output and an industrial slowdown that caused severe imbalances in the economy. Major banks were nationalized in 1969 and were required to become more involved in the financing of priority sectors, such as agriculture, exports, and small-scale industry. At that time, about 14.6% of bank loans were provided to priority sectors. The Reserve Bank of India [RBI] has revised PSL lending norms over the years, and as per the current framework, private and foreign banks must also abide by these norms. Initially, only public-sector banks were required to lend to priority sectors at its inception in 1969. It was only in the late 1970s that private sector banks were directed to engage in mandatory PSL, at par with the public-sector banks. Since then, all domestic commercial banks, public or private, have been mandated to gradually lend up to 40% of their adjusted net bank credit [ANBC] or credit equivalent amount of their off-balance sheet exposure – whichever is higher – to the priority sectors. The target of 40% is to be gradually achieved by 2019-20, standing at 34% in the year 2016-17.

In India, the Directed Credit Programs under PSL take various forms, including the following:

- Mandatory lending requirements
- Refinancing schemes
- Interest rate subsidies
- Credit Guarantees
- Development Financial Institutions

Alongside housing, the other sectors covered under the PSL program include Agriculture, Micro Small and Medium [MSM] enterprises, export credit, social infrastructure and renewable energy, with agriculture taking the largest share at 18%.

PSL loans are available for the following:

- PSL in housing provides loans to individuals up to INR2.8 million in metropolitan centers (with populations of one million and above) and loans up to INR2.0 million in other centers for purchase/construction of a dwelling unit per family, provided the overall cost of the dwelling unit in the metropolitan center and at other centers does not exceed INR3.5 million and INR2.5 million respectively, loans for repairs to houses, bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of INR1.0 million per dwelling unit. Housing loans to banks' own employees are not eligible for classification under the priority sector.

- Loans for repairs to damaged dwelling units of families up to IRs 0.5 million in metropolitan centers and up to IRs 0.2 million in other centers.

- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of IRs1.0 million per dwelling unit.

- The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for economically weaker sections and low-income groups, the total cost of which does not exceed IRs1.0 million per dwelling unit. For the purpose of identifying the economically weaker sections and low-income groups, the family income limit of IRs 0.2 million per annum, irrespective of the location, is prescribed.

- Bank loans to Housing Finance Companies [HFCs], approved by NHB for refinancing, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of IRs 1.0 million per borrower. The eligibility under priority sector loans to HFCs is restricted to 5% of the individual bank's total priority sector lending, on an ongoing basis. The maturity of bank loans should be co-terminus with the average maturity of loans extended by HFCs. Banks should maintain necessary borrower details of the underlying portfolio.

These housing loans under PSL are offered to individuals for the purchase or construction of a house, who may not get timely and adequate credit in the absence of this special dispensation. This initiative made by the government is directed at making finance accessible to the people who currently do not have access to it. By bringing the home loans under the priority sector, administrative hassles for banks have been removed. The rate of interest on bank loans is as per directives issued from time to time by the Department of Banking Regulation of RBI. Priority sector guidelines do not lay down any preferential rate of interest for priority sector loans, other than under special programs to promote low-income housing. Modi's Government, in order to boost real estate development, is planning to extend priority sector lending benefits to the housing sector and work on bringing down the interest rates to 7-8%.

The Priority Sector Lending by the financial sector is regulated under the following mechanisms:

- RBI Master Circular: The Reserve Bank of India has, from time to time, issued a number of guidelines/instructions/directives to banks on Priority Sector Lending, in order to enable the banks to have current instructions at one place under a Master Circular. This Master Circular consolidates the current instructions on 'Priority Sector Lending- Targets and Classification'. To ensure continuous flow of credit to the priority sector, the compliance of banks is monitored on a quarterly basis. The data on priority sector advances has to be furnished by banks at quarterly and annual intervals as per revised reporting formats.

- Priority Sector Lending Certificates [PSLCs]: PSLC are a mechanism to enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall. This also incentivizes surplus banks as it allows them to sell their excess achievement over targets thereby enhancing lending to the categories under the priority sector. Under the PSLC mechanism, the seller sells fulfilment of their priority sector obligation and the buyer buys the obligation with no transfer of risk or loan assets.

- Interest rate Subsidy: The National Housing Bank [NHB] serves as Administrator of any "State Interest Rate Subsidy Program", under which subsidy is provided to clients of low income housing.

- Role of Prudential Regulations [PRs]: India has housing finance specific prudential regulations titled "The Prudential Regulations of Housing Finance in India-1995-2011, amended in 2014". These regulations provide rules/guidelines to be followed by commercial banks [CBs] and housing finance companies [HFCs].

The RBI and NHB, under their regulatory regimes and supervisory roles monitor compliance with the Master Circular on PSL and PRs for housing finance.

Thailand

By K.I. Woo, ex adviser Government Housing Bank, Thailand

New Bangkok residential units reflect increasing prices

The number of new residential units launched in Greater Bangkok in the first quarter declined by 3% but the value per unit rose by 22.2% in value as developers shifted focus to higher-priced units. Vichai Viratkapan, Director-General of the Real Estate Information Center [REIC] told the Bangkok Post that unit prices launched in Q1, 2017 were higher than the same period last year. REIC said new residential supply launched in January-March was 24,103 units (85 projects), falling from 24,839 units (113 projects) in the same period last year. However, the combined value of new supply rose to Bt 94.6 billion ($US2.86 billion) from Bt 77.4 billion ($US 2.42 billion). The market was dominated by listed developers (77.8%).

Of the new units, 13,502 were condos (31 projects) selling for Bt55.9 billion ($US1.75 billion). Unit numbers decreased 4.2% but unit values increased 31.1%. Listed developers had a 74.7% market share in the condo segment (18 projects – 10,080 units), rising 58.4% from the first quarter last year.

In the low-rise market, 54 new projects (10,601 – Bt38.8 billion ($US1.21 billion)) declined 1.4% in unit numbers but rose 11.2% in value.

Prasert Taedullayasatit, of Pruksa Real Estate said many developers had shifted to building for upper-end markets this year because of high lower-end market mortgage rejection rates. "Even market leaders in the lower-priced segments have diversified into high-end market," he said.

Phatra Securities Plc said that Stock Exchange of Thailand listed developers' unsold units rose to 43,000 units from 38,000 last year.

RESIDENTIAL SUPPLY LAUNCHED IN GREATER BANGKOK IN Q1

Category	Q1/2016	Q1/2017	YoY	Q1/2016	Q1/2017	YoY	Q1/2016	Q1/2017	YoY
	PROJECTS			UNITS			VALUE		
Low-rise houses	74	54	-27.0%	10,757	10,601	-1.5%	34,820	38,750	11.3%
Condominiums	39	31	-20.5%	14,082	13,502	-4.1%	42,610	55,880	31.1%
Total	113	85	-24.8%	24,839	24,103	-3.0%	77,430	94,630	22.2%

Source: Real Estate Information Center *POSTgraphicq*

Pracha Rat (People's State) housing criteria eased

The Thai Cabinet recently eased criteria for homebuyers of the government's Pracha Rat housing program after the initial foray failed to lure low-income earners and state officials.

Kobsak Phutrakul, assistant minister to the Prime Minister's Office, said the program only attracted Bt258 million ($US8.06 million) pre-financing loans to three property developers from a total allocated Bt30 billion ($US938 million) loan package.

The eased requirements permitted buyers who were not homeowners to participate in the program. Land prices will be excluded, and participants can borrow up to Bt1.5 million ($US 45,500) to finance construction of their residence.

For Treasury Department lands projects, short-term leases will be permitted for state officials who earn monthly salaries not exceeding Bt20,000 ($US625) per month.

On March 22, 2017, the Cabinet approved Bt70 billion ($US2.187 billion) for the Pracha Rat (People's State) initiative. GH Bank, the Government Savings Bank (GSB) and Krungthai Bank (KTB) will provide both end buyer and property developer loan under the program.

TRIS maintains 'stable' outlook for Thai residential property sector

Rating agency TRIS maintained its "stable" outlook for the residential property sector despite several lingering unfavorable factors. It believes that most rated property developers will be able to adjust their strategies to cope with the current tepid economic conditions in the domestic market.

Demand in 2017 is expected to be flat or will only grow marginally from last year's level, because banks are still maintaining stringent loan conditions for home-buyers amid concerns of high household debt nationwide and a recent rise in non-performing loans. However, TRIS forecasts that the ratio of household debt to gross domestic product will not increase further. In addition, interest rates will not rise as fast as it previously projected.

The major concern for this year will be the ongoing rise in the number of unsold housing units available for sale, especially in the low-priced condominium segment. At the end of last year, the Agency for Real Estate Affairs said 184,329 housing units were available for sale in Bangkok and its suburbs. About 30% were single-detached and detached-houses, 30% were townhouses and 38% were condominiums, while 70,000 condominium units were available for sale, the highest number since the 1997 financial crisis.

GH Bank offers provincial area near-zero interest rate mortgages

The GH Bank is offering a near-zero rate for 11 months to homebuyers in an effort to stoke demand in provincial areas.

Chatchai Sirilai, GH Bank President said the bank will charge a minimum retail rate (MRR) minus 6.5% points or 0.25% annual interest for 11 months for qualified borrowers at home exhibitions to be held in Rayong, Khon Kaen and Songkhla provinces. The rate will be MRR minus 2.5% points or 4.25% during the 12th-24th months.

The Bank is also offering a zero-rate mortgage for 24 months to those who purchase GH Bank's non-performing assets. Fees for appraisal, mortgage and ownership rights registration will also be waived for those who apply for the state-run bank's mortgages for new residences.

GH Bank participates in "17th Money Expo 2017"

Chatchai Sirilai, GH Bank President announced that the Bank participated in the "17th Money Expo with its "GH Bank the Glory Arena… Gateway to digital life" theme that is in line with its "Financial Innovation 4.0" strategy. At Money Expo, GH Bank will provide more opportunities for Thai people have their own homes and more convenient access to the Bank's finance products.

The Bank's "GHB Smart Booth" featured a "Video Teller Machine (VTM)", a new service innovation that highlighted the event. Customers could deposit and withdraw funds, make loan payments and receive loan services by contacting the Bank's staff via the VTM. The Bank's VTM at this event was used for promotion reservations. VTMs will be established at public venues such as BTS stations, department stores and many other customer service outlets.

Philippine

↳ **By Robert B. John ADFIAP, Manila**

The housing backlog is 3.9 million households. Assuming that production of housing units would average 200,000 units every year from 2012 to 2030, the backlog would still persist and hit 6.5 million households by 2030. The highest demand would come from the economic housing segment, followed by socialized housing, and lastly by low-cost housing.

The low-cost, socialized, and economic housing units account for a large share of housing production. From 2010 to 2011, housing production in the high-end, mid-end, and low-cost categories increased, while production of houses in economic and socialized housing was relatively flat. From 2000 to 2011, economic, socialized, and low-cost housing cornered close to 70% of total housing production. During this same period, the socialized segment accounted for 27%, the economic segment accounted for 29%, and the low-cost segment 13%.

The housing sector has great economic importance in Philippine's economy. For every Peso spent on housing will create 2.3 jobs, with 3-3 pesos as the Value Creation Multiplier, 0.47 as the Household Income Multiplier and 3.9 Pesos as the Indirect Tax Multiplier.

Philippine lowest-ever 3% housing interest rate offered to minimum-wage earners:

A lowest in the market housing loan interest rate is now offered to the Home Development Mutual Fund (also known as Pag-IBIG Fund) members who are minimum-wage earners.

"We are happy to announce that the Pag-IBIG Fund Board of Trustees approved the lowering of interest rate under Pag-IBIG's affordable housing for minimum-wage earners to just 3%. This would allow more opportunities for low-income workers to realize their dream of home ownership," said Philippine Cabinet Secretary and Pag-IBIG Chairman Leoncio B. Evasco, Jr.

The new rate is 33% lower than the previous 4.5% interest rate under the Fund's Affordable Housing Program [AHP]. Minimum-wage workers in the National Capital Region not earning more than P15,000 gross monthly income, and workers in other regions with a gross monthly income of P12,000 are eligible to avail themselves of the new interest rate for a loan not exceeding P450,000.

Pag-IBIG Fund Officer-in-Charge Acmad Rizaldy P. Moti said that the move to reduce further the housing loan interest rate under the program is in response to Philippine President Rodrigo Duterte's directive to give the underserved sector equal access to housing opportunities.

Moti explained that the Pag-IBIG Fund is able to subsidize the interest rate for minimum wage earners mainly because of the savings the Fund earns from its tax exempt status as provided for in its charter. He likewise cited the reforms the Fund implemented in recent years as contributing factors in the lowering of the interest rate.

"The reforms we have implemented, particularly the outsourcing of collections has, for the first time, resulted in a single digit 9.45% Non-Performing Loans [NPL] Ratio of the Fund. This means that Pag-IBIG's Performing Loans Ratio [PLR] greatly improved, reaching 90.55% as of March this year, from just 75% a few years ago," Moti said.

Pag-IBIG has achieved unprecedented accomplishments recently, according to Moti, which reinforced the Fund's standing as the top home financing institution in the country today.

Pakistan

↳ **By Syed Wasif Hussain, State Bank of Pakistan**

Risk Sharing Guarantee Scheme for low income housing

The Government of Pakistan in the Federal Budget 2017-18 has proposed a Risk Sharing Guarantee Scheme for low income housing. Under this scheme, the Government will provide 40% credit guarantee cover to Banks and Development Finance Institutions [DFIs] for home financing for up to Rs.1 million. It is proposed to allocate Rs.6 billion for this purpose. It has been decided that this facility will also be made available through micro-finance banks. (*http://www.finance.gov.pk/budget/budget_speech_english_2017_18.pdf*)

Housing for overseas Pakistanis

A high-level meeting, chaired by Finance Minister Ishaq Dar, reviewed some of the problems being faced by overseas Pakistanis and deliberated upon a proposal for introducing housing for them in Islamabad, the Federal Capital. The Minister expressed the confidence that the proposed housing for overseas Pakistanis would offer them an opportunity of safe and secure investment besides providing them quality residential facilities with all amenities. (*http://pakobserver.net/housing-for-overseas-pakistanis/*)

Khushhali Microfinance Bank, IFC conduct housing finance training

IFC, a member of the World Bank Group, conducted housing microfinance training in April 2017 at Khushhali Microfinance Bank. The objective was to enhance the capacity of the bank's loan officers on a new micro-housing product recently launched by the Bank.

The training comes as part of a wider IFC/Khushhali advisory partnership which commenced in April 2016, under which IFC is helping to develop a housing microfinance product targeting underserved communities of Pakistan. (*http://pakobserver.net/khushhali-microfinance-bank-ifc-conduct-housing-finance-training/*)

Chief Minister of Punjab invites Chinese investors to explore low-cost housing sector

Punjab Chief Minister Shehbaz Sharif held a meeting with a delegation of a famous Chinese company in housing sector, Rainbow, in Beijing recently and invited them to invest in the sector in Punjab that will directly benefit the common man.

The delegation, which was headed by company's President Ding Jian Wei, expressed interest to invest in construction of low-cost housing in Punjab. (http://pakobserver.net/khushhali-microfinance-bank-ifc-conduct-housing-finance-training/)

Indonesia

↳ **By Zaigham M. Rizvi**

Indonesia plans to transform housing sector

The One Million Houses program is one of the government's strategic projects. Through the program, launched in mid-2015, the government aims to provide adequate housing facilities to the low-income citizens and address the backlog or shortage of homes in various regions across Indonesia. To make these homes affordable the government set very low down-payment obligations for the purchase of homes under the program. It also subsidizes part of the purchase (subsidized mortgages) and eases administrative requirements for low-income buyers. The One Million Houses program is designed to alleviate Indonesia's housing backlog from 11.4 million homes in early 2016 to (a targeted) 6.9 million by 2019.

The program is aimed at helping people on lower incomes, many of whom live in poor accommodation. The government will continue its program to develop one million homes this year, taking into account a significant backlog in the program. Public Works and Housing Minister Basuki Hadimuljono said the government built 805,169 houses in 2016, compared to 699,770 homes in the previous year. "The demand for homes is still high. We have to continue the program," he said as quoted by tribunnews.com on Friday. He expressed hope that all stakeholders would support the government's program to provide people with affordable housing.

Meanwhile, ministry's Directorate General for housing Syarif Burhanuddin expressed his optimism that the government would be able to develop more houses this year because of reform in the permit arrangement. Syarif said the smooth funding support for the public homes would also help the smooth roll-out of new housing.

The composition of homes to be developed this year will not change: 700,000 homes for low-income families and 300 homes for those who have higher income, the official said. Last year, the government managed to develop 569,382 homes for low-income families and 235,787 for other members of society. (Source: http://www.thejakartapost.com/news/2017/01/06/govt-to-continue-1-million-houses-program.html)

The One Million Houses program requires total investment up to IDR 67.8 trillion (approx. USD $5 billion). The program is financed through the state budget (IDR 8.1 trillion), the BPJS employee social security program (IDR 48.5 trillion), the Housing Savings Advisory Board for Civil Servants known in Indonesia as Bapertarum-PNS (IDR 3.1 trillion), state insurance firm Taspen (IDR 2 trillion), state house developer Perum Perumnas (IDR 1 trillion), and the housing loan liquidity facility (IDR 5.1 trillion).

The One Million Houses program has not been running smoothly so far due to regulatory and land issues (for example the limited availability of land banks). Indonesia's Ministry of Public Works and Housing announced that until June 2016 around 120,000 housing units have been constructed under the program. Meanwhile, the budget of the ministry for the program has been raised to IDR 15.6 trillion in 2017 (up from 12.4 trillion in 2016) Source: https://www.indonesia-investments.com/news/todays-headlines/performance-indonesia-s-one-million-houses-program-better-in-2017/item7306?

World Bank approves new financing to support affordable housing in Indonesia

The World Bank's Board of Executive Directors has approved $450 million in financing to support the Government of Indonesia's efforts to expand access to affordable housing for low-income families.

Part of the financing will support the government's Mortgage-Linked Down Payment Assistance (BP2BT) scheme, which targets low-income, first-time homeowners. The scheme provides down payment assistance to match beneficiary savings and a market-rate mortgage from a participating lending institution. Additionally, the financing will also support the scaling up of the Home Improvement Assistance Program (BSPS), which targets the bottom 40% of Indonesian families.

"Indonesia is taking a major step forward through this program towards ensuring that low income households have access to an adequate, safe and affordable home. Providing Indonesian families with access to affordable housing is essential to increasing shared prosperity and reducing poverty in the country. Improved housing has further been proven to have a positive impact on public health, education and labor force outcomes"," said Rodrigo Chaves, World Bank Country Director for Indonesia.

Indonesia faces substantial demand for affordable housing, with one million new units needed annually. Around 20% of the 64.1 million housing units are in poor condition. Approximately 22% of Indonesia's urban population, or around 29 million people, live in slums. (Source: http://www.worldbank.org/en/news/press-release/2017/03/20/world-bank-approves-new-financing-to-support-affordable-housing-in-indonesia)

Europe: Consequences of persistently low interest rates

↳ **By Mark Weinrich**

According to Eurostat, consumer prices in the Eurozone increased by 1.9% year-on-year [YOY] in April 2017, following a 1.5% rise YOY in the previous month. Annual core inflation, which excludes volatile prices of energy, unprocessed food and tobacco, and which the European Central Bank [ECB] looks at in its policy decisions, rose to 1.2%. These numbers come close to the objective of the ECB which aims to keep inflation below, but close to, 2% over the medium term. So, is everything in order and inflation not an issue? No, it is an issue as inflation is creeping back into the market – through the back door. House prices have risen in almost all countries in the Eurozone, which has mostly to do with the cheap flow of money in Europe induced by the zero-interest rate policy and QE programs of the ECB.[1]

Low interest rates are of course good news for home buyers – but only if house prices do not go through the roof. When inflated house prices driven up by ultra-low interest rates start to outweigh the benefits of low mortgage rates, low interest rates become a double-edged sword for home buyers. In particular, future home buyers might end up being the biggest losers if they are caught between high house prices and rising interest rates. A rise in interest rates is quite likely, as ECB policymakers eventually must acknowledge an improved economic outlook and rising inflation. The question is only: when will it happen?

The ECB would be well advised to react soon as it is not only home buyers who are affected by the negative consequences of ultra-low interest rates. In April 2016, the Federal Reserve Board of Governors released a research paper that looked at bank profitability in advanced financial economies. Their findings show that net interest margins [NIMs] get narrower during low-rate environments. The Fed's research concluded that "low rates are contributing to weaker NIMs." In October 2015, the Bank for International Settlements [BIS] released a working paper on "The influence of monetary policy on bank profitability." Studying nearly 110 large banks in 14 advanced economies, the BIS found that "over time, unusually low interest rates and an unusually flat turn structure erode bank profitability."

It is therefore no surprise that representatives of financial institutions are not very happy with the current low-interest-rate environment. Yet at first glance, the conditions in which the banks are operating would appear to be perfect. After all, the ECB is – in return for the appropriate collateral – lending them unlimited amounts of money. The cost: 0%. However, the problem for credit institutions is that their profitability is affected by the difference between the lending rate and the interest rate at which they fund their lending, known as the interest margin. Since both the lending rate and the interest rate on funding normally follow the policy rate, the interest margin ought not to be affected by the level of interest rates. But at low and negative rates, the interest rate for funding might not fall accordingly. This is because banks have so far chosen not to expose households and companies to a negative deposit rate. This means in turn that banks' "deposit margins" (the difference between a market rate and the interest on deposits) are squeezed, which is particularly challenging for credit institutions whose business model depends on deposit funding.

Clearly, the policy of the ECB has a direct impact on business models and threatens to bring about considerable structural changes. A "low for long" scenario constitutes a far-reaching and permanent change to the conditions under which the financial system operates. System-wide sensitivity to liquidity risk and cross-sectoral interconnectedness are likely to increase, while the product choice for consumers and the resilience of the European banking sector is likely to decrease.

The protracted low interest rate environment not only puts pressure on the banking industry but threatens also the profitability and solvency of financial institutions that provide longer-term return guarantees, i.e. guaranteed-return life insurers and defined-benefit pension funds. In the long run this could render traditional guaranteed-return business models unviable, and could pose challenges in terms of recovery and resolution. The insurance and pension sectors are already moving from guaranteed-return to unit-linked business models or defined contribution plans, which means that the financial sector is withdrawing from the provision of longer-term return guarantees.

However, although defined benefit plans are steadily being phased out, they still account for more than half of retirement funds in the developed world. Millions of public sector workers, typically including teachers, police officers and firefighters – rely on defined benefit pensions for the bulk of their retirement income. The head of France's largest public pension fund warned last year that many retirement funds in Europe will "implode" if the ECB's low interest rate policy continues. Pension plans of companies suffer as well. Pensioners' payouts are guaranteed by law. Companies can only escape them in bankruptcy. But somehow these gaps must be filled. Either workers must be persuaded to accept lower benefits than they have been promised, or funds to fill the gap must come from other sources, meaning less money for companies, for investment, or for public services – or in short: for productive means.

As we look ahead, it will be interesting to see how and when an improving economy will influence interest rates. However, time is running out. We need a total rethink on the direction of monetary policy, not just in the EU but worldwide. There will be serious long-term consequences for the global economy if this does not happen soon.

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[1] The Harmonised Indices of Consumer Prices that Eurostat produces do not include any measure of housing other than actual rents, with a weighting of only 6%.

Latin America (and Caribbean) Round Up: Covered Bonds in LAC countries

↳ By Claudia Eloy

Covered bonds [CB] are old instruments that have regained attention after the Global Financial Crisis (due to their dual recourse and on-balance-sheet design), precipitating the enactment of dedicated regulatory frameworks in many countries all around the globe as a means of tapping into the two trillion euro covered bond market.

Latin America has become somewhat part of that trend. Yet, here, countries' overall bond markets are still relatively small, in international terms, with low shares of long-duration, local-currency, fixed-interest rate debt instruments, despite progress made since the late 90's, and early 2000's. While in Chile the market relies mostly on private bonds, in Brazil, Treasury Bonds are prevalent. LA&C countries also still exhibit a limited development of their mortgage markets, Chile being the most developed one, with a mortgage to GDP ratio that has exceeded 20%.

In order to expand and stabilize funding for mortgage loans in the region, regulation to enable the issuance of covered bonds has appeared in some countries, either through the development of new frameworks as is the case with Uruguay[1] and Peru[2], or by some addition to existing legislation, as in Chile (in Mexico there was a failed attempt). In addition, contractual issuances have occurred in Panama, where no dedicated legal framework has been enacted so far. Yet, the actual role of those bonds in the LA&C real estate credit market is still incipient, as the local case studies discussed below will show.

Covered Bonds in Panamá

An inaugural cross-border covered bond (a USD 200 million deal out of a USD500 million program) was issued by Global Bank in Panama, in September 2012, followed by another 100 million issuance in 2013[3]. Those were based on contractual agreements derived from securitization techniques through which cover assets were transferred to a guaranty trust with bond holders having a priority claim over them. In Global Bank's issuance, the cover pool was dynamic, composed exclusively of prime residential mortgage loans denominated in USD, with LTVs that ranged from 75% to 100% allowing arrears up to 90 days maximum.

Back then, there were expectations that other financial institutions (notably local units of European banks) would follow, but there have been no further issuances in Panama since 2013. Still, those bonds were never actively traded and Global Bank eventually bought back most of them, leaving an outstanding volume of roughly USD84 million.

Lack of investor interest in Panama's case can mostly be explained by the limited issuance size, which tends to make the investors' workload not worthwhile, notably in the case of structural issuances (where each contract may establish specific conditions) in a small mortgage market with limited growth potential. Moreover, if said issuer did not have a rated credit line with large international CB investors, it would be easier for those issuers that already had credit lines to sell senior unsecured bonds. Obtaining new lines for an issuer is a lengthy process and investors are only willing to do this for investments above a certain minimum level.

Bonos Hipotecários in Chile

Chilean Letras de Crédito Hipotecário[4] [LCHs] were reintroduced in 1977[5] after the collapse of the savings and loan system with life insurance companies and private pension funds as main investors allowing for 20 year maturity loans and fixed real interest rates. A strict pass-through mechanism, its market share started declining in the late 1990s and fell drastically after a wave of prepayment in the early 2000's. In 1995 LCHs accounted for 86% of housing loan portfolios, plummeting to less than 10% in 2012[6]. Then, the Mutuos Hipotecarios Endosables (endorsable mortgages) became the major form of housing loans and unsecured bank debt (Bonos Bancários) provided funding.

In 2010, Art.69 of banking Law 20448 regulated the Bonos Hipotecários [BH]. Additional regulation in 2012[7], incorporated credit indicator limits and specific loan granting policies as well as transparency and prudential objectives, making it operational. BHs were designed to raise funds for the origination of mortgage loans to finance the acquisition, construction, repair or extension of residential properties. After issuance, origination of eligible (new) residential mortgage loans[8] to form the cover pool can take up to 18 months[9] and the outstanding balance of mortgages, excluding any amount in arrears, is set at a minimum of 90% of the outstanding balance of bonds[10]. BHs have been given the same treatment and current legal status of outstanding LCHs in case of issuer's default, when a special procedure is triggered for those assets with liabilities clearly identified and associated with BHs in the Register.

According to the Covered Bond Fact Book (2016), Santander, the only issuer so far, has issued 2 BH Programs: one in 2013, amounting to a total of USD 134 million and the other of around USD 290 million in 2014. Amortizing term structures were of 15 years and 18 years, respectively, and

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1 Notas de Credito Hipotecarias, 2009.

2 Bonos Hipotecarios Cubiertos, 2010/11.

3 Covered Bond Fact Book, 2016.

4 Mortgage Bonds.

5 According to ECBC (2013), they were introduced back in 1855, by German immigrants, based on the concept of the *pfandbrief*. In 1930, economic depression led to delinquencies and the consequent extinction of long-term financial investments. Their reintroduction was first made viable by a Central Bank's fund dedicated to purchase LCHs, followed by the creation of Pension Funds and the indexation of LCHs.

6 According to Walker (2006) while in 1995 they represented 14% of GDP, by 2005, LCHs were down to 8% of GDP and accounted for 10% of fixed income investment portfolios, which comprised 53% of Pension Funds' total investments of USD 74.8 billion. Lack of flexibility (only new loans) and standardization and complex regulation; limited credit enhancement (relative to unsecured debt) coupled with the wave of prepayment that had not been fully priced are all factors that explain the fall of LCHs.

7 Circular 3542, Superintendecia de Bancos e Instituciones Financieras Chile (SBIF).

8 Eligible loans must comply with a maximum LTV of 80% plus a maximum debt-to-income ratio of 25%.

9 In case origination is not enough, funds can be invested in fixed income investment options authorized by regulation.

10 "Proceeds of issues can be invested in Treasury or Central bank bonds, other prime-quality debt instruments and bank deposits, while the loans to be included in cover pools are progressively originated. At any time afterwards, these assets can represent up to 10% of cover pools." (ECBC, 2013).

spreads were around 15bps lower than outstanding unsecured debt. In 2015, there were no issuances in the Chilean market;

"This lack of activity can be explained by the fact that the more relevant Chilean issuers already have the maximum credit risk rating (AAA), and therefore the double recourse guarantee provided by the BHs is currently not as valuable for the potential investors, specifically for banks, given that it does not provide an advantage in terms of capital consumption compared to standard corporate bonds."[11]

In October 2016, as Fitch Ratings updated its classification criteria for covered bonds (Covered Bond Rating Criteria) it stated that recourse over the cover pool was not "strong enough" in Chile, since cash flow could not be used directly for the repayment of the mortgage bonds in case of the insolvency of the issuer. Given the uncertainty regarding asset segregation coupled with the "lack of advanced banking resolution framework in the country", Fitch's rating classification of BHs resulted equivalent to senior unsecured bonds.

Recent changes to regulation (Circular SBIF 3617/2017) have allowed more flexibility regarding the timeframe to originate loans. Now loans originated before issuance of bonds may be eligible, as long as certain conditions are met[12] and that may encourage more issuers to tap into this market.

Bonos Hipotecários in Colombia

The model of covered bonds developed in Colombia, based on a pass-through structure resembles securitization instruments (Títulos Hipotecários) that already account for 25% of the housing finance market. Although eligible criteria reflect strictly regulated mortgage lending[13], the Bonos regulation does not require overcollateralization and prepayments are passed on to investors and if within 90 days after liquidation is decreed any of the solutions foreseen to segregate the cover pool are not in place, underlying assets are transferred back to the insolvency estate. This is a case where the covered bond model implemented does not differentiate itself enough from pre-existing investment alternatives, which, in smaller and/or emerging markets can compromise its attractiveness and development.

Bonos Cubiertos in Mexico

The Comisión Nacional Bancaria y de Valores [CNBV] proposed to modify regulation – specifically the Ley de Instituciones de Crédito [LIC] – in order to allow for the issuance of "bonos cubiertos", the Mexican version of covered bonds. LIC forbids banks to secure debt by loans over depositors' rights, therefore it would have to be changed to provide the ring fencing of cover pools for secured bond holders. In the Mexican model, eligible assets would be restricted to mortgages and infrastructure loans and issuance of covered bonds would be linked to minimum solvency levels. Yet, the draft law prepared in 2012 did not pass as the Central Bank opposed the changes in LIC.

In 2015, Infonativ (Fondo Nacional de Vivienda para los Trabajadores), the dedicated housing finance fund for private sector workers, and Fideicomiso Hipotecario [FHipo] raised over USD 250 million with the issuance of bonds guaranteed by mortgages (Certificados Bursátiles Fiduciarios) using securitization techniques that entail the transferring of the asset portfolios.

Letras Imobiliárias Garantidas in Brazil

Brazil, the major potential player in the region, is currently setting up the necessary regulation to introduce Letras Imobiliárias Garantidas [LIG], a local version of covered bonds, in the country. A dedicated law (13097) was passed in 2015, but detailed regulation to make it operational is still pending (a Resolution draft was presented in January 2017 under a public consultation process that ended on April 30th).

The Resolution is quite comprehensive and aligned with the European Banking Authority best practice analysis. It is even more conservative in regard to loan eligibility and it includes a Fiduciary Agent as Cover Monitor with broad monitoring duties as well as a mandatory Cover Pool Management Transition Plan, to be used in the case of insolvency of the issuer. The cover pool must be composed of, at least, 80% of first-ranking mortgages[14], and the remainder of Treasury bonds, derivatives and cash equivalents, plus an overcollateralization of 5%. The segregation of the cover pool is ensured by previously existing regulations: the fiduciary regime (Law 9514/1997) and the affectation regime (Law 4591/1964).

Depositors' priority over other creditors, a problem faced in Mexico, is not an issue here. Yet, proper differentiation from Letras de Credito Imobiliário [LCI], an unsecured on-balance sheet debt bond also underpinned by real estate loans (with a total stock of BRL 183 billion in December 2016), may turn out difficult, especially considering that the five major potential issuers of both LCIs and LIGs[15] already enjoy high ratings. Standard & Poors (in one of the 19 recommendations submitted in the consultation process) questions the fact that, in their view, the draft did not specify that in the case of an early maturity, triggered by the insolvency of the asset portfolio, it would imply immediate payment of all due obligations, or, a change to the special amortization regime. In the first instance, they say, they would probably not be able to differentiate the rating of the LIG from that of the issuer. The final version of the Resolution is expected to be published within a couple of months and should address all relevant recommendations in order to foster well performing covered bonds and develop this market to its potential.

Estimates, based on credit portfolios, signal that issuances could amount to around BRL 400 billion[16]. The country's economic recovery, the declining interest rates paid by Treasury bonds and the need to expand funding for mortgages indicate that this may be a good time for the introduction of LIGs.

Back to the LA&C region, as the ECBC (2013) observes, a set of broad and specific conditions must be met for the covered bond market to take off here. A fundamental condition is the regulatory environment: issues related to depositors' structural subordination, sound lending standards, foreclosure procedures, land registration and titling systems. These, together with a properly designed covered bond model[17] that ensures quality, security and transparency allow local covered bonds to resemble European benchmarking and attract international investors. Last, but certainly not least, a reasonably stable macroeconomic environment to foster longer-term financing and a sufficiently liquid secondary market are required for covered bond markets to flourish. For smaller LA&C

[11] ECBC Covered Bond Fact Book 2016, p.258.

[12] http://www.sbif.cl/sbifweb3/internet/archivos/norma_11482_1.pdf

[13] LTVs limited to 70% or 80% for ordinary loans and loans of social interest, respectively; the debt servicing-to-income ratio limited by law to 30%; and mandatory property insurance.(ECBC, 2013).

[14] LTVs limited to 60% and 80% for commercial and residential loans, respectively, top risk classification (AA and A), and mandatory property insurance

[15] 5 biggest banks in the country: Banco do Brasil, Itau, CAIXA, Bradesco e Santander. All, except for Santander, with total assets that exceed BRL 1 trillion.

[16] Magalhães Eloy, 2017.

[17] Stöcker (IUHF 2011 and 2014).

countries, lack of scale may present obstacles in terms of costs and size of issuance and may demand innovative approaches such as cross-border pooling models.

Standard & Poors predicted, at the beginning of last year, that new covered bond issuances were unlikely in Latin America. The stepping in of Brazil may change this forecast. Only time will tell…

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Bubbles, Memory and Governments

↳ By Alex J. Pollock

It does not seem possible that in a reasonable, let alone a rational, world, housing bubbles or other financial bubbles could actually happen. Yet obviously they do, and indeed happen fairly frequently, historically speaking, always followed by a bust. They provide us an enduring and fascinating puzzle.

The United States had two housing finance collapses, in the 1980s and 2000s, in the space of three decades, with a tech stock bubble in between in the 1990s. Japan had giant, simultaneous bubbles in real estate and stocks in the 1980s, whereas the U.S. bubbles were sequential. Europe joined in during the 2000s with housing bubbles in England, Ireland and Spain, and then a bubble in the sovereign debt of weak governments, notably Greece. All these historically recent bubbles happened in advanced financial systems, with plenty of information, computers, financial models, analysis, rating agencies, well-educated bankers and investors, ever-busy government regulators and supposedly stabilizing central banks.

These are just a few of a great many financial crises: the International Monetary Fund counted 147 banking crises around the world since 1970. Carmen Reinhart and Kenneth Rogoff's list of banking crisis since 1800 is 45 pages long.

It is eleven years since the mid-2006 peak of house prices in the spectacular 21st century U.S. housing bubble. Ten years ago, in mid-2007, the deflation of that bubble had begun. At the time, prominent voices, including the Chairman of the Federal Reserve and the Secretary of the Treasury, were denying that there would be a financial crisis. Nevertheless, there was.

New generations who were teenagers in 2006 and not yet born in 1980 are joining the housing finance, banking and investment ranks. Stock and bond prices have soared, with central banks manipulating interest rates to historic lows and stock market indices making record highs. For those who did live through the last bubble, memories will be growing less sharp and in time will fade and optimism grow. U.S. house prices have been rising for five years and are back over their 2006 peak in nominal dollars. In Canada, which survived the last crisis well, house prices and household debt are at all-time record highs.

"The mercantile community will have been unusually fortunate if during the period of rising prices, it has not made great mistakes," wrote Walter Bagehot in his 1873 banking classic, Lombard Street. True then, true now. (The "mercantile community" of course includes the banks.)

Bagehot continued: "Such a period naturally excites the sanguine and the ardent; they fancy that the prosperity they see will last always, that it is only the beginning of a greater prosperity. They altogether over-estimate the demand for the article they deal in, or the work they do. They all in their degree – and *the ablest and cleverest the most*… trade far above their means."

"Trade far above their means" means they take on too much debt. I have italicized "the ablest and cleverest the most" to emphasize the role of many of the smartest people in inflating the bubble. Some of the most intelligent people can make the biggest mistakes. Professional investment managers feel they have to join the party or be left behind. "Fear of missing out strikes terror into the heart of portfolio managers," as a recent market commentary said.

So, as Bagehot observed, "Every great crisis reveals the excessive speculations of many houses which no one before suspected, and which I indeed had not begun or had not carried very far those speculations, *till they were tempted by the daily rise of price*."

When a bubble is expanding, and prices seem to be inexorably rising, even conservative savers and investors, and careful borrowers, after a while begin to feel the temptation of the price rises. They come to doubt the wisdom of their conservatism. At every dinner party, they have to listen to other guests telling about how much money they have made in the speculations of the bubble, and how they made even more if they are using borrowed money – by flipping houses with 100% loans, for example, or buying stocks on maximum margin. Finally, the conservative savers may come to feel like suckers: "Why am I always missing out?"

Envy is one of the seven deadly sins, but it is hard for the conservative savers not to feel it at these dinner parties. If on top of that, they are feeling stupid, the combination of envy and feeling stupid is hard to bear. As was sardonically observed by economic historian Charles Kindleberger, "There is nothing so disturbing to one's well-being and judgment as to see a friend get rich." However, there is one thing even more disturbing than that: to see your brother-in-law get rich!

The result is that the conservative savers may finally plunge in at the top of the housing or equity or bond market and live to regret it.

Wealth is measured by the prices of things. But what is a price? It is an agreement among parties to exchange a certain amount of money for something at a particular point in time – a house, land, some stocks, junk bonds, gold, or anything else. The price has *no objective existence*, and needless to say, the price of any investment asset can change a great deal. They go up much more than expected in the boom, and they fall much more than expected in the bust.

In a bubble, prices and wealth are an illusion created by the bubble. When bubbles collapse and shrivel, people are said to have "lost their wealth." But they haven't really lost it, since it was never really there.

If the dizzying rise in prices, so disturbing to the judgment, has been heavily financed by banks, the panicked fall of prices will force major losses on the banks. This creates dilemmas for the governments involved. Should they protect the depositors in the banks by bailing out the banks, or let the correction of the now-evident pricing mistakes impose huge and widespread losses as the bubble prices evaporate? Facing great uncertainty and the possibility of a generalized collapse, modern governments always decide to intervene and use the taxpayers' credit and money to offset the losses of the financial firms in the name of financial stability.

The 21st century bubbles, their shriveling, and the large government interventions that followed, have filled dozens of books and memoirs, hundreds of articles, and untold hours of media babbling. But the debates about whether governments should save the financial firms sunk by their price speculations goes back at least to 1802, when Henry Thornton, in *The Nature and Effects of the Paper Credit of Great Britain*, discussed the issues.

Key to the problem is that people all over the world long for their bank deposits to be risk free. But these deposits fund businesses which are inherently very risky. This is especially true in the financing of real estate.

In principle and in fact, it is impossible to make riskless deposits out of the risky business of banking and mortgage lending. But governments everywhere insist on trying to do it anyway. They are therefore frequently put in the position of wanting to protect depositors by moving losses from the lending institutions to the taxpayers, as was again prominently the case in the last crisis. Also, by moving interest rates to near zero, and keeping them negative in inflation-adjusted terms, governments shift the losses to savers. I estimate that the interest rate policy of the Federal Reserve has cost U.S. savers more than $2 trillion since 2008.

Since bubbles are a recurring reality and memories always fade, the risks can only be moved to different forms and imposed on different people, not eliminated, and there can be no absolute safety. So it is, and so it will be.

***Alex J. Pollock** is a distinguished senior fellow at the R Street Institute in Washington DC, USA. He was president and CEO of the Federal Home Loan Bank of Chicago 1991-2004, and president of the IUHF 1999-2001.*

The growth and institutionalisation of South Africa's rental housing sector

↳ By Josie McVitty

1. Introduction

South Africa is demonstrating the business case for the development of a rental housing sector in emerging markets and how it can be done. Over the past decade, rental housing in South Africa has progressively become more formalised and institutionalised. From backyard shacks, informal or small-scale rentals, there has been an expansion in the delivery of large-scale and well-managed affordable rental properties and the establishment of residential portfolios, which are now becoming tradable as Real Estate Investment Trusts [REITs] on the Johannesburg Stock Exchange [JSE]. These advances have allowed rental housing to become an increasingly attractive and liquid asset class for investors, at the same time as expanding the availability of quality rental housing stock for households.

This article identifies some of the critical steps in the development of the rental sector and the key actors that have driven this innovation, from private sector operators and developers, financial institutions, and property managers, as well as the emergence of better market information and application of technology to the sector.

South Africa's story of the establishment of a rental housing sector provides an important model for other emerging markets, particularly in African cities, where rental housing is the predominant mode of living for urban residents.

2. Sector context and early stages of rental housing market

MACRO-CONTEXT

South Africa, like many countries in emerging markets, has experienced rapid urbanisation over the past two decades. Almost two-thirds of the national population of 55 million people now live in urban areas. An additional 3.9 million people are expected to be added to South Africa's cities between 2010 and 2020, putting strain on housing supply and existing stock.

HOUSING DEMAND

There is an estimated housing deficit of at least 1.2 million housing units in South Africa, and annual demand for housing in the order of 200 000 units per year. Since the end of Apartheid in 1994, the government has put a strong political focus on affordable housing delivery, with more than 3 million freehold units delivered as part of the Reconstruction and Development Programme [RDP].

GAP MARKET

Although, these programmes have achieved ambitious levels of housing delivery, the heavy financial burden on government of financing completed units have limited their reach. Furthermore, many households fall outside the qualification criteria for public subsidies. This has become known as the "gap market" pertaining to those households earning above the R3 500 per month threshold, and the growing segment of the population earning between R18 000 to R25 000 per month, where there is capacity to pay for housing, though very limited supply.

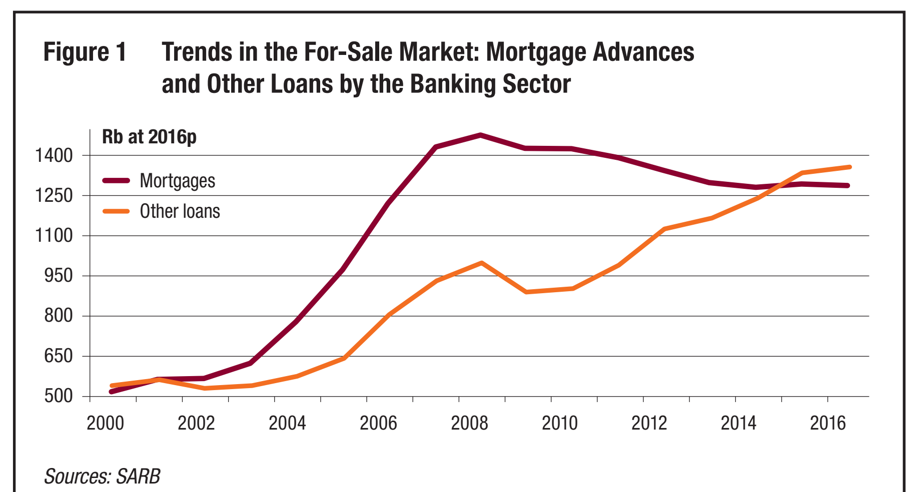
INFORMAL RENTAL SECTOR

South Africa has always been home to a large number of small-scale private housing providers, who partially fill this gap. Urban Landmark reports that of the 2.4 million South African households that rent their primary accommodation, 850 000 (35%) occupy small-scale private rental units. This equates to approximately 10% of all South African households. Of these, around 53% are estimated to be formally constructed, with the balance (47%) consisting of informal dwellings, including shacks in backyards. This sector has developed without any direct state support. Quality of the housing is often poor, to the point that homes are not always a secure or healthy place of residence.

SLOW-DOWN OF THE FOR-SALE MARKET

In terms of private sector delivery, South Africa experienced a rapid growth in mortgage finance from 2000 to 2008 that partially responded to the housing needs in the gap market. Part of this growth was stimulated by the Financial Sector Charter, which pushed banks to lend housing finance to a broader range of the population, as well as private sector developers historically focused on the construction and sale of freehold units. However, the economic slow-down and impact of the global financial crisis resulted in a tightening of lending criteria and buyers facing affordability constraints. This has reduced the

Figure 1 Trends in the For-Sale Market: Mortgage Advances and Other Loans by the Banking Sector



Sources: SARB

effective demand in the for-sale market, which has yet to recover, and resulted in a parallel growth in the rental sector.

GROWTH OF RENTAL HOUSING IN CITIES

Where investors and developers were unable to sell and transfer units to the open market, the focus shifted toward letting properties out for rental. At the same time, certain players recognized the opportunity to refurbish and retrofit dilapidated office blocks and infrastructure in the central business districts [CBD] of major cities, which were left under-utilised following the capital flight from South Africa's inner cities in the 1990s.

SUPPLY OF RENTAL HOUSING

One such early mover that focused on the rental housing sector was the Trust for Urban Housing Finance [TUHF], which was founded in 2003 to provide debt finance and coaching to inner-city property entrepreneurs. Inspired by the opportunity that empty buildings in the inner-city of Johannesburg provided, TUHF has successfully supported inner-city property entrepreneurs to refurbish a large number of under-utilised properties into units for rentals. Since inception, TUHF has reported financing over R2 billion into inner city projects, resulting in the delivery of 518 properties, or 20 377 units, with 136 011m² of existing buildings converted to residential. Furthermore, of the 245 entrepreneurs receiving financing from TUHF, 21% are female and 63% are from historically disadvantaged backgrounds.

SCALING-UP OF RENTAL HOUSING SUPPLY

Meanwhile, a group of larger scale providers of rental housing emerged through the 2000s, namely the Africa Housing Company [Afhco], Premium Properties and International Housing Solutions [IHS].

THE AFRICA HOUSING COMPANY

Afhco has operated in the inner city of Johannesburg since 1996, targeting affordable rental accommodation for those earning around R10,000 a month. Afhco has now become one of the city's largest rental housing companies, having developed a portfolio of over 5,500 units since inception, through the conversion of more than 60 inner-city office buildings into affordable rental housing. This portfolio, valued at R1.5 billion, has been coupled with investments in the neighborhoods surrounding the buildings, including parks and facilities in the inner city. One landmark project, known as Atkinson House, was carried out with the support of a R150 million loan from the Agence Francaise de Developpement [AFD]. This project resulted in the conversion of a heritage building into a low-cost property of 470 units catering for the lowest earners in 20m² studio flats with shared ablution facilities.

PREMIUM PROPERTIES

Meanwhile, in Pretoria, the Wapnick family became one of the early backers of the rental housing sector via Premium Properties' conversion of office buildings into residential accommodation. They converted their first inner-city property into housing units in 1998 to meet the demand for quality and affordable accommodation. Managed by an in-house property management company, City Property, Premium Properties merged with sister fund Octodec in 2015 creating a portfolio of residential, retail, office and industrial properties valued in the order of R12 billion. Of this portfolio, Octodec owns 8,860 residential units, primarily made up of bachelor and two-bedroom units, with average monthly rentals ranging from R3,600 to R5,500. Residential makes up just over 30% of Octodec's total portfolio, and promises to expand in time, with three major residential projects worth R708 million currently in construction.

INTERNATIONAL HOUSING SOLUTIONS [IHS]

IHS also played an important role in the development of investment-grade residential assets with equity investments in affordable rental housing. A private equity firm with impact-oriented investors, IHS partnered with developers on new-build housing projects, which IHS subsequently owned and managed as rental stock, developing a portfolio of almost 8,000 rental units in its first fund, the South Africa Workforce Housing Fund. Although initially externally managed, IHS developed its own property management business in 2015, IHS Property Management Ltd, in order to maintain better control of these assets and achieve better performance. In-house property management has become an important feature of all successful residential housing providers in South Africa demonstrating the specialised skills required in residential compared to other property asset classes.

CHANGING THE TYPOLOGY

These innovative actors diversified the housing offering available to households, from the single-story stand-alone homes, to higher quality inner-city rentals in high-rise properties, and newly-built 3 or 4 story walk-ups at urban peripheries. These new typologies offered secure living at a reasonable cost to the tenant, where rental housing providers could maintain affordable rentals through careful tenant vetting, high-quality property management and lower operating costs.

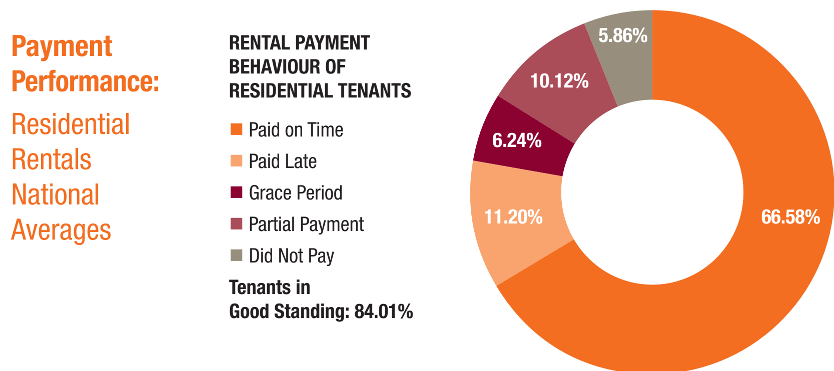
IMPROVED MARKET INFORMATION

As the number and scale of rental housing providers increased, so has the market information related to the rental sector. Better information and management procedures have allowed providers to more effectively manage their risks of vacancies, arrears or operating costs and maintain a steady income stream. An important actor in this space has been the Tenant Profile Network [TPN].

THE TENANT PROFILE NETWORK

TPN started in 2000, with the goal of creating a shared database among landlords to register tenants' conduct and prevent delinquent tenants from abusing property managers or re-letting in another's buildings. In 2007, TPN registered as a credit bureau and their database is now the largest credit bureau in Africa specialising in vetting tenants for rental properties, providing landlords with invaluable information.

Figure 2 Payment performance for residential rental housing



Sources: TPN

CREDIT-WORTHINESS OF TENANTS

Investors and lenders can now rely on a track record of payment information on tenants. TPN has determined that tenants are more inclined to default on short-term credit, unsecured and secured credit, or other credit facilities before defaulting on rent. For the third sector of 2016, the latest published results, around 84% of tenants in the network were in good standing, made up of 66.57% who paid on time, 6.24% paid during the grace period, and 11.2% paid late.

RENTAL DEMAND CHARACTERISTICS

Furthermore, TPN data shows us that demand is concentrated amongst households who are renting below R7 000 per month, with almost 80% of tenants renting in this bracket. The majority of these tenants (55%) are renting between R3 000 and R7 000 per month, which has become the dominant "sweet spot" for the institutional providers of rental housing, due to affordability, the depth of the market and profile of tenants in this segment.

Figure 3 Share of rental housing for each rental band

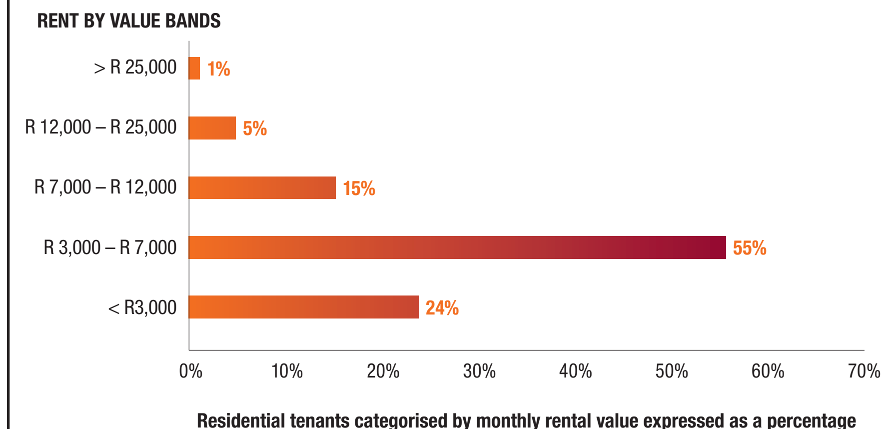


Figure 4 Good standing records by rental bands

	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	National Average
< R3,000	57.70%	6.50%	11.67%	12.60%	11.52%	75.87%	84.01%
R 3,000 – R 7,000	68.77%	6.42%	11.28%	9.61%	3.92%	86.47%	84.01%
R 7,000 – R 12,000	73.52%	5.11%	9.74%	7.77%	3.86%	88.37%	84.01%
R 12,000 – R 25,000	66.73%	5.93%	11.78%	10.08%	5.48%	84.44%	84.01%
> R 25,000	53.27%	8.83%	15.21%	14.67%	8.02%	77.31%	84.01%

FINANCIAL SECTOR

The increased availability of sector information and the track record of rental housing providers have also made it easier to attract financial institutions to fund rental housing projects. The large banks have become increasingly open to provide debt to finance projects and with more competitive terms, allowing better returns for equity investors. The offering of financial products has changed, including interest only term loan facilities, priced at rates of prime or less, with minimal service fees, as well as less restrictive covenants. Better debt terms, as well as the improved tradability of residential assets, marked by the advent of yield sales of residential properties, has made rental housing a more attractive investment option for institutional investors and opened the way for listings on the public market.

3. Expanding residential exposure in the REIT market

SOUTH AFRICA'S GROWING REIT SECTOR

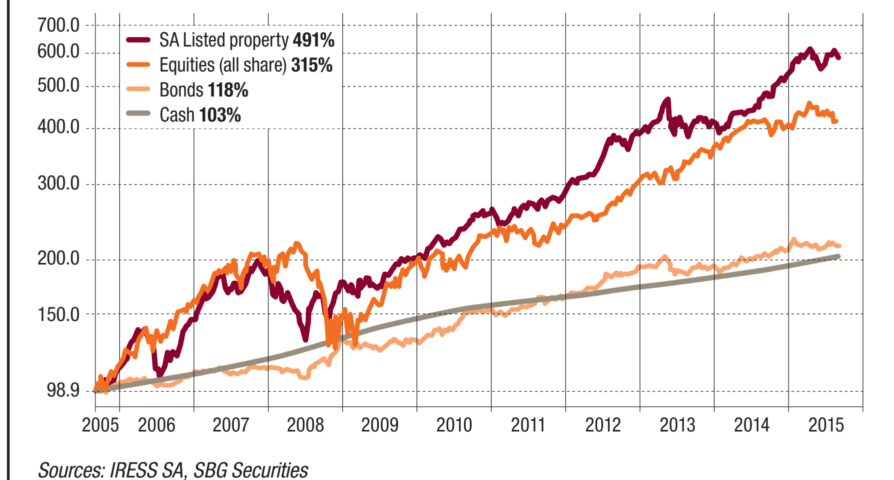
While REITs only became formally legislated in May of 2013, the listed property sector has a long history and strong track record in South Africa. As of January 2017, the South African REIT market consisted of 31 listed REITs with a total market capitalisation of R320 billion.

REIT PERFORMANCE

Growth has been achieved in part because the listed property sector in South Africa has consistently outperformed other asset classes, including cash, equities and bonds. The overall sector has achieved an annualized return of 17.5% over the past 10 years, 340bps more than equities and has grown 2.5 times in terms of market capitalisation through capital raising, consolidation and new listings.

South Africa's REITs have also largely traded at a premium to Net Asset Value and outperformed the direct property sector, reflecting both the confidence in the property sector as a whole, as well as the attractiveness of the liquidity that holding shares in listed property allows. For listed property, capital growth has averaged 10.1% from 2006 to 2014, compared to

Figure 5 Performance of SA listing property vs. other asset classes, 2005 – 2015



Sources: IRESS SA, SBG Securities

6.6% for direct property. Over this period, total annual returns for listed property have been at 18.7%, compared to 15.9% for direct property.

SHIFT TOWARD RESIDENTIAL ASSETS EXPOSURE

Due to the increased availability of investment-grade rental properties, major listed funds have started building up exposure to residential interests to diversify conventionally commercial-focused REITs. Examples include Arrowhead Properties, Octodec Investments, Redefine Properties, and SA Corporate. Within the past 2 years, there has also been the listing of two funds with a specialised residential focus – the Transcend Residential Property Fund and Indluplace Properties.

OCTODEC

The Wapnick family venture, focused on the inner cities of Gauteng, became one of the first listed funds with a significant residential exposure. Octodec's property portfolio of almost R12 billion, comprises over 13,000 tenants, and derives from 30.9% residential, 28.9% retail shops, 21.9% offices, 10% shopping centres, and 8.3% industrial. The merger with Premium Properties in 2015 gave investors a sizeable exposure to the rental housing market and, as mentioned earlier, the outlook is to continue to develop a pipeline of residential assets to respond to the insatiable demand for rental housing.

SA CORPORATE

In July 2014, SA Corporate, one of the largest SA REITs, with a total portfolio of R12.4 billion, acquired Afhco's inner city portfolio of R1.034 billion. This acquisition increased SA Corp's residential exposure to 14% of its book. Together with SA Corp, the Group has ambitious plans to further consolidate their dominance in the rental space, and will continue to develop and acquire suitable buildings with a current pipeline of 1,500 units to be delivered by 2018. As part of this expansion, SA Corporate announced a joint-venture with Calgro M3 Holdings in 2016, one of South Africa's major developers who have developed a focus on new-build affordable residential. SA Corporate has stated an ultimate goal of reaching property investments in the residential market in excess of R10 billion with a focus on SA metros, cementing their confidence in the sector.

INDLUPLACE PROPERTIES

Indluplace Properties became South Africa's first specialised residential fund, listing a portfolio of 94% residential (3,690 units) and 6% retail assets on the JSE in June 2015, valuing the portfolio at R1.6 billion. Established by Arrowhead Properties, that still retains a 60% shareholding, IndluPlace projected a forward yield of 8.4% for FY2016. Since listing, Indluplace has increased the value of its properties to over R2.2 billion, and increased its residential book to 115 properties and almost 5,400 units.

TRANSCEND RESIDENTIAL PROPERTY FUND

Transcend became South Africa's second specialised residential REIT when International Housing Solutions [IHS] listed a portfolio of rental properties on the JSE in December 2016. The company's stated focus is to acquire yield-accretive rental properties, specifically targeting the affordable housing market and middle-income households. Transcend currently holds a portfolio of 13 properties, comprising 2,472 units, which target rentals of between R3 000 to R7 000. The REIT offered an initial forward dividend yield of 8.5%, and is also pursuing aggressive expansion plans, with access to a pipeline in the order of R2 billion.

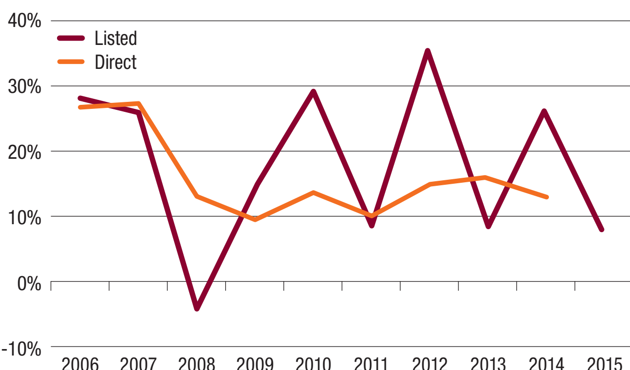
GROWTH POTENTIAL

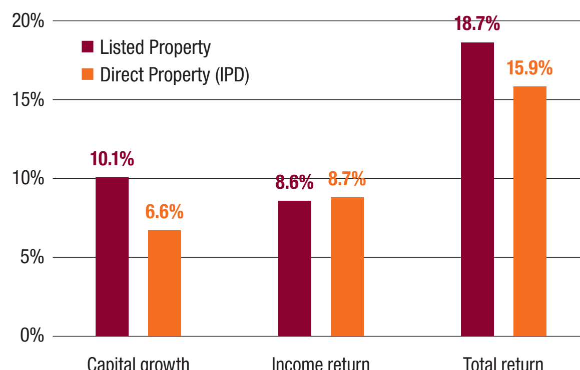
SA REITs are still largely only focused on retail, office and industrial investments. Retail accounts for 48.9% of South Africa's listed property exposure, while offices account for 31.9%, and industrial assets account for 14.9%. Residential property only makes up of 1.6% of the total exposure, compared to around 13% of the total listed USA REIT market and 15.6% of the MCSI Global Index, indicating substantial room for growth. In the coming years, as South Africa's investors become more aware and knowledgeable of the defensive nature and profitability of the rental housing sector, we can expect rapid growth both in the REIT sector as a whole, which only comprises 4% of the JSE, and particularly in the residential asset class.

4. Outlook for the residential sector in South Africa and elsewhere

As portfolios of residential rental properties that are suitable for listed companies expand, the promise of growth of the residential REIT sector is evident. Residential listings in South Africa will allow investors to diversify from the traditional commercial and retail property sectors, as well as attract new institutional investors, such as pension funds and insurance companies with long-term funding.

Figure 6 Performance of listed property as compared to direct property





Source: MSCI, I-Net BFA

APPETITE FOR RESIDENTIAL INVESTMENTS

Particular strengths of the residential sector include strong market fundamentals, which are driven by sustained demand and the overwhelming shortage of affordable, well-managed rental housing in South Africa, as evidenced by low vacancies and consistent achievement of rental escalations. Although the market has recently slowed, demonstrating the tough operating environment currently being experienced by most of SA's listed property companies, the depth of demand for affordable accommodation and appetites of the listed funds and investors alike, are expected to further drive the new production of residential rental housing. In time, it is expected that residential income funds will become even better established as an important defensive hold, achieving steady returns that track inflation, while presenting lower volatility and more growth opportunity than the traditional listed property sectors.

Furthermore, as investors' understanding of the housing market increases, we can expect in time that there will be a differential of asset types within the residential market. This would allow for different classes and quality of rental housing property to trade at different yields, given the performance, capital growth potential, and value of the underlying asset.

INNOVATIONS IN PROPERTY MANAGEMENT

The application of technology will play an increasingly important role in improving management systems. Several examples that are in wide use today include remote-controlled access control systems, improving the management of tenants' access to properties. In addition, remote sensoring and prepaid metering for water and electricity allows landlords to monitor usage of services and identify issues early, as well as achieve maximum cost recovery from tenants.

GREENING OF HOUSING

Another important innovation is the "greening" of units. Many funds are applying the green certification methodology developed by the IFC, known as EDGE. To achieve green certification, the EDGE tool requires interventions that achieve a 20% energy savings in water consumption, electricity usage and the embodied energy in construction materials. Many of these interventions are low-cost value-additions in new build properties, such as low-flow shower heads or LED lighting, yet they can result in large savings in costs once the property is tenanted. IHS was the first investor to back green-certified residential housing in Africa, with a 188-unit development in Boxburg, East Johannesburg. The Green Building Council of South Africa now reports that over 5,000 units have achieved green design certification and are in construction, with a pipeline of many more.

SOCIAL RENTAL AND GOING DOWN-MARKET

In the government sector, the Social Housing Regulatory Authority [SHRA] has played an important role in advancing the public rental sector and regulating social rental housing providers. SHRA supports affordable housing, by subsidising the capital costs of projects (up to 65%) enabling subsidised units in projects to be offered to tenants with monthly household incomes of between R1,500 and R7,500. Since 2012, private sector institutions were also eligible to apply for subsidy funding through the SHRA to support the provision of social housing (encouraging integrated settlements). Although participation has been limited to date, SHRA has recently undertaken major reforms, including new legislation to change the target income bands, which will enable other delivery agents to qualify for subsidies. These types of measures will likely play an important role in incentivising and allowing private sector housing providers to move down-market in the coming years.

INNOVATIONS IN FINANCING

There have been continued innovations to attract investors into the affordable rental sector. One example took place in January 2017, when TUHF came to market with a R280 million tranche of a R1 billion Domestic Medium Term Note [DMTN] on the JSE. The issue brought in large-scale investors including Sanlam, Stanlib and RMI – Old Mutual's Futuregrowth and Mergence funds, showing new ways to access debt capital markets to fund rental housing development. We can expect these types of innovations in the sector to continue.

RESIDENTIAL HOUSING IN AFRICA MARKETS

Beyond its borders, the formalisation and growth of the rental housing sector in South Africa over the past decade also demonstrates the potential in other developing nations, particularly in Africa. African cities are dominated by rental tenure, due to the informality of incomes and inaccessibility of mortgage finance. However, there are few examples of large-scale providers of formal rental accommodation. Furthermore, only 40% of the population in Africa live in cities, compared with developed nations where rates of the urban population can be as high as between 70 and 80%, indicating a high rate of urban growth and need for housing in cities in the years to come.

Though the growth in housing demand and need is apparent, these markets are still very much in their nascent phases. Following the lessons of South Africa, the opportunity for the emergence of a new wave of local entrepreneurs and seed investors focused on making quality rental accommodation available is evident. Many of South Africa's funds and investors in the rental market have already expressed interest in entering Sub-Saharan Africa, yet local actors and regulators will need to play the lead in creating the building blocks of an institutional rental sector. The benefits will prove to be wide-reaching, from the positive social impact demonstrated in South Africa of establishing quality income-producing properties and affordable accommodation for city-dwellers in emerging markets, to enabling economic gains, better labour mobility and a more efficient expansion of cities.

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Vietnam's housing market: a snapshot

By Huynh Duong[1]

1. Introduction

Today's Vietnam housing market is home to professionalizing banking and real estate development sectors that have paved the way for market-rate housing products accessible by up to 70% of the population. After the real estate market crash of 2009 and subsequent recovery starting from late 2012, the market has witnessed a broadening of product types that has led to the popularization of efficiently designed condos and apartments in secondary locations on the fringe of urban centers, with base prices of 700 million VND (~31,000 USD) and affordable to those at the 30th percentile of national household income and above (i.e. making 6 million VND a month and above) if mortgages are utilized. On the demand side, mortgage interest rates now hover at 7.5%, stabilized since 2014 and accompanied by LTVs of 70%+ and 15+ year loan terms. This is a welcome change from the days of 15+% lending rates in 2009 and 2011, periods flanking the real estate market downturn of 2009.

From 2012 until the present, the optimistic outlook of Vietnam's housing market carries a story of stabilized growth, broadened housing prices that reach further down market, and rapidly professionalizing development and financing capacity. These positive indicators, while accurately reflecting the professionalized real estate market, have been accompanied by a range of challenges.

On the supply side are the following key hurdles: high density self-built urban housing needing infrastructure upgrade, an underdeveloped rental market coupled with acutely under-met and ever-growing rental demand, lack of systematic interventions to address a dire need for industrial labor housing, and the constant presence of inflated prices and increasing volume in the high-end residential market.

The housing finance sector has steadily grown over the past two decades, but the challenges faced by the demand side are no less daunting: continued absence of much needed long-term liquidity for real estate lending, prevalence of informal income and the accompanying need for creative underwriting, and an uncertain lending environment after the conclusion of the government 30 Trillion VND stimulus package.

BOX 1: MARKET SNAPSHOT

1986 – Vietnam gradually reopened its doors to regional and global trade. The Doi Moi (meaning *change*) era began.

Late 1990s – The market made the transition from the dominance of state owned enterprises across major sectors (agriculture, construction, finance, etc.) to private companies. The real estate market began to materialize, as land speculation and construction picked up on a scale beyond household-level smaller projects. Land became a preferred means of wealth accumulation and preservation, due to lack of alternative financial and investment instruments.

1990s to 2000s – Major real estate development projects became mainstream. Urban planning and infrastructure investment continued to lag behind construction activity. The market began treating real estate as largely a speculative tool, and professionalization of development, construction, and management fell short of levels required for the scale of production. Real estate products outpaced and outmatched demand in both volume and pricing, leading to the creation of a bubble. Residential real estate sales primarily took place using cash exclusively.

Mid 2000s – Vietnam gradually became a major manufacturing hub for global companies. Industrial zones were established, and manufacturing jobs became a major driver for rural to urban migration. Migrant workers housing demand continue to be largely unmet, and overall housing conditions worsened with overcrowding.

2009 – Vietnam's real estate market crashed, due to both internal market forces and tremors from the global recession caused by the housing bubble in the US. Inflation skyrocketed (peaking at 23% in 2008 and 18.5% in 2011[2]), coupled with high interest rates in the mid-teens and slower overall economic growth.

2012-present – The market crash weeded out previous developers lacking strong finances, land reserves, and professional capacity. Banks began to consolidate and reforms were introduced to increase lending prudence. The introduction of the 30 Trillion Stimulus Program (30T Program) in 2012 helped boost housing demand and mortgage penetration. Inflation experienced stable decline (reaching 4% in 2014) and interest rates stabilized around 7.5%.

Outlook – Mortgage and real estate lending will face an uncertain future as the 30T Program winds down and no long-term liquidity solutions have materialized. Real estate development will continue its steady path to further professionalize and diversify offerings, though high-end residential prices continue to grow, stoking fears of a bubble in the near future.

BOX 2: NOTABLE STATISTICS HIGHLIGHTING VIETNAM'S HOUSING CLIMATE

75% – proportion of Vietnam's existing housing stock constructed by individual families, micro-builders, and small-scale developers, 2015. Total housing stock was approximately 22 million units in the same year.

20% – proportion of Vietnam's population living in poor housing conditions, according

[1] Author's note: the following snapshot of Vietnam's housing sector has been based on the author's previous work as part of the production team behind the World Bank's 2015 work *Vietnam affordable housing; a way forward*. For an in-depth assessment refer to the aforementioned report. Market insights have been up dated in April 2017, using the author's latest research.

[2] World Bank global statistics.

to government housing quality standards. By 2040, this number is projected to stand at 50%.

374,000 units – annual urban housing production needed to address currently under-housed populations and urban population growth.

11,500 hectares – annual stock of urban land needed for housing development to close the housing deficit.

15% – rental housing's proportion of Vietnam's housing stock, or 3.3 million units nationwide. Rental demand is concentrated in urban areas, making up roughly 26% of households in Ho Chi Minh City (HCMC), and in industrial jobs, which make up 20% of all urban employment and many of which are fielded by migrants.[3]

8% – real estate's share of total bank lending in 2015.[4]

2. Housing supply

Vietnam's housing stock falls into two major categories: small scale mostly self-built, and high-density developer-built. Since the 1980s, self-built housing has made up a majority of the housing stock. The 1990s saw construction State Owned Enterprises [SOEs] give way to private developers in housing production. As the economy rapidly expanded with widened trade, financial markets and investment instruments have yet to catch up, and real estate cemented its reign as the preferred means of wealth preservation, accumulation and speculation. These dynamics coupled with underdeveloped urban planning and poor infrastructure development feed into a history of scarce urban land reserves and perpetually inflated land prices.

The construction boom that began in the 1990s, came to a halt when the market crashed in 2009. Thanks to the financial drought and purge that followed, many speculative companies got weeded out of real estate and only companies with land reserves, strong financial footing, and development capacity could remain. As professionalized development rode through its cycle, households also experienced similar economic woes in the self-built sector.

75% of the country's housing stock in 2014, was produced by a conglomeration of households, micro-builders, and small-scale developers. A majority of these are urban tube houses[5] squeezed between one another, jam packed against narrow under-serviced lanes often 1.5 meters wide – lanes that are often flooded and spill into the homes in heavy rain. Together, the tubes and lanes make up a quilt of high-density urban jungle that serves as the backdrop for neatly built residential towers rising across Ha Noi and HCMC. Over the years, Vietnam's urbanization progress could be seen from the street level upgrades that have spread across the country. Previously dirt packed neighborhood lanes were turned into paved mini roads, and wi-fi managed to serve nearly every middle-income residence. However, Vietnam is far from effectively upgrading sorely aged sewage, transportation, and utility systems across its urban centers.

For Vietnam, it should be emphasized that to assess housing sector performance, global metrics of homelessness or slum areas carry relatively small significance. Vietnam is a society propped up by familial networks of dependencies that serve as last resort safety nets for housing. Overcrowded poor living conditions are rampant, but statistically, few are left wandering the streets. As for slums, their existence by global standards is limited to a few unique cases such as shanties built along Kenh Te canal in HCMC. There are plenty of poor neighborhoods across both Ha Noi and HCMC, but income levels within each can be diverse, with lower income households living alongside better-off families. Such a dynamic is driven by land ownership, whereby many families have owned the same lot for multiple generations. It should be noted that, for Vietnam, citizens control land through Land Use Right Certificates that practically function and trade as freeholds. However, ultimate ownership of all land rests with the government.

Land ownership by multi-generational families stands in stark contrast to the plight of the population at the core of Vietnam's housing challenge: migrant workers, a majority of whom hold industrial jobs. Industrial jobs make up 20% of all urban employment nationally, and contribute significantly to rental housing demand. On-site dormitories are common within larger industrial complexes, but their total stock is outmatched by total worker housing demand. Migrant laborers often resort to renting small and poorly constructed and maintained units from nearby landlords. Such rental housing is largely unregistered and violates construction and size guidelines. As Vietnam continues to woo foreign companies to set up factories in the country, its desire to offer operational costs competitive with production powerhouses like Bangladesh and Indonesia will hinder the introduction of government requirements for firms to provide workers' housing.

The stock and condition of self-build high-density urban housing will continue to pose a challenge for housing sector improvements and urban planning. 20% of the country's population lives in poor housing conditions, as reported by government studies. By 2040, this number is projected to stand at 50%. Those at the 30th percentile of national household income and below, particularly the urban poor, are plagued by overcrowding, dire need for maintenance, and poor infrastructure access. HCMC currently has 476,000 families without permanent housing solutions or living in overcrowded conditions alongside other family members[6]. With the 30T Program, the government of Vietnam had hoped to increase social housing production to serve low income families. However, despite healthy production levels in 2016 and 2017, social housing continues to struggle to overcome demand deficits. In 2016, the government supported 179 social housing projects, 97 of which served industrial workers and 82 of which served low income households. 2016's total yearly production came to 71,500 units, 3.7 million square meters, and 25,900 million VND of development cost.[7] Many of these projects have been in the pipeline since the launch of the 30T Program in 2012 and relied on the program for favorable project financing. The beginning of 2017 saw plans for 70 projects for industrial laborers and 121 for low income households. As the program wraps up, it is unclear whether all of 2017's planned projects will occur.

Despite production levels, as of April, completed and projected 2017 stock only meets 28% of goals laid out by the government through the

[3] WB, 2015. Author's research as part of author team behind the 2015 World Bank Report – Vietnam Affordable Housing: A Way Forward.

[4] Bloomberg: *https://www.bloomberg.com/news/articles/2015-12-06/mortgages-replace-sacks-of-cash-in-vietnam-as-buyers-seek-loans*

[5] Tube houses are rows of houses immediately adjacent to one another. A sample typical tube house can be 6 meters wide by 25 meters deep. All the varying sizes consistently have similar narrow long proportions. In some extreme cases, houses can be 4 meters wide. Clusters of tube houses make up neighborhoods lined with small access roads and lanes. Tube houses can be located both tucked away from the main roads and as the façade facing main thoroughfare.

[6] Conversations with HCMC government officials conducted by CafeF, a Vietnam news portal: *http://cafef.vn/tphcm-dang-thieu-hon-80-nghin-nha-o-xa-hoi-20170217102958287.chn*.

[7] Ibid. Data from Ministry of Construction, via CafeF: *http://cafef.vn/xay-dung-191-du-an-nha-o-cho-nguoi-thu-nhap-thap-20170308081218958.chn*.

National Housing Strategy 2020. Between 2017 and 2020, demand is poised to generate a deficit of 81,000 units. A slowdown in social housing production will continue to exacerbate the situation for the urban poor, particularly in HCMC and Ha Noi.[8] During 2017, HCMC will complete 4 social housing projects totaling 1,654 units. This is a pale comparison to national social housing production in 2016 of 71,500 units.[9] Thankfully, the market has been responding to increased consumer demand and capacity with more affordable products.

Through efforts to diversify and increase sales, major developers have been joining the trend of developments in secondary locations on the urban fringes that cater to middle income households. As an example, VinHome, the residential arm of one of Vietnam's largest conglomerates Vincom, launched VinCity 2016 as a middle-market product. VinCity promises production over the next five years of 200,000 to 300,000 units with a baseline price of 700 million VND (~31,000 USD). Previously, the residential market rarely saw good quality products by brand name developers selling below 40,000 USD. For developers, the 2009 market crash that curbed speculation also meant a need to reconsider strategies of purely targeting luxury and high-income buyers. The emergence of young professional households breaking off from multi-generational living arrangements further drove demand for smaller and more affordable products.

There is a positive trend of luxury housing production tapering down. In 2016, among different price tiers for condos, HCMC saw a desirable decrease in luxury supply, while affordable new stock dominated the picture at 37% of total new supply. Over the 2017/2018 period, according to CBRE projections, luxury condos will taper down in production and sales, giving room for mid-end and high-end condos to round out supply. Due to this trend, luxury housing prices have also tapered down and steadied.

As a result of changing demand, apartment floor plans have scaled down. As the market started recovering in 2012 and the years after, unit sizes have been trending down. Smaller units and more efficient design layouts have helped developers offer lower prices to appeal to a broader middle-income consumer base. In a similar trend, the market started producing more one- and two-bedroom condos, while scaling down larger unit types. The smaller units, still centrally located, fit the demand of young households looking for an on-budget first home without sacrificing location. As both Ha Noi and HCMC suffer from worsening traffic congestion and have a sore need for major investment in transportation infrastructure, demand for central locations will remain strong, suggesting a continuance for the trend towards smaller units.

Meanwhile, amenities and professional property management have become commonplace in middle-market developments. Changing market demand have also forced developers to offer more amenities to stay competitive, regardless of the price range. Particularly for locations on the urban fringe, swimming pools, green space and access to nearby retail and market locations are key to attracting city-- based households. VinCom retail centers, previously products of major cities, have come to areas like Thu Duc, a semi-urban fringe city outside of HCMC, to complement the market appeal of its VinCity line.

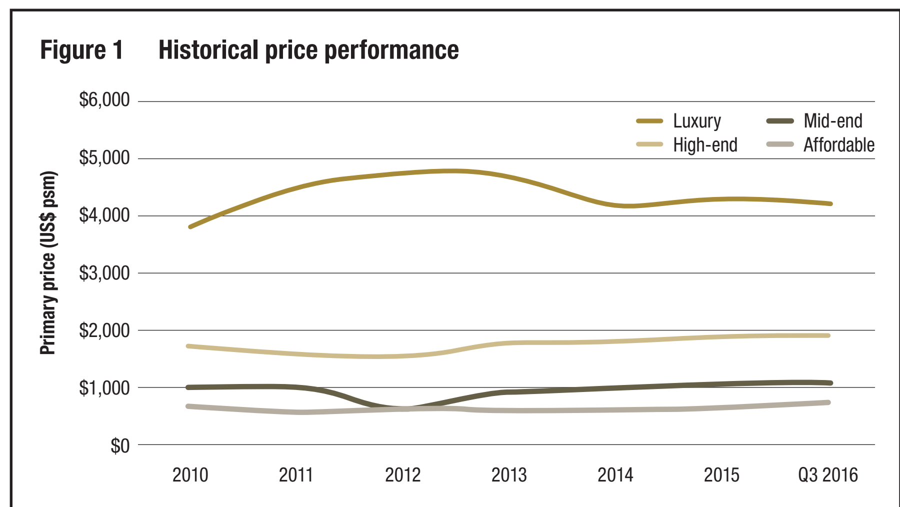
The rental market continues to be dominated by small scale landlords, without significant entry by developers. Professional developers of residential real estate overwhelmingly stick with condos. When matched against high development costs and often inflated sales prices for new high-rise projects, rental levels have remained low and do not promise the desired returns for developers. Where rentals are available in new high-rise developments, they are offered by condo owners. Due to lack of scale in rental operations, the rental sector is sorely in need of professionalization and tenant protection. For landlord households, legal hurdles, such as the requirement to register as a business and construction standards, incentivize informality.

3. Housing demand

The mortgage sector in Vietnam remains underdeveloped, but has shown signs of growth and sophistication. Real estate lending made up 8% of total lending in 2015, with mortgages a small but growing segment of that share. In 2011, mortgage lending accounted for 3% of GDP. The State Bank of Vietnam (SBV) reported 9.3%, 22%, and 9.4% levels of mortgage growth year-over-year for the respective periods ending in 2011, 2015 and 2016. Notably, 2015 saw the biggest growth as lending under the 30T Program peaked. Growth performance can also be attributed to market recovery after the 2009 recession, and stronger fundamentals in the banking sector.

Between 2015 and 2016, Standard Chartered Bank Vietnam predicted that the mortgage market would grow by 3 billion USD. This might be an overly optimistic outlook. According to World Bank data, Vietnam's total lending in 2015 clocked in at 5.3 billion USD[10]. On the front of overall national credit, SBV predicted growth at 20% in 2016, matched against actual growth of 17.6% in 2015. For their part, developers have also been exploring the viability of in-house lending arrangements, such as rent-to-own contracts. Developers have also reported an increase in consumer mortgage use in recent years. Nam Long, a reputable developer of middle income housing in HCMC, reported that 80% of its 2015 sales used mortgages, as compared to 30% in 2012/2013.[11]

Figure 1 Historical price performance



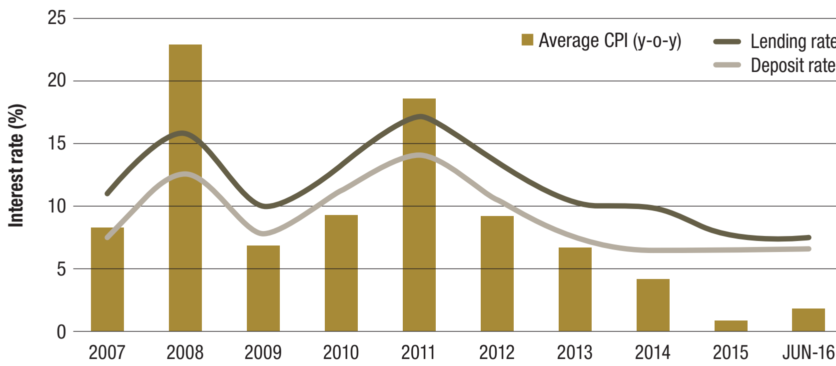
[8] Ibid. Data from the Ministry of Construction, provided through CafeF: http://cafef.vn/xay-dung-191-du-an-nha-o-cho-nguoi-thu-nhap-thap-20170308081218958.chn.

[9] Ibid. CafeF: http://cafef.vn/tp-hcm-se-ban-1654-nha-o-xa-hoi-cho-nguoi-thu-nhap-thap-20170212204908025.chn.

[10] World Bank global statistics.

[11] Bloomberg: https://www.bloomberg.com/news/articles/2015-12-06/mortgages-replace-sacks-of-cash-in-vietnam-as-buyers-seek-loans.

Figure 2 Rates and inflation (source: CBRE)



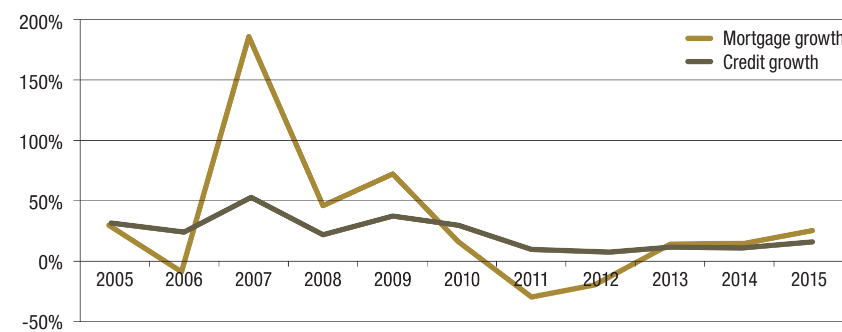
Source: Vietnamese general Statistical Office, State Bank of Vietnam

Figure 3 A snapshot of current mortgage products from commercial banks (source: CBRE)[12]

BANK	YEAR 1 INTEREST RATE	MAX LTV	MAX LOAN TERM (YR)
Vietcom Bank	7%	70%	15
Bank for Investment and Development Vietnam (BIDV)	7%	100%	20
Military Bank (MB)	8%	90%*	15
Vietnam International Bank (VIB)	8.50%	80%	20

** as % of borrowing demand*

Figure 4 Vietnam's mortgage and credit growth[16]



Source: CIMB, SBV

Between 2014 and 2016, deposit rates steadied and lending rate decreased and stabilized.

The banking sector is reorganizing after a period of high rates of non-performing loans [NPLs]. NPLs currently clock in at approximately 4.2% in 2014 as compared to regional peers (Philippines, Thailand, Malaysia and Indonesia all have NPL ratios at 3% or below). For banks, an infantile foreclosure system further contributes to the damage level caused by NPLs. Foreclosure service providers and foreclosure markets are practically nonexistent, forcing banks to turn to developers to foreclose, which carries the effects of NPLs over to the development sector. Developers often opt to incur losses rather than foreclose, for fear of tarnishing their brand and dissuading future buyers.

The government's flagship 30 Trillion Stimulus Program (30T Program) is winding down its successful run, but the future of mortgage lending remains unclear. Launched in 2012, the program sought to incentivize developers and lenders to cater in higher volume to the housing needs of middle income households. The program required banks to set aside specified volumes of lending at lowered interest rates, both for mortgages and development loans for developers. As of June 2016, the program has managed to reach 75% of its 30T lending goal entirely through banks' lending efforts from their own capital. In 2017, for existing loans already disbursed under the 30T Program, interest rates remained 5%, the same as 2016 levels[13]. The program reached 56,000 beneficiaries, and the State Bank of Vietnam is working with the Vietnam Bank of Social Policy to propose a plan for ongoing lending after the 30T Program ends. VBSP is seeking 1 trillion VND of funding to focus on social housing loans, a significant scale down from the 30 trillion previous program[14]. As part of directives linked to its Housing Law of 2014, the government of Vietnam continues to require government-owned banks to allocate 3% of total lending toward social housing loans.[15]

From 2013, with pressure from the State Bank of Vietnam, many smaller banks have gone through mergers and acquisitions to consolidate capital, strengthen lending practices, and restructure portfolios. By 2020, SBV aims to push the sector to downsize from 30+ banks to 18 banks. This is a welcomed change from the previous landscape of a multitude of smaller under-funded and under-performing banks that had often fallen short of capital reserves and loan performance standards. In 2007, shortly before the market crashed, mortgage growth stood at nearly 200% year on year [YOY], matched by 50% in overall credit growth YOY. Loose lending practices were the main contributing factor for such growth, which resulted in the high NPLs of 2014. Thanks to consolidation and enhanced professionalization of the banking sector, since 2013 YOY

[12] CBRE 2016 Market Report HCMC.

[13] Voice of Vietnam: http://vov.vn/kinh-te/vay-goi-30000-ty-tiep-tuc-huong-lai-suat-5nam-trong-nam-2017-583271.vov.

[14] Department of Housing and Real Estate Market Management, Ministry of Construction, via Vietnam News: http://vietnamnews.vn/economy/297632/sbv-set-to-extend-13b-housing-plan.html - uuA2FwJBKvsfqHGF.9.

[15] Chung Cu Group: http://chungcugroup.com/nam-2017-nha-o-xa-hoi-va-nha-thu-nhap-thap-se-co-2-goi-vay-moi/.

[16] Driehaus Capital: http://driehauscapitalmanagement.com/pdf/funds/summaries/Driehaus-Frontier-Emerging-Markets-Fund_DRFRX_summary_0216.pdf.

growth for both mortgage and over credit have stabilized at roughly 25% YOY.

SBV's tightening of banking regulations brings hope for continued stabilization of the mortgage sector. The state bank's control efforts are in direct response to fears of a rapidly overheating market that might mirror pre-2009 conditions. Starting in January 2017, SBV raised the risk weight of mortgages at commercial banks from 150% to 200%. Thanks to SBV's efforts, the Loan-to-Deposit Ratio of the banking system dropped from 107% to 88% between 2010 and 2014[17]. In 2016, SBV specified that banks cannot use more than 60% of short-term funds for medium- and long-term lending, including mortgages. That ratio has been reduced to 50% in 2017, and will drop to 40% in 2018[18]. However, Vietnam still lacks the financial institutions and instruments to deliver the long-term liquidity needed to feed growing mortgage demand and borrowing capacity. Banks will doubtlessly be unwilling to pass up on opportunities for lending expansion. For example, HD Bank, a significant player in the mortgage market, reported a mortgage volume of 40% of total lending in 2015, which had tripled since 2012.

On the front of loan underwriting, the credit system is underdeveloped and informal income is the norm. To the extent that credit history is available through each bank, such data does not paint the full picture of lending risk due to the prevalence of informal income in the Viet economy. Banks often resorted to creative income tracking methods. For self-employed borrowers or business owners, banks would reconstruct cash-flow and earning capacity based on lengthy on-site observation of business practices, in-depth interviews, and review of income statements. International banks are the most conservative, choosing to focus on the two highest income quintiles and to avoid lending to informal income borrowers.

Despite headway in the diversification of housing products and prices, low levels of financial inclusion challenge affordability. As of 2015, only 20% of the population has bank accounts and only 10% actively use accounts for regular transactions. These metrics reveal the reality that the trend of mortgage volume growth has been largely driven by middle and high-income consumers with strong financial literacy and formal incomes. At current mortgage interest rates, families earning above the 30% income decile can afford starter homes with prices around 700 million VND with adequate borrowing. However, due to low banking penetration, the lower priced housing units will continue to go to a mix of families well above the 30% decile threshold and families purchasing entirely in cash after many years of saving. Because commercial banks prefer to lend to borrowers with a banking history and formal income, informal-income households with housing purchase capacity needing at least 50% of their housing financed will find mortgage access near impossible. Such consumers will have to rely on alternative and informal means of financing from sources such as relatives, friends, and community savings groups. For as long as mortgage access is limited, the housing sector will continue to struggle to provide options that meet the housing deficit.

[17] IMF, 2014.

[18] VN Express: *http://e.vnexpress.net/news/business/vietnam-s-central-bank-imposes-more-control-on-property-loans-3410485.html*.

Shared ownership – learning from the UK

↳ **By Anna Clarke**

1. Introduction

Shared ownership is a hybrid tenure that allows households to part-own and part-rent their home. It makes up a substantial and increasing proportion of new-build Affordable Housing in the UK (around a quarter in 2014-15)[1], and is now set to be further expanded substantially in England. This is part of a wider drive to increase owner-occupation, and shared ownership is becoming part of a complex array of different products targeting first time buyers unable to afford full ownership.

At the time of writing, the future of some of these products is somewhat uncertain due to the recent general election and lack of mention of some of these in the Conservative manifesto. This article explores how shared ownership looks set to fare in the UK in what is potentially an increasingly crowded field, where housing associations, buyers and mortgage lenders all have a growing choice of products.

2. Shared ownership in the UK context

Shared ownership has been in operation in the UK for over 35 years and has been expanded in recent years in response to growing concerns about the affordability of market housing. Average UK house prices are currently £216,750, and £484,716 in London (Source: Land Registry). Median household incomes, however, are estimated at £26,400 (Source, Office for National Statistics) and £39,100 in London (Source Greater London Authority), meaning that large numbers of younger households wanting to own their own homes are unable to do so.

Shared ownership allows buyers who cannot afford to purchase a home in full instead to buy a share of a home. The freehold of a shared ownership home is usually owned by a not-for-profit housing association, although this is currently being extended to private sector providers. Shared owners purchase between 25% and 75% of the lease, usually with the use of conventional mortgage finance from high street lenders. Owners then pay "rent" set (within upper limits imposed by the HCA) at around 3% of the value of the unsold share, to the housing association, although they have full responsibility for maintenance of their home.

The latest available data suggests that there are 165,723 shared ownership properties owned by Registered Providers (housing associations) in England (Statistical Data Returns, 2016). The Northern Irish Government has data shows that 8,014 homes are currently owned in this way in Northern Ireland[2]. In Scotland and Wales, the latest available data suggests 25,705 and 4,476 respectively (2011 Census). Overall these figures would suggest that around 200,000 UK households currently live in shared ownership.

The size of the sector varies considerably between regions with the highest number of sales in London (2,900 in 2013-14) and very low numbers in the North East and Yorkshire and the Humber. The total number of sales of shared ownership fell between 2007/8 and 2009/10, in line with the overall housing market fall, linked to the global financial crisis, but has risen substantially since then.

Data from the Scottish Government shows that there were just 156 shared ownership dwellings built in Scotland in 2015/16, a fraction of the number of open market shared equity purchases. There are shared ownership schemes run by local authorities in Wales but there appears to be no data collected centrally on the scale of these. Meanwhile, in Northern Ireland 728 households purchased shared ownership homes (termed 'Co-ownership' in Northern Ireland) in 2015/16. This suggests that the large majority of shared ownership sales are in England, with the largest numbers in London and the South East.

Despite its long history, shared ownership overall remains a niche tenure in the UK, housing fewer than 0.5% of UK households. In part, this is because shared owners have a right to buy further shares in their home – usually moving to full ownership – through a process known as 'staircasing'. The proportion staircasing each year is very low (generally under 5%), but nevertheless a new supply of shared ownership homes needs to be developed to keep pace with those lost to the sector through staircasing. The finance for such homes should – in principle – be available through recycling of staircasing receipts, though in practice growing house prices and falling initial shares sold to new buyers mean that one for one replacement may not always be straightforward for housing associations to provide. The sector is also small because newbuild housing forms only a small contribution to the overall housing sector in the UK – a country with over 28 million homes has, in recent years managed to increase supply by an average of only 165,000 dwellings a year over the last ten years – a 0.6% increase per year. Of the newbuild housing, around a fifth is built by housing associations, and, of that, less than half has been shared ownership (with most housing association new-build being for rent) in recent years. The majority of UK housing was built in the 19th century, or first half of the 20th century, before shared ownership was developed.

3. Plans for expansion

Construction of new shared ownership in England in the four-year period 2011-2015 was 41,000 (DCLG).

There is no nationally collected data in the UK on development plans for shared ownership. A newly-formed group of housing associations (the National Housing Group), however, has started producing data covering a substantial proportion of the market. Between them, these associations own nearly 100,000 shared ownership units, around half the estimated number in the UK. Their data on delivery plans is shown below:

[1] Affordable Housing is defined in the UK as housing below market rents or prices, provided to eligible households whose needs are not met by the market. It can include rented housing and forms of low cost home ownership, such as shared ownership.

[2] *Northern Ireland Housing Statistics 2015-16*, Northern Ireland Statistics and Research Agency, December 2016.

Table 1 Shared ownership stock, sales and pipeline

		NUMBER
Current shared ownership stock (March 2016)		97,501
2015-16 output	■ Sales of new-build shared ownership	4,416
	■ Resales of shared ownership	2,292
2015-16 loss of shared ownership	■ Staircasing to 100% at point of resale	756
	■ Other staircasing to 100%	1,234
Partial staircasing		633
Future plans	■ Shared ownership built but not yet sold, under construction and in contract for future development	24,598
	■ Delivery ambitions per year over next 3 years	13,015

Source: (Clarke, et al., 2016)

This data on future plans suggest that housing associations responded to the refocussing of government grant away from rented products (see below) in the 2016-21 Affordable Housing Programme and their plans would grow the shared ownership sector in line with government ambitions, with three times as many units per year planned over the coming three years as built in 2015/16.

4. An increasingly crowded marketplace

The planned expansion of shared ownership is taking place in an increasingly crowded marketplace with new products being developed which may compete for buyers, funding, land or finance.

Housing affordability has worsened in recent years, especially in London and the south of England, leading to falling rates of owner-occupation. Increasing rates of owner-occupation has been on the political agenda of successive governments, though prior to 2010 the Labour administration also retained a focus on social rented housing. The recent (Conservative) UK Government announced a strong drive towards increasing access to owner-occupation and has targeted subsidy to this end via a range of products, all designed to help facilitate access to owner-occupation (or part-ownership) which include shared ownership and 'Starter Homes', rather than towards rented housing. It hopes that private developers will start to deliver shared ownership to compete with housing associations for developing and managing the properties though there is little indication of this occurring as yet. The November 2015 Spending Review and Autumn Statement announced an ambitious plan to expand shared ownership by building 135,000 shared ownership homes by 2020. To put this in context, only 41,000 shared ownership homes were built during the period 2010-2015, so this represents more than a three-fold increase. These plans, were, however curtailed somewhat in late 2016 in favour of allowing housing associations more flexibility in the tenure of housing developed, though the extent to which this will have altered plans remains to be seen.

There are a variety of challenges to expanding the sector – demand, affordability, finance, land and mortgage finance. The potential for competition for each of these with the growing array of other products also presents a new challenge for shared ownership.

The following schemes are also currently running, or planned, which will help households to access home ownership and which potentially cut across the shared ownership market in England:

4.1. Starter Homes

Starter Homes were introduced in the 2016 Housing and Planning Act, and the first ones are set to be built in 2017. They are newbuild homes for first-time buyers aged between 23 and 40 with incomes of up to £80,000, or £90,000 in London. Starter Homes are to be sold at a 20% discount on market value when buying the property. The Government initially set a target of 200,000 to be built by 2020, though this was later revised to include shared ownership, Help to Buy and Right to Buy homes (see below) as well, suggesting the number of new Starter Homes could be very much lower. The original requirement on local authorities to require 20% of all new homes to be Starter Homes has been dropped and local authorities have now been given discretion over this target. £1.2bn of funding was made available to fund some of the discounts in 30 pilot areas. It was proposed originally that buyers could sell at full market value after five years, but this was then increased to 15 years, after pressure from mortgage lenders, who were concerned that buyers would overpay and the true market value of the homes could therefore be difficult to ascertain[3].

4.2. Help to Buy and Lifetime ISAs

Help to Buy ISAs[4] were introduced in late 2015 and allow buyers throughout the UK to save into a tax-free saving account, an ISA, which the Government will then top up by 25% towards their first house purchase, up to a maximum of £3000. However, only a year after announcing this, the Government then announced a new *Lifetime ISA* which was launched in April 2017 and operates along similar lines but can be used for either house purchase or retirement. Would-be first-time buyers can have both types of ISA but can only access a bonus for house buying from one of them, and the Help-to-Buy scheme is set to close in 2019. Properties can be purchased on the open market and must be worth no more than £250,000 (or £450,000 in London), and purchasers can use their ISA towards buying a shared ownership home.

4.3. Help to Buy Equity Loan

The *Help to Buy Equity Loan* was launched in April 2013 in England, although it was essentially a rebranding of the previous HomeBuy Direct and FirstBuy schemes. The Government lends the buyer up to 20% of the cost of a new-build home (or 40% in London). The buyer needs at least a 5% cash deposit and can get a mortgage for the remaining 75% of market value. No fees are payable on the loan for the first five years, but are payable at 1.75% of the original loan per annum after that, rising by RPI plus 1% each year. When the buyer sells the home, they must pay back the share that the Government contributed – in proportion to the home's selling price. There are no income limits; existing homeowners are eligible alongside first time buyers; and homes bought can be worth up to £600,000. Similar schemes operate in Wales and Scotland. The rebranded scheme has proved popular with over 100,000 properties bought in England through the scheme in the period 1 April 2013 to 31 December 2016 (DCLG, live tables).

Developers may also run their own shared equity schemes where they retain a share of the ownership, making it easier for buyers to afford. Savills estimate that at least £1 billion worth of

[3] Housing White Paper: Fixing our broken housing market, February 2017.

[4] ISAs are Individual Savings Accounts, a tax free investment product promoted by Government.

loans were allocated to shared equity schemes by developers in England between 2008 and 2014 (Savills, Spring 2014).

4.4. The Right to Buy

The Right to Buy allows local authority tenants to purchase their home at substantial discounts on market value of up to £78,600 (or £104,900 in London). The scheme has been available to local authority tenants in the UK since the 1980s (though it was withdrawn in Scotland in 2016), and over 1.8 million homes have been sold under the scheme in England alone, around half in the 1980s when generous discounts and lower house prices made the scheme very popular. Discounts were reduced in the early 2000s but since 2012 have been increased, making the scheme more generous than it was for many years. The 2015 Conservative Government stated that it wanted to expand the Right to Buy to housing association tenants, which would potentially double the number of eligible social housing tenants. The housing association scheme is currently being piloted with a view to being rolled out, though there is as yet no commitment from the Government as to when this will happen, and it is likely to be on a controlled basis because the government has agreed to reimburse housing association for the discounts offered. The impact on shared ownership demand is likely to be fairly limited, even when the housing association scheme is fully operational, because only a small number of shared ownership purchasers move from social housing, though this group is likely to find the Right to Buy much more attractive financially.

4.5. Rent to Buy

These newly built homes will be available to tenants at around 20% below market rent for five years and aimed at tenants who are saving to buy their own home. The Government stated that it aims to deliver 10,000 by 2020/21. Buyers can purchase their home within five years, including on shared ownership terms if they wish.

Applicants are eligible if they earn less than £80,000, do not own another home (except in limited circumstances) and are unable to purchase a suitable home independently. The scheme operates through housing associations who may also prioritise certain groups for housing.

5. Potential competition between schemes

Assuming these schemes go ahead as planned and are implemented by the incoming new government, there are several key issues that arise from the array of different schemes available:

They may compete for funding and land – housing associations have limited resources and may not prioritise shared ownership if other schemes appear more attractive.

They may compete for buyers. Those able to afford Starter Homes or equity loans will pay no rent on the 20% discounts (or 40% in London), making that scheme potentially more attractive than shared ownership. It has been suggested that in order to compete effectively with these schemes, shared ownership may need to focus on low initial shares (Savills, April 2016).

They add further complexity to an already complex field of different products. Shared ownership products become further complicated by "legacy products" – no longer being built but still coming up for resale, with their accompanying lease and resale restrictions still in place. It is this last issue that causes most concern to lenders.

The position of shared ownership could be further undermined if, as has been suggested, the government allows Starter Home purchasers to access Help to Buy equity loans.

The table below sets out the most likely impact on demand from buyers resulting from each of these schemes:

Table 2 The impact of competitor products on buyer demand for shared ownership

SCHEME	LIKELY IMPACT ON DEMAND FOR SHARED OWNERSHIP	GROUP AFFECTED	PROPORTION OF SHARED OWNERSHIP PURCHASERS LIKELY TO FIND OTHER SCHEME MORE ATTRACTIVE	LEVEL OF IMPACT
Starter Homes	Negative – a 20% discount is much more attractive than shared ownership purchase of 75% where rent is payable on the unsold share, and its value is held by the housing provider.	Aged under 40, able to afford 80% market value.	Up to 10%. 72% of shared ownership purchasers are aged under 40, but only 10% of them purchase over 50% shares (CORE).	Significant impact on purchases of higher share value shares. Limited overall though could be much greater if Help to Buy equity loans are allowed on Starter Homes.
Equity loans	Negative – no fees are payable on the unsold share for 5 years, making it more attractive than shared ownership.	Able to afford 80% market value, or 60% in London. Under 40s are likely to find Starter Homes a better deal.	Up to 5% (only 10% of shared ownership purchasers currently purchase over 50% shares; 72% are aged under 40 (CORE), and therefore likely to find Starter Homes a better deal).	Significant impact on purchases of higher share values. Limited overall.
Right to Buy extension	Negative – for eligible HA tenants the Right to Buy is a much more attractive scheme offering substantial discounts.	Housing association tenants, especially long-standing ones in cheaper parts of the country.	Up to 8.5% (8.5% of shared ownership purchasers are social tenants (CORE), some of whom will be LA tenants).	Low – because small numbers of purchasers are eligible.
Help to Buy ISAs	Positive – ISAs can be used for shared ownership purchase, as well as full ownership.	Buyers who save for a number of years before buying.	N/A – can be used on shared ownership too so not a competitor product.	Minimal – available on shared ownership and outright purchase but capped at £3,000 subsidy.
Rent to Buy	Positive – Rent to Buy purchasers can buy along shared ownership lines.	Rent to Buy tenants who are unable to afford full purchase after 5 years.	Up to 30% increase (Government target of 10,000 households 2015-18. If half of these sought shared ownership at the end of their five-year period this would add around 3,000 shared ownership buyers a year – compared with around 10,000 shared ownership sales per year currently).	Could be substantial if Rent to Buy is popular and house prices rise over next five years leaving tenants unable to buy in full.

Source: Adapted and updated from (Clarke, et al., 2016)

6. Housing costs comparison

In order to explore the likely preferences of buyers, a comparison of housing costs of the three main products open to most first-time-buyers has been undertaken – shared ownership, Starter Homes, equity loans and full purchase. The table below shows an illustrative set of assumptions about interest rates, inflation and house price growth over 25 years:

As can be seen from this table, shared ownership could potentially be affordable to households on significantly lower incomes than the other products, especially when they buy a stake of 50% or less of the value.

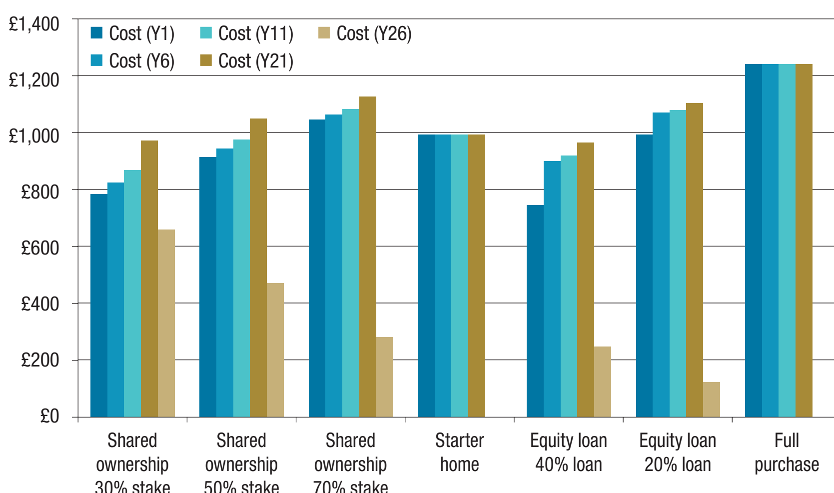
The figure below, shows how these illustrative examples affect housing costs (rent and mortgage) over a 25-year period of ownership, based on the figures above:As can be seen, all the subsidised products meet their aims of being cheaper than full purchase for the first 25 years of ownership though the difference between a 70% stake in shared ownership and full purchase is small. In the short term a 30% stake in shared ownership is cheapest, followed by a 40% equity loan. However, the differences reduce over the years and in the long term, once a mortgage is paid off, full purchase and Starter Homes offer the most affordable options, as shared ownership and equity loans retain a rent/charge on the unsold share which buyers could be paying into retirement. There are also, of course, greater risks attached to products with high mortgage debts, associated with interest rate rises.

Table 3 Costs comparison between tenures

	SHARED OWNERSHIP			STARTER HOME	EQUITY LOAN		FULL OWNERSHIP
Purchase value	30%	50%	70%	80%	80%	60%	100%
Market value	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Deposit	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000	£15,000
Mortgage	£70,500	£117,500	£164,500	£188,000	£188,000	£141,000	£235,000
Income needed	£22,560	£32,900	£43,240	£47,000	£47,000	£35,250	£58,750
Value owned	£85,500	£132,500	£179,500	£250,000	£203,000	£156,000	£250,000
Mortgage term (yrs)	25	25	25	25	25	25	25
Initial rent (as % of unsold share)	3%	3%	3%	0	0 (1.75% after 5 yrs)	0 (1.75% after 5 yrs)	0
Mortgage interest rate	4%	4%	4%	4%	4%	4%	4%
Mortgage payments	£372	£620	£868	£992	£992	£744	£1,240
RPI	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Rent increases above RPI	0.5%	0.5%	0.5%	n/a	1.0%	1.0%	n/a
Rent (Y1)	£411	£294	£176	£0	£0	£0	£0
Rent* (Y6)	£452	£323	£194	£0	£77	£154	£0
Rent* (Y11)	£496	£355	£213	£0	£87	£174	£0
Rent* (Y21)	£599	£428	£257	£0	£110	£220	£0
Rent* ((Y26)	£658	£470	£282	£0	£124	£248	£0

** Includes rent and interest (for equity loan sales).*

Figure 1 Monthly costs (rent and mortgage) on a £250,000 home



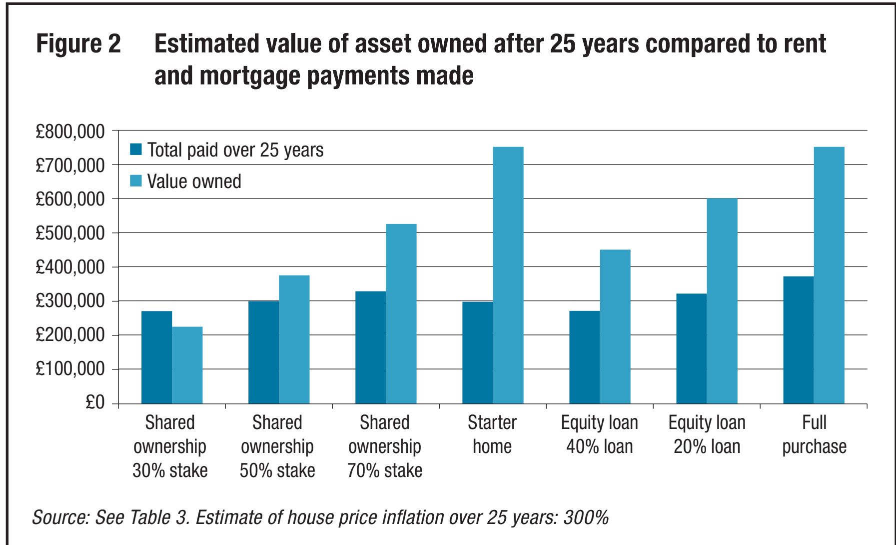
Source: See Table 3

The assumption here is that the household making choices has a fixed deposit (£15,000) and a fixed value of house they require (£250,000). In reality, some households will be more con-

[5] Assumes Year 1 rent is ring-fenced, and a mortgage equivalent to four times the remaining income can be obtained

strained in what they can borrow due to lower deposits, or may be able to trade location or size of home for value, giving them a different set of options. In making these choices, buyers may take into account not just their monthly outgoings, but also what they are getting for their money. All of these products require the buyer to take on full responsibility for maintenance as this is not included in the "rent" paid by shared ownership. The main difference comes, therefore, in the value of the equity being bought. The figure below shows how this could differ between products, on the scenario of the market value of the home bought having increased by 300% over the 25 years of ownership:

Figure 2 Estimated value of asset owned after 25 years compared to rent and mortgage payments made



Source: See Table 3. Estimate of house price inflation over 25 years: 300%

Obviosuly, these gains could vary substantially dependent on what happens to the housing market. Full purchasers may gain from house price growth but also have the most to lose if there were to be a house price fall. However, looking long term, the UK has a strong track record in house price growth. Over the last 30 years, UK house prices grew by 420% (Source: Nationwide), so the growth estimates here are probably conservative.

When looking at value for money for the purchaser, shared owenrship starts to look a lot less attractive than either Starter Homes or full purchase. Starter Homes in particular offer reduced costs which are similar to shared ownership, but give buyers the full value of the equity after the first few years. The extent to which shared ownerhsip may be at risk from competition from other tenures therefore depends, amoungst other things on the extent to which borrows can stretch themselves to borrow larger amounts – by saving longer, borrowing from family members or shopping around between lenders to find those prepared to lend at larger income multipliers. Demand for newbuild products will also be heavily constrained by supply, so many buyers who might prefer one product may nevertheless buy what is available to them.

7. Competition for funding and mortgage finance

As discussed above, early indication of housing association plans for development indicate that their commitment to shared ownership is strong and in line with government plans for the sector's growth.

Mortgage lenders support is also critical for growing the sector, as the majority of shared ownership homes are sold to buyers who rely on mortgage finance. A recent report into the issue (Clarke, et al., 2016) comissioned by the Council for Mortgage Lenders examined lenders' commitment to the sector. Overall, it concluded that most lenders were relaxed about increasing their involvement in the sector, and would expect to do so if demand for shared owenrship mortgages increases. Nevertheless, many lenders did not lend on shared ownership – meaning that buyers' choice of mortgages was more limited than for other purchases. Buyers with low deposits were particularly likely to face difficutlies in obtaining mortgage finance.

A key reason for not lending on shared ownership was that the sector was niche, and complex, with lenders concerned that the variety of other first time buyer support schemes was adding further complexity to the market, and could lead them to focus on other products rather than shared ownership.

8. Conclusions

Shared ownership looks likely to increase considerably in the UK. Housing associations, lenders, and buyers know and understand the tenure. The recent government's plans for the sector, though ambitious, do appear to be reflected in the current development plans of the major housing associations developing new housing.

There are nevertheless increased risks associated with the growing array of other first-time buyer support schemes, in particular Starter Homes and equity loans. These would appear to offer buyers a better deal, if they can manage to borrow the mortgage finance required. Housing providers should be aware of these risks and monitor the growth of all these products alongside the growth in shared ownerhsip.

The data here also poses some important questions for government in funding these schemes in terms of fairness and allocation of resources: Buying a small share of a home via shared ownership is likely to be accessible to lower income households than equity loans or Starter Homes. Yet the nature of the subsidy for Starter Homes is considerably more generous – no rent to pay on the unsold share, and after a few years the buyer gets to own the property in its entirety without the need for staircasing. This means that higher income households are receiving a deeper level of subsidy – within the range of products targeting first-time buyers.

The schemes discussed here have been introduced by successive governmental in efforts to tackle the affordability problems in a high priced housing market where market housing is unaffordable to very many households who want to own their own homes. The UK is not alone in its high priced housing market, and affordability difficulties, and schemes such as shared ownership do offer potential to help first time buyers to (part) own their own home. The analysis of the UK situation illustrates the potential difficulties created by this range of separate initiatives introduced by government without much analysis on how they may interact and compete with one another.

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How European finance can meet urban housing needs[1]

Intermediary funding bodies critical in low-cost housing delivery in new member states

↳ By Ad Hereijgers[2]

1. Local housing needs in a global world

Today, we live in a global world that is changing fast. New technologies cause disruptive effects on existing business models (Uber, Airbnb, Netflix, Tesla, Google). We easily get used to the latest tablets with ever more features. Social media works 24/7. At the same time, we foster the communities we live in: they feel like home. And feelings of home are often associated with personal safety, happy family life and childhood's nostalgia. And particularly in Northern and Western Europe, we are all aware, that for too many people across Europe a basic human need (and human right[3]) such as a decent and affordable home is still not within reach: either it is not available or it is not affordable. The first results in overcrowding and homelessness, the second in 'overburdened' residents; 81.5 million Europeans spend more than 40% of their income on housing costs, often exacerbated by energy poverty[4]. One agrees that a decent home is a condition for everyone's wellbeing: literally a home in which to feel safe and happy and to be able to actively participate in society.

There seems to be a permanent need for social housing[5] in all tenure categories. This can be illustrated in different ways: the number of people on the waiting list[6], the gap between demand and supply, the number of young people still living at their parents' home (48%), the overcrowding and homelessness rate (2014: 16%) and the housing cost overburden rate among the poor (2014: 36%)[7].

The need for social housing is largest and most urgent in urban areas. Cities attract lots of people from around the globe who are looking to improve their living conditions (education, employment, family and friends) while cities have the most expensive land to build on and building on brownfields takes extra time and often extra cost. And nowadays, more challenges such as climate change, demographic change, job creation, and social inclusion are more visible and sensible in urban areas. Cities are growing and the urban crisis is most strongly felt in the housing market. In his latest book The New Urban Crisis, urban scholar Richard Florida demonstrates how the same forces that power urban growth also generate (American) cities' vexing challenges, such as gentrification, segregation, inequality, and unaffordable housing. Middle-class neighborhoods are disappearing as cities and suburbs are carved into small areas of privilege surrounded by vast swaths of poverty and disadvantage (the so-called patchwork metropolis). But because this crisis is urban, so is its solution. Cities remain the most powerful economic engines. The only way forward is therefore to devise urbanism-for-all. Building more affordable housing has to become part of this[8].

In this article, we would like to take some distance from prejudiced and persistent opinions, that often surround the debate about social housing. On the contrary, we show the critical role European finance can play in low cost housing delivery in EU member states with special challenges as in Central and Eastern European States. The hidden strength of the European Investment Bank [EIB], where necessary supported by the European Fund for Strategic Investments [EFSI] is being explained. This alignment between European finance and housing delivery could also contribute to tangible results from the EU Housing Partnership, which emerged from the 2016

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[1] This article is primarily based on three sources: (1) keynote 'Housing and Urban Development in a broader context' at General Assembly European Federation for Living (EFL) in Lille (France) on May 10th 2017 by Elena Szolgayová, Director General Housing Policy and Urban Development, Ministry of Transport and Construction, Slovakia and Chair UNECE Committee on Housing and Land Management, and coordinator of EU Housing Partnership (2) conversation with Jim Hayton, Scottish Cities Alliance and lead partner of working group Finance and Funding of EU Housing Partnership and (3) Publication 'Financing Affordable Housing in Europe' by EFL working group Finance & Investment (November 2016), edited by Ad Hereijgers.

[2] The author is a director of EFL Expertise an Amsterdam based pan-European platform of consulting firms responding to the needs and challenges of affordable housing companies and governments across Europe. Its goal is to foster European cooperation, the exchange of best practice and the development of projects across the European housing industry with a focus on affordable housing: www.efl-expertise.com . The author would like to thank Elena Szolgayová and Jim Hayton for their input for the article.

[3] United Nations Universal Declaration of Human Rights.

[4] Energy poverty refers to the situation where a household does not have access or cannot afford to have the basis energy or energy services to achieve day to day living requirements such as lighting, cooking energy, domestic heating or cooling.

[5] We are aware that each country applies a different definition of social housing or affordable housing (in terms of tenure, cost levels, income levels and eligibility criteria). In this article, we apply it as a generic term for all those households across Europe that are not able to provide themselves timely access to a decent and affordable home.

[6] Social Housing Waiting List in global cities (households): Ile-de-France (Paris) 550.000 (2013), Greater London 354.000 (2012). Source: (draft) UNECE Social Housing Study ''Social Housing in the UNECE Region: Models, Trends and Challenges" (October 2014).

[7] Overcrowding and overburden rates are an average for all member states. If divided among Northern and Western Europe, Southern Europe and new member states, percentages are respectively 6.9%, 17.7%, 41.1% (overcrowding) and 35.2%, 40.5%, 33.4% (housing cost overburden: if someone spends more than 40% of income on housing cost).

[8] Florida, R. (2017) The New Urban Crisis: How our cities are increasing inequality, deepening segregation, and failing the middle class – and what we can do about it. New York: Basic Books.

Pact of Amsterdam. However, a necessary condition is that national governments put reliable housing regulatory and policy frameworks in place and provide management capacity to create and sustain the investment climate for investors. We conclude this article with some strategic notions.

2. EU Urban Agenda

Housing policy is a primary responsibility of national governments. And social housing as a service of General Economic Interest is to be defined at national, regional and local level. It is good to keep this in mind when housing critics start blaming 'Brussels' for the lack of social housing in EU Member States. However, more recently housing delivery and affordability have been put on the EU policy agendas for two main reasons among others. Firstly, social needs (access to social housing is one of the 20 principles of the European Pillar of Social Rights) and secondly sustainable development goals as core value of the EU, are firmly anchored in EU treaties (for example contribution to climate action by making housing stock more energy efficient). These challenges become most visible in urban growth areas.

Besides the EU, in April 2015 at the 66th session of the UNECE[9], the Geneva UN Charter on Sustainable Housing was endorsed. The main purpose is to ensure the access to decent, affordable and healthy housing in the ECE region[10]. The UN Charter works from four principles that align with EU policies:

- Environmental protection: minimization of environmental impact and promotion of environmental sustainability;
- Economic effectiveness: public and private investments and national policies and programs;
- Social inclusion and participation: civil involvement, social inclusiveness, public health and transparency;
- Cultural adequacy: cultural identity, value and emotional wellbeing of people.

After a long preparatory process the EU Ministers responsible for Urban Matters have reached, at their informal meeting in Amsterdam on 30 May 2016, agreement on the establishment of the Urban Agenda for the EU as set out in the 'Pact of Amsterdam'. The 'Pact of Amsterdam' describes the main features of the Urban Agenda for the EU. However, the development of the Urban Agenda for the EU is an ongoing process. The Urban Agenda for the EU will be taken forward by Member States together with the representatives of European Urban Authorities, the European Commission, the European Parliament, the Committee of the Regions [CoR], the European Economic and Social Committee [EESC], the European Investment Bank [EIB], and other relevant stakeholders.

The Urban Agenda for the EU aims to give cities and regions a better position in European regulation and policy making by better regulation, better funding and better knowledge sharing. This goal is being delivered through 12 thematic partnerships. In random order these are urban poverty, housing, inclusion of migrants and refugees, air quality, sustainable use of land & nature-based solutions, circular economy, climate adaptation, energy transition, urban mobility, jobs and skills in the local economy, digital transition, innovative and responsible public procurement. The Urban Agenda for the EU is a new form of cooperation between member states, cities, the European Commission and other stakeholders. These are the mechanisms through which the partnerships deliver. In this article, we focus on the EU Housing Partnership.

3. EU Housing Partnership

Housing, as one of the 12 themes of the EU Urban Agenda, is coordinated and monitored by the EU Housing Partnership with member states Slovakia (coordinator), Latvia, Luxembourg, the Netherlands, Slovenia and two observers (Czech Republic and Sweden). The other members are cities and city networks (Vienna-coordinator, Lisbon, Poznan, Riga, Scottish Cities Alliance, Eurocities), stakeholders (AEDES, Housing Europe, International Union of Tenants), EU-institutions (DG Regio, DG Energy, DG Employment, European Investment Bank) and experts (Faculty for Urban Studies Science Po, Paris on behalf of DG Regio, URBACT). This broad variety of realities and experiences reflect the diversity of realities of housing systems throughout the EU.

Its mission statement is comprehensive: "We have a vision of Europe which provides affordable housing to all its citizens and cares for inclusive and sustainable communities, where everyone is enabled to reach their full potential".

Its goals are being delivered as follows: Better regulation by guidance on state aid and social housing to improve legal certainty and clarity for investors. Better funding by identification and sharing of good practice on innovative financial models in Western and Eastern European Member States. Better knowledge by elaboration of an affordable housing policy toolkit and arranging regular annual meetings of national housing policy experts. In its search to tangible results for European citizens, the EU Housing Partnership has established three working groups with lead partners: State aid, Finance and Funding and General Housing Policy. For the purpose of this article, we will only focus on the working group Finance and Funding with lead partner Scottish Cities Alliance. This working group is committed to promoting investment in social housing by identifying best practice in funding and by identifying systematic challenges and constraints that affects the supply of social housing. Therefore, the EU Housing Partnerships has commissioned two studies. One to the University of Glasgow addressing the above-mentioned issues in Western European Countries: member states having joined the EU before 2004. And one commissioned to the Budapest-based Metropolitan Research Institute to look in more detail at the Central and Eastern European member states: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. The studies will be finished in September 2017.

At the EFL General Assembly in Lille, the coordinator of the EU Housing Partnership, Elena Szolgayová mentioned the reasons to join this partnership as well as lessons learned so far as identified by its partners. Reasons to join:

- Shaping EU policies, legislation and financial instruments;
- Evaluating impact of EU policies;
- Sharing knowledge, expertise and best practice examples;
- Sending grassroots signals to EU with impact of EU policies;
- Contribute to investments in EU;
- Platform to share models and experience with EU institutions;
- Address issues in a practical and result-driven way;
- Promote innovation, consumer protection and responsible initiatives.

[9] UNECE: United Nations Economic Commission for Europe.

[10] 56 States in Europe, Central Asia and North America.

Lessons learned so far relate to:

- High interest in participating coming from different parties;
- Identifying common ground on which the focus and goals of partnership are based;
- Bringing closer EU, national and local levels and cross-sectoral partners;
- Exchange of various ideas and best practice on specific topics;
- Need for expertise, enthusiasm and resources (human, financial, time).

In relation to the latter, it is worthwhile mentioning Urban Innovative Actions [UIA]. Since 2017, UIA provides urban areas throughout Europe with resources to test new and unproven solutions to solve their urban challenges. There is thematic alignment of UIA with the 12 themes identified in the framework of the EU Urban Agenda. Moreover, this fund has a more strategic focus and could be used in combination with other public funds and private investment[11]. Its characteristics could promote accomplishment of tangible results in social housing, also through the EU Housing Partnership: innovative, partnership, measurable results, and transferable. The latter is important for scaling up housing solutions that work.

Housing is expected to be one of the topics for UIA call #3 (2018). This program is funded by the European Regional Development Fund [ERDF] with a total budget of €372 million for the period 2017-2020. The co-financing rate per project is a maximum of 80% and limited to €5.0 million. Project duration is three years. Projects can be awarded to urban authorities[12]. Up to now there has been one approved call with 18 projects: by the way, not a single approved project in Central and Eastern Europe. Submissions (206 in number) in second call will be approved in October 2017.

4. Housing challenges

In order to make housing part of a better world for European citizens, one has to accept three –coherent and simultaneous- challenges.

Firstly, housing production. In most countries, larger urban areas face a serious shortage of social housing[13]. However, housing delivery is not the same as advocating unlimited production of more social rental housing. One has to look into the dynamics of local and regional housing markets and simultaneously solve local market imperfections (allocation mechanisms in relation to waiting lists, allowances, equal opportunity policies in relation to rental and owner-occupied housing).

Secondly affordability. The broader and more serious issue is affordability: 81.5 million people in the EU spend more than 40% of their disposable income on housing. This cannot –solely- be solved by providing additional individual rent allowance. On the one hand, the housing construction industry should be challenged to provide more inexpensive housing without reducing quality standards (we are waiting for a market disruptive affordable housing provider). On the other hand, the real sustainable solution is, that household incomes do increase. The latter requires economic growth and job creation. To make this effective, housing policy has to relate to national policies regarding, education, labor market and social security.

Thirdly energy efficiency. More new construction for a better price is one solution, but the large majority of the housing stock does exist already. Industry has to come up with new technologies such as in Netherlands and France[14] for existing housing stock. Scotland has innovative programs in place for funding energy efficiency improvements to social and private sector stock. All housing in the Scottish social sector must meet minimum energy efficiency standards by 2020 and similar regulation is planned for the private rented sector. Scalability is important from a sense of urgency (climate action) and a financial point of view (economies of scale), but at same time scalability is an increasing challenge with individual home owners (particularly in Central and East European countries after privatization and restitution). In combination with changes in tenants' energy use behavior, energy efficient refurbishments could result in lower energy bills that would contribute to solving part of the affordability crisis.

5. How European finance can meet urban housing needs

One can identify similar housing challenges in countries with varied housing policies. National housing systems often create prisoners' dilemma's: housing is reactively discussed in terms of restrictions in national regulations instead of pro-active solutions. The fuel for creating (out-of-the-box) solutions is finance, among others (such as change in tenant behavior and transparency in enforcement of rules and regulations). And the good news is, capital is not constrained by national borders. On the contrary, investors worldwide are looking for residential investment opportunities. However, the bad news is that in several new EU Member States, the basic investment infrastructure is not in place yet. While these countries could benefit most from capital investment in housing; they exhibit the biggest challenges and have the highest rate of energy poverty[15].

This brings us to the role of the European Investment Bank [EIB] among other lenders. EIB is a hybrid organization, an EU-institution and bank, which supports projects that make a significant contribution to economic growth across the EU (and beyond). In 2015, EIB financed €84.5 billion among its four priority areas: innovation & skills (€18.7 bn), smaller enterprises [sme's] (€29.2 bn), environment (€19.6 bn) and infrastructure (€18.9 bn). EIB financing of urban development investments includes social and affordable housing[16]. Investment volumes have ranged from €0.5 bn in 2005 through €4.0 bn in 2016 and counting: up to now €13.0 bn has been financed. The rationale for this is EIB's role to help implement European policies against the background of key challenges: demographic trends (population growth, shrinking and ageing societies, rural-urban migration, refugees), environment (climate action) and employment (social exclusion).

The objective of EIB is reaching out to small, medium and large-scale investments, basically along two routes. These are either through direct loans to a housing provider or loans through (public of commercial) intermediaries. Direct loans require a minimum volume

[11] Structural Funds and Housing in 2014-2020: The implementation of the European Structural and Investment Funds for Housing Projects in the European Union. Housing Europe. Brussels. 2015.

[12] Eligible urban authorities according to UIA Delegated Act: (a) any urban authority of a local administrative unit (municipalities) defined according to the degree of urbanization as city, town or suburb comprising at least 50.000 inhabitants and (b) any association or grouping of urban authorities of local administrative units defined according to the degree of urbanization as city, town or suburb where the total population is at least 50.000 inhabitants.

[13] UK counts 1.8 million people on social housing waiting list, France 1.7 million and USA 5.3 million. Source: The Geneva UN Charter on Sustainable Housing.

[14] Netherlands and UK: Energiesprong has made Net Zero Energy Refurbishments a market reality that is financed by energy cost savings, as a house does not consume more energy than it produces (E=0); plus, it only takes 10 days construction and comes with a 30-year energy performance warranty from the builder, while energy bills for the residents stay the same (Energiesprong, 2015). France: No less than 194 swellings were refurbished by Logi-Quest. With overall annual energy savings of €59,000 and an upgrade to energy class B, a block of social apartments that housed more than 700 tenants was turned into warmer and more comfortable homes within less than three years. The project was carried out within the framework of the Power House Nearly Zero Energy Challenge (Power House Europe, 2012)..

[15] See also Energy Poverty Handbook, initiated and edited by the office of Tamás Meszerics (Member of the European Parliament) via The Greens/EFA group of the European Parliament (2016).

[16] Among (a) road infrastructure, green spaces, administrative buildings, (b) education, health and social infrastructure and facilities, (c) utilities including district heating and street lighting, (d) water and sewage infrastructure and (e) public transportation.

of about €150-€200 million, being approx. 50% of total investment volume of the project/investment program. Therefore, direct loans are mostly geared towards an investment program with multiple projects. Loans to intermediaries can be smaller in size. The latter implies on-lending of EIB to small and medium-scale projects and housing providers through an intermediary bank or 'authorized' financial institution in a specific country[17].

EIB investment requirements include:

- Sound social/affordable housing regulatory and policy framework;
- New build, retrofit, support infrastructure investment activities, (maintenance is excluded);
- Focus on rental social housing (private housing only for energy efficiency);
- Based on integrated urban planning;
- Stakeholder engagement: tailored solutions involving local communities/citizens;
- Level of quality: housing quality standards, maintenance plans.

EIB among other lenders can play a strategic and positive role in meeting the housing challenges as described in this article by directing its funding capacity more towards housing; both new construction and energy efficiency refurbishments in existing housing stock: the latter can reduce energy poverty for many European citizens.

6. Lender's risk management: global meets local

Although some housing critics may have us believe otherwise, there is no free money in the EU. Either by EIB or other lenders, – long term – capital is only provided in a trustworthy environment that should enable borrowers to pay back their loans. To be eligible for financing through banks or other lenders, a basic investment infrastructure should be in place and one must be able to meet other investment requirements.

Beyond the stable, although low, return on investment that social housing provides for investors like the EIB, a key positive element is the stable and regulated governance structures in the housing sector whether it is for renovation or new construction, the assurance of management as well as the ongoing maintenance of the properties along with the added value of community outreach. All these elements ensure that EIB funds will be channeled to high quality projects.

For most countries, it is possible to meet these requirements[18] except some of the new member states. Therefore, it might be considered wise for EU members to engage the European Fund for Strategic Investments [EFSI], also referred to as the Juncker Plan, to launch initial projects. EFSI serves as credit protection for new EIB activities. Typical financing products offered are long term senior debt for higher risk projects, subordinated loans and equity all to encourage other investors to join in housing projects.

EFSI aims at focusing on projects with higher risks, a private investment component (for instance equity) and smaller compared to standard EIB-lending. Until a more mature investment infrastructure is in place, this EFSI 'guarantee' to EIB lending could be helpful in creating lending capacity for housing, because it makes lending possible to smaller and higher risk housing providers, in less stable regulatory/market environments, to lower credit rated cities, to municipal housing companies with limited recourse to the city and to lower rated banks. Moreover, it could encourage other investors to participate and it creates risk sharing opportunities with public or commercial banks. Also, it is important to provide retail financing to tenants in privatized housing in new member states.

7. Conclusion: bridging the gap

Regarding urban housing policy, we may have many research and analytical reports. And even more declarations, funds, and awards. However, EU funds and financing (EIB, EFSI) need better alignment to cities' need for affordable housing. Building and sustaining this alignment should get highest priority. It is the only way to deliver low cost housing in the robust numbers that are needed, particularly in urban growth areas. A few initiatives are required:

First of all, we should continue with learning from each other's housing regulatory and policy frameworks[19]. That remains the basis for mutual understanding to design effective tailor-made solutions. But we should go beyond that by using global finance requirements as a reason to prepare necessary adjustments. Current housing systems will not provide solutions for the persistent housing shortage in Europe. There is no 'one fits all' solution, but there is a 'one fits all' medicine and that is European finance. After all, housing policy is primary a responsibility of national governments.

Secondly, new housing construction is key. If provided with innovative construction models, affordability can be guaranteed for a long period of time, also by high quality measures on energy efficiency that can avoid future energy poverty.

Thirdly, because in most of the Central and Eastern European countries housing has been privatized (restituted), it is also very important to include this private housing in energy efficiency investments. This requires tailor made 'retail' solutions by pooling resources by regional and local intermediaries.

Fourthly, housing projects should become part of a comprehensive planning strategy. This is also key in accomplishing the EU Urban Agenda mission statement: inclusive and sustainable communities where everyone is enabled to reach their full potential.

And last but not least, yes, it is all about the economy, and economic growth in particular, but even more importantly with housing, it is about serving European citizens: ''ensuring the access to decent, affordable and healthy housing'', let's make this main purpose of the Geneva UN Charter on Sustainable Housing into reality, so that more European citizens can call their house their home feeling safe and happy and be able to actively participate in society.

[17] Financial support to social housing projects in Europe: the role of the EIB, CEB & the European Fund for Strategic Investments. A Housing Europe Briefing. Housing Europe. Brussels. May 2016.

[18] A number of European countries have its intermediary bodies in place such as The Housing Finance Corporation in UK, Guarantee Fund in Netherlands, National Building Fund in Denmark, The Housing Finance and Development Center in Finland and State Housing Development Fund in Slovakia, to mention a few.

[19] Financing Affordable Housing in Europe, EFL working group Finance & Investment, Ad Hereijgers (editor). Amsterdam. November 2016. https://www.ef-l.eu/wp-content/files_mf/1478782067FinancingAffordableHousinginEuropeNovember2016.pdf

Lessons learned from the Vestia affair: have the changes[1] been effective?

By Jan van der Moolen

1. Introduction

It was early 2012 when the first signs, of what turned out to be one of the biggest scandals in Dutch social housing, appeared in the national press. By that time various parties had already been searching for a solution since the summer of 2011. The matter concerned a derivatives scandal at Vestia, which, at that time, was the largest housing association in the Netherlands, with around 80,000 rental units. Near the end of 2015, this journal published an article about the potential lessons to be learned from that scandal. It has been two years since then: following a parliamentary investigation in 2014, which used its powers of enquiry, regulations, work domains, and internal and external supervision were all changed after 2015. What has been the effect of these changes? And, what is their significance with regard to housing associations? A careful evaluation.

2. The current situation

The Netherlands has over 7.2 million homes, 2.4 million of which are homes managed by housing associations, out of a total of approximately 3 million houses in the rental market. It is of great significance to the social housing sector, which these associations operate in, that the sector has been undergoing change for some years: from a generalised housing offer for large sections of the population, to an ever-greater focus on low incomes and people with reduced life chances. Many of the middle-class families that lived in association houses, ensuring proper differentiation and social mixture around estates and neighbourhoods, have moved into the owner-occupied sector in particular. This in turn has worked towards a policy pursued by successive cabinets; reducing the percentage of social housing in our country. This issue has been part of government policy since the 1990's. The current cabinet[2] especially, has put a lot of effort towards reduction of social housing by reducing the work domain of housing associations, stimulating the sale of home ownership by associations to market participants, by setting out more stringent allocation rules for renting out, through legalisation and taxes, and through the landlord charge. Through this charge, the social rental sector contributes around €1.8 billion per year to the government's general funds. Although preliminary exploration in 2012 indicated that the sector as a whole could bear this charge, it has influenced both the investments and the ambitions for more efficient work organisation. But even more remarkable is the fact that even while government's finances are in order, and there is a budget surplus, the associations still hand over assets to the government, even though they could make excellent use of these assets themselves to provide housing for vulnerable groups. The universal political support for a wide social housing sector has been undermined, partly due to unfortunate incidents and the crumbling of social cohesion.

At the start of 2017 there were 350 corporate entities, compared to 376 in 2012. Over 60% of these associations have a portfolio of 0 – 5,000 houses. Over 30% have a portfolio between 10,000 and 20,000 units, and less than 10% have ownership of more than 20,000 units. It is expected that the number of associations will continue to decline in the years to come. The increased pressure of supervision and governance obligations and the financial implications of this activity, are considered contributing factors to this.

3. Reducing burdens and increasing earnings

Since 2010, with a steady number of rental units, around 2.4 million homes, staff numbers have been reduced from 27,686 employees (FTE) in 2010, to 23,981 at the end of 2015. Between 2014 and 2015, net operating costs, so excluding maintenance, compensations and costs for liveability and other operating activities, compared between 2014 and 2015, have reduced from €1,232 to €1,108. The net result on the exploitation (the return on fixed assets) of housing associations in 2015 came to €7.6 billion, being 6.5% higher than in 2014. This increase has multiple causes: a 3% higher rent revenue, and a reduction of 1.5% on maintenance and management costs, despite the landlord charge! The direct returns of the social rental sector, based on the market value, rose from 3.2% in 2014 to 3.4% in 2015. The commercial lessors saw their returns reduce slightly over those two years: from 4.7% to 4.6% in 2015. The difference between the social rental sector and the commercial lessors can be explained by the public mission of the housing associations: rents cannot increase in conformity with the market, and to an extent there may be higher management and maintenance costs. Inefficiency is suggested as another potential cause.

The equity capital, based on the market valuation has increased: from €141.6 billion in 2014 to €154.6 billion in 2015. The financial position of the majority of the associations is rather good with a positive outlook. Only seven associations are closely watched by the Authority, four are either under enhanced surveillance or being reorganised. These latest figures are based on what the financial watchdog describes as the public housing exploitation value. If we look at solvency based on market value, the figures are higher.

While, prior to the implementation of the new regulations in mid-2015, housing associations still had many subsidiary companies, since 2008 the number has reduced by about 500, to 1391 in 2015, and is expected to decrease further. Often, those companies were legal constructions, linked to the associations through financial or legal ties, but usually able to operate

[1] See Housing Finance International Autumn 2015, p. 39: The Dutch experience post Vestia: lessons from The Netherlands.

[2] Note: in March 2017, a general election was held. At the time of writing this story, the coalition formation process is still in progress.

independently. Motives for establishing subsidiaries revolved around fiscal advantages and the spreading of risks. The latter however, turned out not to work so well. In the subsidiary companies that still existed in 2015, approximately €1.15 billion evaporated, out of the roughly €2 billion of risk-bearing capital that associations had inserted. Of the Robin Hood effect that was anticipated at the start of this century, now very little remains. It is not the commercial benefits that contributed to the social objectives, but it's the social core task of associations that has paid for the commercial adventures.

In 2015, housing associations invested a total of €4.5 billion in material fixed assets for exploitation. That is almost €2.3 billion less than in 2012. The new-build rental sector in particular, has seen investment reduced. Also, less is being spent on project-specific quality-of-life investments and demolition. As the expenditure on home improvement saw a relatively lower reduction, home improvement now constitutes a larger share of the total costs. In 2015 more was spent on purchasing than in previous years. This was caused, in part, by the higher numbers of homes (8,000) that were sold from one corporation to another in 2015. This mainly involves former property of Vestia.

4. Mid-range segment tenancy as a task

Both supporters and opponents of the current government policy agree about one thing: for decades, the mid-range segment has been the misfit of the rental market. Both the owner-occupier sector and the social housing sector were subsidised. Investors avoided the rental market, partly because of competition from associations and partly because of the limited returns that could be achieved. Compared on a European level, the Netherlands has a large rental housing market. Only France, England, Denmark, Austria, Germany, and Switzerland have larger rental markets, but in those countries private rental is much more common than social housing. Besides, the Netherlands also stands out when comparing the owner-occupied sectors of the countries, due to the high mortgage debt. Only 8% of home owners do not have a mortgage on the house they live in. A peculiar phenomenon within that aspect is the high number of home owners who, at some point, had an interest-only mortgage, meaning they did not repay the debt for the duration of the mortgage, but only thereafter. Over the last few months, The Dutch Bank and the Financial Markets Authority have stressed this issue, which is justifiable, but it could equally be stated that this is a very late response. Only time will tell whether appropriate solutions are to be found for this situation.

The demand for rented accommodation has risen in recent years, with regard to the €700 to €1,100 segment. There are several reasons for this. People who rented too cheaply in the social housing sector, as compared to their earnings, were encouraged to move to the mid-range segment (the cabinet policy referred to as "reducing the number of people living in accommodations too cheap compared to their income"). But the restrictions on taking out a mortgage caused home ownership to slip out of reach for many people. This is partly a policy of the banks, but also the effect of an increasingly flexible job market, with less and less permanent employment contracts. Lastly, there is a growing group of people who do not want to purchase a home, but consciously choose to rent, and this does not just apply to older people who want to sell their property. On the one hand, the cabinet was counting on more new builds, because of favourable economic forecasts, and in addition, they like to see housing associations sell part of their properties to investors. Of course, the latter is sure to meet strong opposition. Not only does the target group of the associations appear to be growing, for instance because of a steady stream of asylum-seekers and refugees who enter the housing market each year, but also the loss of social housing assets through selling to market parties, does not appeal to many a devotee of the social rental sector. The Central Bureau for Planning (a governmental agency) expects a rise of households in 2025 of 630.000 people.

Among the agenda items for the cabinet when chosen is also the task of reforming the tax system. This reform, including a further reducing of tax relief on mortgage interest, will therefore also influence the discussion about reforming of the housing market. From the world of commercial real estate, there are pleas for investments in rented accommodation in the mid-range segment to be made more fiscally attractive, as is already being done in various European countries. This is aimed at small investors, who receive virtually no interest on their invested capital and savings. The plea seems justified, but also seems to come at the wrong time. At a time when scaling down or restricting subsidies to the owner-occupied sector (tax-deductibility of mortgage interest) and housing benefits (the only remaining public subsidy) are being considered, a plea for a new subsidy or tax-deduction is ill-timed. It might seem more appropriate to reconsider the case for general income-related housing benefits that was developed some years ago. But that implies a large-scale renovation and renewal of housing policy. Would an upcoming cabinet dare to implement such a measure? But, apart from that, the solution to the problem of developing a larger mid-range segment in the rented housing sector will not be realised in the short-term.

5. What things changed after Vestia?

The answer to the question of what happened after the various storms in the social housing sector (of which Vestia was one), can be answered in two ways. Firstly, the effect was on the mindset of the sector and all those working in, or with it. The second effect concerns the changes in regulation and supervision. But let's start with the psychological effects.

The effects of the problems and the ensuing parliamentary enquiry and regulatory changes were noticeable in the brake on investments, but also caused an enormous psychological blow for the sector and its image. The search for a socially desirable consolidation of the concept "social entrepreneurship" came to a standstill. Rents soared by 13% between 2012 and 2016, partly because of the landlord charge and the contribution by all the housing associations to the reorganisation of Vestia. The minister demanded that the wide interpretation of the housing obligation be reduced to a more restricted interpretation of the core task. This caused a new dilemma: should the sector be scaled down to one that was merely concerned with housing for the socially and economically disadvantaged? Briefly, it seemed so, but the sector soon suggested that a different meaning should be given to the old standards of affordability and quality, in terms of contributing to community spirit and the identity of people, neighbourhoods and housing estates, the interpretation of sustainability objectives (the Paris agreements about energy neutrality), the transition of the housing stock as part of a wider vision on housing and city building, and the growing need of people to be able to organise themselves around specific themes, as is already apparent in care and energy supply.

The idea that the market would significantly improve, did not come to fruition and remained restricted to the economically strong regions. The regional division of the housing markets became a theme as a result of the increasing differences between areas of decline and growth, as well as within the distinctive regions, including issues regarding affordability, approach to the declining market, liveability, the transition mission and lastly, attention to the increasing diversity and flexibility on the demand-side of the housing market.

Household composition and lifecycle developments no longer reflect the image of the traditional property ladder. The 'two speeds principle' does not only apply on a European level, but also within the Netherlands, because the cities perform better than the countryside. This calls for a policy, modelled towards diversity that does justice to the differences. A similar policy doesn't currently exist.

Apart from changes in public housing, also changes in care have been enacted in 2015. Important parts of the care policy were decentralised to local councils, for both the young and old, which creates more opportunities than ever for a different interpretation of the council's role: more directing and more coordinating towards societal parties. In addition, in 2019 the Environmental Planning Act will come into force. This Act requires authorities to outline integral visions at all management levels, in which questions of health, safety, civic participation, environment, economy and housing will be linked. The current issue includes retention and transition of a housing stock and the requirements of the economy and technological change (digitisation and robotics) and the opportunities in the field of improved sustainability.

6. The new regulations

The new Housing Act and additional measures came into force on 1 July 2015, through which the government intended a stricter management of the housing associations and restriction of their mission. But Aedes, the national federation of housing associations, also intervened: a new Governance Code was issued, non-executive board members or as we call them, commissioners[3], are obligated to attend follow-up training annually, a fit and proper test are now compulsory once every four years. Since 1 July 2015, the Housing Corporations Authority, part of the Inspection Authority Living Environment and Transport, has been in charge of supervision of the finances and the legitimacy of the associations. The accounting information that associations must supply was significantly expanded. Governance audits and inspections now take place in addition to the annual assessment of finances. Commissioners appointed and re-appointed to housing associations must undergo a "fit & proper test" during which the Authority assesses their suitability, reliability, authenticity, and other competences. Only after positive advice of the Authority, a commissioner (non-executive board member) can be (re) appointed. So far only a very small number of people have been found to be unsuitable.

A new regulatory framework has been developed, which the statutes and rules of individual housing associations must adhere to. This framework concerns financial management, treasury management, making investments and engaging connections. The regulations must be approved by the Authority.

In addition, all associations had to present a proposal before 1 January 2017, in which a distinction is created between homes: those units that can be characterised as a "service of general economic importance" (sogei), for which government support is permitted, and those homes where this does not apply. Also, this proposal is assessed by the Authority. The division is to take effect as from 1 January 2018. It is evident that the associations are focussing their investment on the sogei-branch and are shedding non-sogei property, or as required, changing administration thereof. Guarantees by the Guarantee Fund are not available for these homes and the non-sogei branch is required to be viable, the latter being the case, according to the Authority, with regard to its sector image 2016. Investing in non-sogei can only be done in cases where the market is not prepared to do so and permission from the minister and the Guarantee Fund for social housing has been obtained.

The minister also required housing associations to change to a uniform valuation method, which measures the market value. There were protests, as obviously the associations do not aim to shed or sell property. Many housing associations therefore used the business value as social housing instead. Remarkably, in its assessment of the creditworthiness of associations, the Guarantee Fund for social housing construction continues to hold on to this business value as social housing as well. It was, and is, feared that the government will claim to want to obtain more insight into the valuation, which would be appropriate, but which could at the same time create an image of an apparently too-rich sector. After all, for investments the cash-flows are important as opposed to the valuation. Managing investments based on market value is an illusion. The consequence of all this, in any case, is that associations now use a market valuation, a valuation method based on business value, a valuation of fiscal value, a legally required valuation for local tax levies, the Valuation of Real Estate (WOZ) and presumably one or two other forms of valuation. This is administrative overkill, which sets high demands on management and automation.

7. More influence from the councils, inhabitants, and the minister

The establishment of performance agreements between municipalities, housing associations and (since 2015) tenant organisations is of great importance; they are no longer being confined to associations and councils, but, as third parties, the residents' organisations have become a significant co-decision maker. The council must draw up a housing plan and, subsequently housing associations make a bid. The involvement of tenants is significantly time-consuming for tenants' associations. This is rather relevant as they have to do all of it in their spare time. But, apart from the matter of knowledge, the matter of legitimacy is also important: on whose behalf do the organisations speak? Still, in many municipalities, this new process appears to have begun, with negotiations between the municipality, the housing association(s) and the tenant organisations on the new local housing policy, which seem to go relatively smoothly. This is quite important for housing associations, because, partly via this route, they can provide evidence of their legitimacy and social involvement.

Lastly, a number of other measures have been announced. It has been enshrined in law that the minister or Authority respectively, must first approve decisions before an association's supervisory (non-executive) board can do so. These concern, for example, investment decisions above a set amount. Commissioners must then report to the minister when they suspect certain financial developments may jeopardise the financial viability, or may cause damage to the image, or they suspect a violation of integrity. Commissioners must undertake follow-up training annually and provide accountability for that training, and the board of commissioners is obliged to undertake a self-evaluation every year.

A housing association above a certain size is obliged to have its own controller/auditor, who reports directly to the management and the supervisory board! In addition, the accountant is instructed to draft several assurance declarations concerning, among other things, adherence to regulations, financial accountability, the use of market value valuation

[3] Housing associations have a so-called two-tier system of governance, unlike the Anglo-Saxon situation: there are two bodies: a management and a supervisory board. These two bodies each have their own responsibilities. The management manages and has the chief responsibility for the operations of the organisation. The board supervises the operations of the management, advises the management and is formally the employer.

methodology, the regulations regarding appointment of houses to legally determined income groups (up to €34.000, between €34.000 and €43.000 and above) in combination of rent level and the yearly increase of the rent, and about managers' pay and bonusses information. A recent inventory in early 2017, as a result, showed that the accountancy costs of the corporate entities had risen significantly. At the same time, the number of accountancy organisations appears to be on the decline, because due to the excessive audit activities and obligations the activities offer little or no profits.

8. Effects in practice

The implementation of the new policy and regulations is still ongoing. Therefore, the effects have not fully crystallised yet. What is clear though, is that the translation of the regulations requires a lot of effort by housing associations. Structure, management, automation, and accountability: in all aspects changes are ongoing. Many managers and commissioners therefore complain that a lot of time and attention is spent on rules, procedures, and systems. From personal experience, as chairman of supervisory boards of two housing associations, it is a challenge, apart from a lot of attention and time invested in compliance with the regulations, one must also give time and attention to questions about public housing, liveability, affordability, and improving durability of the housing stock, the core-business of a housing association!

At one of the associations where I am the chairman of the supervisory board, four different inspections, looking into functioning and quality of governance in these organisations, took place between spring 2015 and autumn 2016, not to mention the accountancy activities. In all cases the position turned out to be in order, but the questions and information requirements of the four institutions that performed the inspections, turned out to be largely comparable. So then, what is the added value of four inspections in the span of one year?

At the same time, it cannot be denied that the changed regulations have increased the pressure to particularly discuss issues of affordability, quality, while availability of housing is more explicitly on the agenda. Also, performance agreements between municipalities, tenant organisations and housing associations prove to be positive in that respect.

The increased attention of commissioners is also positive: they are closer to management and the rest of the organisation, and no longer just look at the systems, procedures, and figures. In many housing associations, there is sufficient attention to the cultural side of the organisation, its leader(s), and for the functioning of soft controls. In addition, the increased attention to stakeholders of their own association can also be positively valued: attention to residents' organisations, local governors and for work councils. All this causes better alignment than before, of the communication and coordination between various bodies and people involved with the association.

9. Is it going too far?

The question remains whether the government is taking things too far with these new measures. Two separate issues emerge. Firstly, the new measures appear to be dealing predominantly with old issues. Those issues however, are hardly relevant now, as several of them no longer arise. It's a familiar phenomenon: we are always trying to win the previous war. Subsequently, the question is whether the government's increasing influence is not in fact undermining the role and purpose of the supervisory boards? On top of that the costs have increased exponentially, there are no potential reductions available and the work cannot be improved by encouraging the commissioners to do their work better, as opposed to waiting to hear the opinions of the accountant, the external watchdog, and the Guarantee Fund, as is often the case today. A move from governance to government, as it were, has been set in motion, but was that really the intention? That move is based on the government's significant distrust of the social rental sector. Could a better outcome, thus reducing the workload for corporations, not be achieved by merging the supervision and guarantee structures? This could be considered, especially now that the reorganisation tasks have been transferred to the Guarantee Fund[4] and are subject to political influence. I made this recommendation as far back as in 2005, in my capacity then, as the director of the financial watchdog, but found little or no support from the national federation of associations Aedes, who promotes the interests of all its affiliated housing associations.

Next, the housing market area in which an association operates is important. Initial signs tell us that in a tight housing market, the pressure on social housing increases if there is also a high number of people entitled to housing benefits. This is caused by the changes in the allocation policy, with greater attention to the balance between rent costs and income. In housing associations with less investment power, we also see that, where they focus on the new allocation limits, the potential rent-reductions are compensated for predominantly by increasing the rent of cheaper homes. The number of cheap homes thus decreases and a focus on different income limits and matching rents emerges, as advocated by the government. But the mid-range segment (affordable housing) may also decrease, while there is already a shortage in that segment, as indicated previously in this article. Lastly, where housing associations charge rents very close to the maximum rent limits, they risk an inability to raise rents, which in turn may affect their earning capacity and subsequent investment potential.

10. There is work to be done

In practice, the previous point suggests that housing associations, insofar they have not already, must develop strategies to realise the three core themes of affordability (reducing or increasing rent), availability (by investing in demolition and new build) and quality (transition, improvement, increasing durability). These are, in my experience at both housing associations where I am chairman of the supervisory board, very relevant and far-reaching discussions, which are much needed to fulfil the associations' role in society. They are however equally important for the residents: they imply a landlord who stands for something, who wants to be rooted at the centre of society, and looks for a connection with his customers and stakeholders. Moreover, it improves the image, provided good and strategic communications are developed, both of which tend to be currently lacking in the sector, despite attempts by Aedes, to generate more attention to these matters by means of special projects. Despite all the visible positive changes in the social rental sector, last year, the Parliament did not omit to point the finger at a sector "that complains too much, is too rich, and invests too little". That 'same old song' does not do justice to all the changes either.

And what about Vestia itself? Vestia has sold approximately 20,000 houses to, among others, foreign investors, such as Patrizia from

[4] See Housing Finance International Autumn 2015, p. 39: The Dutch experience post Vestia: lessons from The Netherlands

Germany and Round Hill from Britain, as well as fellow corporations. Out of its original 1,150 employees, about 700 remain, and between 2012 and 2016 no less than €1.6 billion worth of investments were cancelled. Rents have increased, as they have in the entire sector, because a share of €675 million of the costs of the reorganisation of Vestia was paid by the sector. Whether Vestia will be reimbursed for any of the €1.2 billion lump sum they paid themselves, remains to be seen. Legal disputes between Vestia and various banks are ongoing. Financial recovery has not yet been achieved, in part because early repayment of the loans is not possible.

11. The moral of the story

The question remains whether all of this was necessary. The regulatory system worked after the Vestia debacle. However, the government wanted to intervene, which is understandable. The sector had ceased to be influenced by public policy and, in addition, seemed to be insufficiently rooted in society. The sector was described as "footloose". Yet, if both guidance and enforcement of the government's desired policy had been applied more firmly before 2012, a lot less action would have sufficed subsequently. However positive I might be about the renewed focus on the core task, about the improved cooperation between management and commissioners, and about the local cooperation by way of performance agreements, the price is high, due to the amount of information required by the government, due to the increased dependency on government, due to the effects on renting and investment policies, and due to the housing associations' new dependence on accountants and the government. Looking at the tasks ahead for housing associations, with the transition of the current housing stock, trying to change into a future housing stock that fits the needs of residents in 2040, a quick switch of all attention currently devoted to compliance and supervision, towards the issues of affordability, quality, digitisation, and improved durability, is of great importance. It is not that procedures, systems, and compliance are of minor significance, but the question as to what justifies an organisation's existence, is answered by the way it responds to societal problems rather than by correct procedures and well-functioning systems. Indeed, a distinction should be made between the system (government) and living (residents) environment. More attention to the latter is important. I hope we will soon realise that and move on from this phase of transition in the social rental sector.

Housing finance and its economic linkages – a think piece

↳ By Zaigham M. Rizvi

Housing is a unique sector, which represents one of the most important social needs, along with food, clothing and shelter, and serving it makes a major contribution to economic performance. Its economic impact is globally measured by the indicator "Mortgage Debt to GDP Ratio". While in the USA the ratio is more than 70%, in some of the European countries it even exceeds 100%. In Asia, mortgage debt is emerging as an important contributor to the economy, and housing is being recognized as a significant contributor to economic activity. This short article examines how housing finance impacts the financial sector and construction material industry.

Housing has two main aspects; the demand (finance) side and the supply side. Let us analyze the impact of housing in respect of both, and present best practice examples for both. On the finance side, the operations of a housing finance institution are directly linked to, and impact on, all major financial activities/institutions. These are:

- Banks: for opening and operating of clients' accounts
- Insurance to cover various risks:
  - Life insurance
  - General (property) insurance
  - Mortgage Insurance
  - Title insurance
- Asset management: for raising long-term, market based financial instruments. This function is also being served by long-term liquidity facility institutions (also called mortgage refinance institutions)
- Capital markets: for listed mortgage backed instruments like Mortgage Bonds, RETs etc.

The Housing Development and Finance Corporation [HDFC] of India, under the umbrella of HDFC Group, is actively engaged in all these sectors. Having been established in 1978, it moved forward to establish horizontal linkages and in 1994 it had set up HDFC Ltd, a commercial bank of its own. From then on it gradually moved to set up HDFC-Life Insurance, HDFC-General Insurance and an asset management entity of its own. These days HDFC serves more than 1,000 clients a day. It yearly issues loans which currently have a value of IRs 200 billion plus. For that it has to raise market based long term funding, and thus potential new business for its asset management entity and for the capital markets at large. All these entities are shining stars of the Indian financial sector.

On the supply-side, housing finance impacts the growth of the housing supply and is stated to have direct linkage to the growth of construction material industries [CMIs]. While in the USA and West, housing construction is stated to positively impact the growth of 272 CMIs, in Asia, it is generally stated that housing will positively impact 42 CMIs. Another important factor to consider here, is to manage the cost of low-cost affordable housing; it is to be developed at manufacturing scale so as to provide economies of scale. Thus, CMIs need to focus on the production of standardized low-cost construction materials and larger volumes to benefit from economies of scale. Somehow, housing is yet to see any programs and initiatives with CMIs, particularly in low-cost affordable housing. Yet there is the example of Cemex of Mexico. Cemex is one of the largest cement and building supply corporations in the world, with over $15 billion in net sales in 2014. Based in Mexico, the company has production facilities in over 50 countries, with more than 54,000 employees worldwide. Cemex's Patrimonio Hoy (Spanish for "Personal Property Today") initiative was originally launched in Mexico, and has since expanded to include several other Latin American markets. In 2000, the company launched Patrimonio Hoy, a membership program for low-income home improvement customers featuring the following components:

Following a basic "solidarity group" microlending model, customers become members in groups of three, applying as a group to the local Patrimonio Hoy cell.

The group is responsible for committing to a 70-week membership and remitting a modest weekly payment ($10-$15), to be held as credit toward future housing material delivery. Cemex retains a small membership fee from each weekly remittance.

These payments buy a complete package: in addition to building materials, which are delivered in seven installments over the course of the membership, Cemex provides an engineer and an architect to oversee the participants' construction project.

The cost of materials is held fixed over the course of work, protecting customers from price fluctuations and other macroeconomic instability; Cemex also provides storage of, and vouchers for, materials if customers run into periods of inconsistent employment or wish to delay construction.

Regional cell managers and promoters are compensated based on group repayment performance and length of commitment to the program.

Patrimonio Hoy has been a profitable program, even though Cemex has struggled since the 2008 financial crisis. The company cites two opportunities that may contribute to the program's continued success: Firstly, Patrimonio Hoy has expanded beyond Mexico to Colombia, Nicaragua, Costa Rica, and the Dominican Republic, and looks to expand to additional developing countries in the coming years; this will necessitate an adaptation and update of the original model, which was tailored to conditions specific to the Mexican low-income construction market. Secondly, the company aims to integrate social and environmental features into the offering, and has piloted a program to introduce energy-efficient appliances to raise awareness of climate change and to help participants reduce energy usage and cost.

These and many other such case studies/best-practices around the globe can change the status of low-income affordable housing from the notion of charity/subsidy business to a main contributor to the economy.

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