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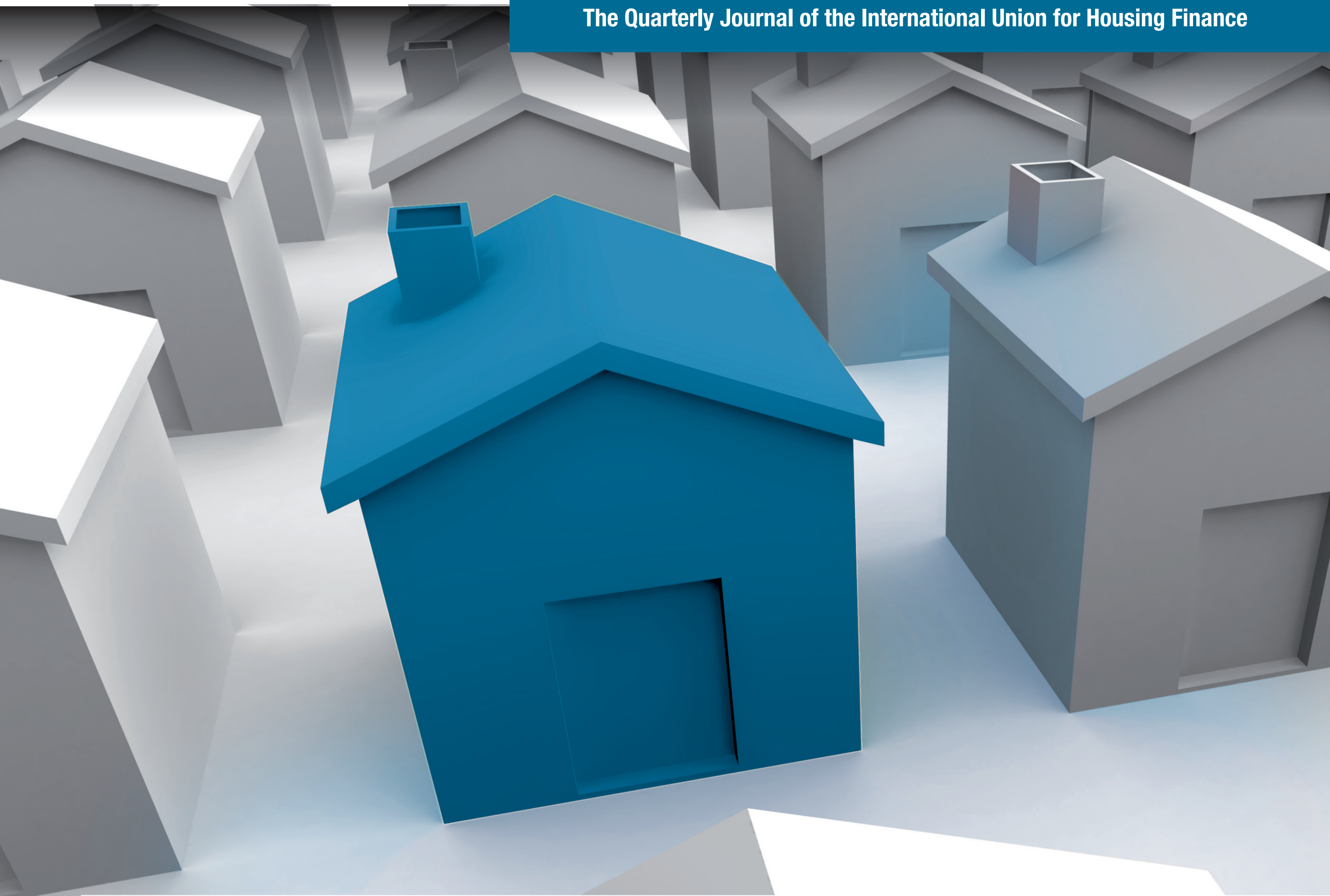

International Union for Housing Finance

Housing Finance International

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Housing: tackling the democratic deficit?

↳ By Andrew Heywood

Housing is about communities and communities are about locality. It is easy to see this statement as little more than a soundbite. Yet housing really should be about local communities. A particular community depends on having access to an adequate supply of homes with a balance of tenures that matches the local demographic patterns. Homes should also be sited conveniently for where local people live and/or work. In addition, homes should be designed so that they can sustainably be maintained, repaired and heated by local people using the financial and other resources at their disposal.

There is an economic dimension to housing provision as the Kampala Declaration on affordable housing activity, reproduced in this issue of HFI, makes clear. Ideally, homes should use materials, labour and construction methods that support local economies and employment. They should attract potential workers with the skills and experience a local economy requires.

That new homes should be of durable quality and of a design that re-enforces positive physical characteristics of a neighbourhood should be a basic criterion for judging any new development proposal.

Too often, however, these needs are not met. Bureaucratic planning mechanisms, lack of responsiveness by large-scale commercial developers and national policy strictures, not to mention corruption, can result in development that simply does not respond to local needs or aspirations. Too often, the criterion for success in housing provision is numbers of homes on the ground to the exclusion of almost all other qualitative measures. There is a real need for local communities to take a lead and for lessons to be learned where they do so.

In much of the world, communities are necessarily involved in providing housing with important and well-established community-led housing activity in Africa, Latin America and Asia. The USA has pioneered the use of Community Land Trusts through which representatives of communities plan and develop affordable housing.

The concept of community-led housing is also achieving a higher profile in Europe. It can be a reaction against remote and bureaucratic planning processes and commercial development that apparently cannot combine profitability with the flexibility to meet local needs. Just as often, it is also a response to the mono-culture public housing estates developed in earlier years and which frequently appear to have perpetuated or created as many social problems as they were intended to address. Community Land Trusts have expanded rapidly in the UK, Cohousing, through which individuals come together to form intentional communities and to build or convert their own housing has been successful in Denmark and is expanding elsewhere. Other groups (known as self-help groups in the UK) work to bring empty homes back into appropriate use at affordable rents, while cooperatives have long aimed to provide local communities with a collective voice.

Nevertheless, as is implicit in the Kampala Declaration and as recent studies of community-led activity show, community-led housing is not a panacea, and it will probably never on its own develop the numbers of homes needed to overcome a serious housing shortage. In Germany it has been estimated that around one in seven new homes is developed as a result of a community-led initiative. In the UK it is more like one in three hundred. Without the expertise and resources of the commercial development sector and the enabling power of the state, local communities can find themselves powerless to promote locally generated projects at scale. The challenge for policy makers across the globe is to ensure that community-led activity provides a welcome countervailing force to counter the inflexible top-down approaches of so much commercial and state-sponsored development without local efforts becoming a substitute for the deployment of organised provision of proper financial and material resource at a scale that can really tackle chronic under-supply of housing. There is too often a democratic deficit relating to housing provision; the trick is to address this by enabling local initiative while ensuring that the state and the corporate sector fulfil their responsibilities.

Securing affordability is a key concern for individuals and local communities. In our first article in this issue, John Oliver, Chief Executive of HomeStart discusses the contribution of this unique organisation. Based in South Australia and funded by the Government of South Australia, HomeStart is a lender specialising in a range of mortgage products for those for whom home-ownership would otherwise be unaffordable. To date it has assisted over 70,000 households, most of whom could not have afforded to buy a home using a conventional mortgage.

Regulation of mortgage markets has tightened significantly in the wake of the Global Financial Crisis [GFC]. There has been much discussion in the IUHF about the implications of regulation for lender behaviour and ultimately for actual and potential homeowners. In an important article Masahiro Kobayashi analyses how the GFC and sub-prime crisis impacted on lenders and resulted in important (and sometimes unforeseen) changes in behaviour in markets as diverse as the US and China. In the article immediately following, respected commentators Christine Whitehead and Peter Williams team up to offer a view of how regulatory change has impacted on access to home-ownership in recent years. They highlight the tensions inherent in striking a balance between prudential regulation and promotion of opportunities for aspiring homeowners.

Since their introduction in the USA some 40 years ago Real Estate Investment Trusts [REITS] have spread to many other markets and are seen as an important way to lever in investment for residential development. Pakistan is a recent example and in their article Muhammad Ejaz, Faraz Arif and Adnan Rizvi clearly set out the steps leading to the establishment of a Shariah compliant REIT in Pakistan and assesses its structure and performance. The article goes on to discuss regulatory framework and Shariah structure for REITs, the real estate environment and the prospects facing REITs in Pakistan.

Our final full-length article discusses institutional investment in the Private Rented Sector [PRS]. Focussing on the UK, Rob Thomas analyses the extent to which institutional investors have contributed to the overall growth of the PRS over the past three decades, who the principal investors are and the outlook for institutional investment going forward.

In addition, we are pleased to offer the text of an important speech by Senator Joseph Victor G. Ejercito of the Philippines on plans to improve provision of affordable housing in that country. We round off this issue with an amusing and incisive think-piece by Alex Pollock on the impact of the GSE's (Fannie Mae, Freddie Mac and Ginnie Mae) and other types of federal investment in the US mortgage market.

Altogether, the Winter 2017 issue of HFI should provide some excellent seasonal reading. Enjoy!

Contributors' biographies

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Muhammad Ejaz is the founding Chief Executive of Arif Habib Dolmen REIT Management Limited, which has launched South Asia's first listed REIT fund. Associated with Arif Habib Group since August 2008, he sits on the board of several group companies. Was formerly the Treasurer of Emirates Bank in Pakistan, Regional Head of the Corporate Banking Group at Faysal Bank Pakistan, and Head of Corporate and Investment Banking at the Saudi Pak Bank. He graduated in Computer Science from FAST ICS and did MBA in Banking and Finance from IBA, Karachi where he is a visiting faculty member. He has also conducted programs at NIBAF – SBP and IBP. He is a Certified Director and a Certified Financial Risk Manager. He participates in the group's CSR initiatives and is the Managing Trustee for Jinnah Foundation Memorial Trust, which works in the fields of health and education with emphasis on female literacy.

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.

Andrew Heywood is an independent consultant specialising in research and analysis of housing and mortgage markets, regulation and policy with both a UK and international focus. He is a visiting fellow of the Cambridge Centre for Housing and Planning Research [CCHPR] and a research fellow with the Smith Institute. He is also Editor of the journal Housing Finance International. Andrew writes for a number of publications on housing and lending issues and publishes reports commissioned by a wide range of clients.
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John Oliver is CEO of HomeStart Finance which is one of Australia's leading providers of affordable home finance. He has over 40 years of financial industry experience, having held previous senior executive roles with Bendigo and Adelaide Bank and the Commonwealth Bank in retail and business banking.

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.

Adnan Rizvi is Head of Investments at Arif Habib Dolmen REIT Management Limited. He carries out real estate investment analysis, project financial appraisals and due diligence, provides financial advisory and guidance to clients of his company. A member of the team that launched Dolmen City REIT, he is a fellow member of the Association of Chartered Certified Accountants [FCCA] and holds an EMBA in Banking & Financial Services from the IBA, Karachi. He has more than 10 years of diversified experience in Financial Services industry and has worked with Arif Habib Investments in Equity Research and Securities Markets Division of SECP. Previously worked in Investment Banking for Faysal Bank.

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.
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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.

Rob Thomas is Director of Research at Instinctif Partners, where he writes thought leadership reports on financial services and housing related topics. He started his career as a macroeconomist at the Bank of England before moving to investment banking as an investment analyst. He led the European mortgage finance agency project in the early 2000s and developed the blueprint for the government backed NewBuy scheme which launched in 2012. He is a non-executive Director of PfP Capital Limited.

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.

Christine Whitehead is emeritus professor of housing economics at the London School of Economics. She works mainly in the fields of housing economics, finance and policy. She has worked with a wide range of international agencies as well as regularly for the UK government and Parliament.

Peter Williams is the former Executive Director of the Intermediary Mortgage Lenders Association and a Departmental Fellow, Department of Land Economy, University of Cambridge. He was previously Director of the Cambridge Centre for Housing and Planning Research, Deputy Director General of the Council of Mortgage Lenders and Professor of Housing at the University of Wales, Cardiff. He is currently on the board of The National Housing Federation.

What a year for the Union!

↳ **By Andreas J. Zehnder and Mark Weinrich**

As 2017 draws to a close, we can justly claim that it was a successful year for the International Union for Housing Finance. This year's outstanding event was our World Congress in Washington DC. More than 120 delegates from 29 countries joined us for what one delegate described as "The best congress I've been to!" Indeed, IUHF was able to attract top-ranking international speakers, which made for a highly relevant, interesting and lively conference. Representatives of the largest mortgage lenders of North and South America and from around the globe spoke to the audience along with the sharpest brains from the IMF, academia and the industry. We can safely assert that the principal aims of the World Congress; namely to exchange views and experiences, and to derive key operational conclusions for policy makers and housing finance practitioners were successfully achieved.

Moreover, the World Congress created awareness of the major challenges and opportunities ahead in housing finance. Although it is now a decade since the Global Financial Crisis hit the financial sector, many of the issues at the World Congress revolved around the aftermath of the crisis, with discussions on tighter regulation, increased regulatory oversight and the reaction of the housing finance industry to these developments. There were also debates on how mortgage finance in emerging markets can be enabled and the affordability challenge be tackled. The congress facilitated greater understanding of the jigsaw of different perspectives around the world and assisted delegates in putting these pieces together.

The Mortgage Bankers Association strongly supported the International Union with the organization of the World Congress. The President of the Mortgage Bankers Association, David H. Stevens, addressed the congress in his opening speech and participants also had the pleasure of enjoying a splendid evening reception at the oldest residential building in Washington at the invitation of our American friends. This was the home of naval hero Stephen Decatur, and is located close behind the White House.

The meetings of the Members' Council and of the Executive Committee of the International Union for Housing Finance in Washington, which preceded the World Congress, approved the encouraging progress of the Union. It was no surprise that Andreas Zehnder was unanimously confirmed by the Council as president and Cas Coovadia as vice-president for another turn.

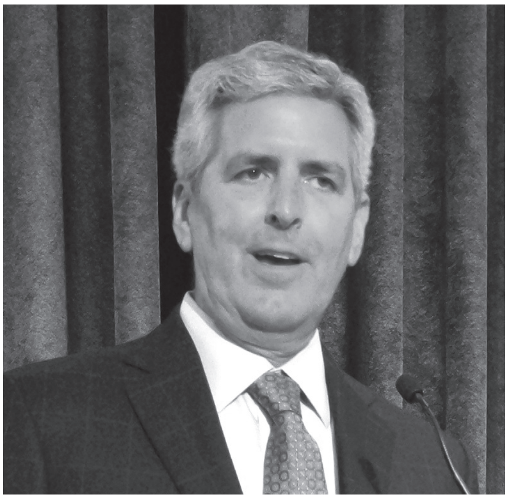
Four interesting issues of the journal Housing Finance International were published in 2017, underpinning its status as the leading journal of its kind. The diverse articles provide insights into the world of housing finance and its current developments which are unavailable from any other information source.

Representatives of the International Union for Housing Finance were present at several other events around the globe; new members joined the International Union, and on numerous occasions the team of the Union supported members with expertise or by identifying information and contacts. Throughout 2017, the International Union for Housing Finance clearly confirmed its role as the leading networking organization for facilitating the exchange of expertise and experience in housing and housing finance on a global scale.

We would like to thank the IUHF Executive Committee and the IUHF membership for their trust, and we are confident that together we will continue to contribute effectively to the further development of the global housing finance industry. We look forward to serving you in 2018.

Andreas J. Zehnder
President of IUHF

Mark Weinrich
Secretary General of IUHF



David H. Stevens
President and CEO of the Mortgage Bankers Association.

News from the African Union for Housing Finance Africa: Engaging the Housing Value Chain for Growth

By Kecia Rust

The African Union for Housing Finance held its 33rd annual conference in Kampala, Uganda, from 17-19 October 2017. Co-hosted by Housing Finance Bank Uganda Limited, an AUHF member, the meeting attracted 250 delegates from 47 organisations in the public and private sectors across 19 countries. The conference theme, "Engaging the Housing Value Chain for Growth", focused on the key issues along the value chain that support the affordable housing finance sector. Conference presentations are available on the AUHF website http://www.auhf.co.za/conference/33rd-african-union-housing-finance-auhf-conference-agm-2017/

The AUHF Conference was opened by Ugandan Prime Minister Mr Rugunda, who delivered the President's keynote speech. The Hon. Matia Kasaijja, Minister of Finance, Planning and Economic Development also gave a presentation. The industry key note speaker was Ms Debra Erb, Managing Director of Housing Programs for the Overseas Private Investment Corporation [OPIC]. Across the breadth of the presentations given, speakers focused on key issues relating to each stage in the housing delivery value chain: land, infrastructure, construction and financing. The sessions considered both private and public investment opportunities, and the financing of affordable housing approaches at scale.

A session held on the second day invited six would-be innovators to pitch their initiative to the plenary of delegates in a six minute "elevator pitch" presentation. Delegates were then invited to "invest" a fictional US$50 million each in the selection of innovations that were presented. A total of 140 investors had a $7 billion to invest, at $50 million each. Of this, delegates chose to invest $6.5 billion. The Millard Fuller Foundation received the most, with 22% of the vote, an investment of $1.4 billion.

The Millard Fuller Foundation is an organisation based in Nigeria, that promotes the development of affordable housing. In the course of their work, they have developed an incremental, starter house for Naira 2.4 million (about US$7 500). A current project in Abuja consists of 400 units, including 200 studio apartments (expandable to one-bedroom) and 200 one-bedroom (expandable to two-bedroom) apartments. These have been bought by the Family Homes Fund in Nigeria, and are being on-sold to qualifying buyers through a mortgage loan scheme targeting low-income earners. The effort is worth considering carefully: if this house were available across the continent, and given our rough understanding of incomes in urban areas, it would be affordable to more than 50% of the population in 24 countries. This latent demand is equivalent to about 52 million housing units.

A back-of-the-envelope calculation can offer a sense of potential. Across the continent, about 52 million households could afford, at current financing rates in their countries, a mortgage for that $7500 house. Delivering this entirely would generate almost US$400 billion of economic activity just with the construction of that housing and its related infrastructure. If we imagined a 10-year delivery programme of 5 million houses per annum across the continent at this price, we could stimulate almost US$40 billion of direct economic impact annually. This could unleash US$22 billion in direct upstream economic activity (80% of which would be in manufacturing), and US$18 billion in construction sector economic value added, per annum. Labour remuneration of US$6.6 billion per annum would stimulate and sustain over 1.3 million jobs in Africa's economies, in the construction sector alone.[1]

The potential is not evenly distributed across all of Africa's economies, nor is the potential to deliver at the scale suggested. However, the latent potential of just twelve African countries in this market for US$7500 houses exceeds US$10 billion in total. Six of those have latent markets worth over US$30 billion.

Of course, this calculation also presumes the availability of mortgages to finance the transactions – a critical piece in the puzzle. Africa's mortgage markets are tiny, and, for the most part, expensive. If, however, the necessary long-term capital to enable such borrowing were available, and assuming that the total value was mortgaged at 80%, this would add over US$32 billion to Africa's mortgage markets per annum. The impact that this would have on the potential for domestic economies to intermediate, and the consequent downstream activities even in other sectors that this would facilitate, could change the continent's growth prospects dramatically.

The composition of mortgage markets, and specifically the terms at which mortgages are offered, is important. Even the $7500 house, however, would be unaffordable to more than 90% of the population in eight countries. This is where the impact of finance becomes evident. Only 5% of the urban population in Ghana, for example, would afford a $7500 house. In Ghana, the current mortgage interest rate is 33% over twenty years. Similarly, in Malawi, where the mortgage interest rate is 34%, only 3% of the urban population would afford the $7500. With an interest rate of 25% in Mozambique, only 3% of the urban population would afford the $7500 house.[2]

All of these issues were considered over the course of the AUHF's two days in Kampala. The AUHF Conference ended with the Annual

[1] This calculation is based on work done to build a Housing Economic Model in South Africa. See http://housingfinanceafrica.org/story-housing-economy-exploring-south-africas-housing-value-chains/. While South Africa's construction economy is not likely to be representative of what might be found in other countries, it is worth considering from a vision perspective. Current work to build a Housing Economic Model for Nigeria and Tanzania is underway, and may shed more light on the detail of the potential.

[2] These calculations are based on the prevailing mortgage rates and terms in each country, and household expenditure data as provided by the Canback Global Income Distribution Database (CGIDD). For more information see CAHF's 2017 Housing Finance Yearbook, on http://housingfinanceafrica.org/resources/yearbook/.

General Meeting of the members of the AUHF. The members agreed on a "Kampala Declaration for Housing Finance", which was then circulated among key stakeholders and within AUHF member countries. The Kampala Declaration is reproduced below.

Declaration of the Members of the AUHF following the Annual General Meeting held in Kampala, Uganda on 19th October 2017[3]

We, the members of the African Union for Housing Finance, having met with colleagues from the public and private sectors from twenty-four countries over the past three days, and having held our 33rd annual general meeting in Kampala, Uganda on 19 October 2017, express our **commitment to promote and finance the accelerated delivery of affordable housing across Africa, engaging the housing value chain for growth in each of our countries**.

We note:

1. Africa's cities face a critical and growing **need for affordable housing**. With an urbanisation rate of 3.5% over the past two decades, Africa's cities are among the fastest growing in the developing world. Currently, about 40% of the continent's one billion people live in cities and towns; and it is estimated that in the next few years, some African cities will be home to as much as 85% of their country's population. By 2030 it is estimated that the middle class in Sub-Saharan Africa will more than triple, to an estimated 107 million people. Housing delivery rates across the continent, however, are insufficient to meet this growing demand, and the housing that is delivered is unaffordable to the vast majority. As a result, the majority of Africa's urban population continues to live in inadequate housing.

2. In contrast to the obvious need, and the interests of investors in our economies, we see **limited investment in affordable housing**. In East Africa, core deposits in the commercial banking sector cover only 3% of the potential mortgage funding need of US$ 42,2 billion, and as a result, less than 1% of individuals in formal employment in the region have an outstanding mortgage. With the exception of Kenya, where the Nairobi stock exchange holds over US$ 500 million in housing investments the stock exchanges in Uganda, Tanzania and Rwanda together hold only US$ 63 million in housing investments. Over the period 2000 to 2017, only 10% of the total asset portfolio of investors (US$ 4 billion) was allocated to investments that have a direct impact on the housing and housing finance sector.

3. This notwithstanding, **housing is embedded in the economy**. A critical growth multiplier, the production of housing can transform our cities into productive spaces that meet the needs of all residents, including low income earners. Backward and forward linkages grow our manufacturing and services sectors and contribute towards job creation, creating an economic stimulant and opportunities for revenue generation. For most households, housing is their primary expenditure item and most significant asset. The multiplier effects of housing thus extend benefits to our countries far beyond the provision of housing, creating significant opportunities for stakeholders in both the public and private sectors.

4. Our governments have recently committed themselves to a **New Urban Agenda (NUA)**, agreed at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III), held in Quito Equador, in October 2016. The NUA envisions cities that are accessible in all ways to all residents, and in which the public and private sectors work together to achieve this goal. To this end, the NUA includes a vision for cities and human settlements that *"meet the challenges and opportunities of present and future sustained, inclusive and sustainable economic growth, leveraging urbanization for structural transformation, high productivity, value-added activities and resource efficiency, harnessing local economies and taking note of the contribution of the informal economy while supporting a sustainable transition to the formal economy."*

We understand:

1. The delivery of affordable housing is highly dependent on the smooth functioning of the **housing value chain**. From land assembly and acquisition, to the provision of secure tenure and title, the installation of bulk infrastructure and the construction of housing, to the sales, transfer and occupation of the unit, and so on, significant challenges exist:

   a. **Land assembly / acquisition:** In many cities, well located land is expensive and difficult to secure for residential development purposes, comprising upwards of 25% of the purchase price of a standard, entry-level house.

   b. **Title / tenure:** Land registry systems are still in their infancy in many cities, and in other cases not yet digitised. This undermines the use of land as collateral for housing finance, and stifles the development of our mortgage markets. In some jurisdictions, poor legal enforcement of mortgage rights over property acts as a disincentive for lenders and undermines access to housing finance.

   c. **Bulk infrastructure:** The lack of bulk infrastructure is a serious constraint to the delivery of affordable housing. In many cities, municipal governments are unable to provide bulk services, and the developer bears this as part of the overall development. This cost is passed on to the buyer in the calculation of the purchase price. In some cities, the cost of infrastructure can comprise up to 40% of the final purchase price.

   d. **Housing construction:** The residential construction sector across the continent is thin, with few developers having sufficient capacity to operate at the scale required, given current backlog and growth figures. While there have been developments in new building technologies, these are poorly accommodated in the building standards that regulate the industry. Weak regulations then further undermine the quality of the delivery output.

   e. **Sales and transfer:** High transaction costs and slow administrative processes undermine the sales and transfer of housing, and add risk to the system. In some jurisdictions, sales taxes comprise a significant component of the overall purchase price – as much as 17% of a standard, entry-level house.

   f. **Maintenance and ongoing improvements:** much of Africa's existing housing stock is in poor condition and in need of investment, in part as a result of over-crowding or the pressures of urbanisation. This is especially true for rental housing, which comprises more than a third of most urban housing stock across the continent. Further maintenance requirements relate to the quality of urban infrastructure and its ability to accommodate the increasing densities that are becoming the norm in our cities.

   g. **Social and economic infrastructure**, critical to the sustainability of our urban spaces,

[3] The African Union for Housing Finance held its 33rd Conference and Annual General Meeting in Kampala, Uganda, from 17-19 October 2017. Hosted by Housing Finance Bank Uganda Limited, an AUHF member, the meeting attracted 250 delegates from 47 organisations in the public and private sectors across 19 countries. The conference theme, "Engaging the Housing Value Chain for Growth", focused on the key issues along the value chain that support the affordable housing finance sector. Conference presentations are available on the AUHF website http://www.auhf.co.za/conference/33rd-african-union-housing-finance-auhf-conference-agm-2017/. For more information contact AUHF Coordinator Noluthando Ntshanga at auhf@housingfinanceafrica.org.

is often overlooked. To include this in the development of the housing project adds to the cost of individual units and undermines housing affordability.

2. Compounded by the issues encountered along the value chain, Africa's housing sector faces significant market challenges, including the following:

   a. Housing affordability is limited: Low wages, high unemployment, and low economic growth, undermines the housing affordability of the majority of Africa's residents. At the same time, formal, residential construction favours the higher end of the market. Poor targeting creates a new risk, which, as well as high construction and land cost, puts formal, developer-driven housing out of reach of majority. Developers focus on the high-end segments where the margins are larger. However, this has created a glut of properties affecting the asset quality of mortgages for lenders.

   b. Long term capital to support housing investment is insufficient and expensive, contributing to the high cost of mortgage lending and compromising the development of effective mortgage markets which themselves would support the scale delivery of affordable housing. Double-digit interest rates and risk-free securities make it difficult for private entities to issue at competitive rates, undermining investment interest in housing finance.

   c. Lack of data to support housing investment and policy making.

3. These challenges will only be overcome with a concerted effort on behalf of the public and the private sectors, working independently and together in specific initiatives at the local level, while supporting the development of appropriate, affordability-targeted housing products, services, policies and regulations at the national level.

We urge governments at the national, state or provincial, and local sphere to actively support the vision for adequate and affordable housing for all across our continent, by undertaking to do the following:

1. To **prioritise and mainstream the delivery of affordable housing by the private sector** in all ways that government plans for and regulates the built environment, from the development of affordable housing-focused land, housing and financial sector policies, through to the issuing of land availability agreements and building plan approvals, to the delivery and installation of bulk services, the delivery of social and economic infrastructure, and to ongoing local governance. Governments can effect such a prioritization through

   a. development of specific **policies that explicitly focus on affordable housing**, and outline government's role in its support,

   b. ensuring **access to land, secure title**, and security and trust in our land markets

   c. ensuring a **diversity of housing finance approaches**, not limited to secured finance, supported by macro-economic, trade and finance policies

   d. the **expedited delivery** of regulatory approvals all along the housing value chain, ensuring improved efficiencies in terms of time and cost, for the regularization and titling of land, and the development of affordable housing

   e. the development and implementation of **taxation regimes** that incentivise investment in affordable housing, whether through the provision of tax relief for specific market segments, or other measures

   f. enhancing **access to long term finance** through measures that crowd in private investment for affordable housing. This might involve pension reform, or macro-economic interventions reduce government reliance on corporate bonds and bills issuance as a revenue source, thereby improving the investment attractiveness of housing

   g. enabling **incremental housing delivery processes** for which municipal planning approvals are readily available and finance is easily accessed

   h. a sector wide approach to **subsidisation**, that engages with the full housing ecosystem and identifies where the public and private sectors should best target their efforts. Careful attention must be given to the potential for unintended consequences.

   i. promoting affordable rental as a viable housing strategy to be delivered by a diversity of suppliers, including both large scale developers and landlords, as well as households themselves.

   j. **transparent access to information** relating to the housing delivery and property market

2. To implement measures that support the **delivery of housing at scale**, whether through large scale greenfield projects where appropriate, or multiple smaller scale urban upgrading initiatives. Such support includes the development of measures to participate effectively as partners in projects with the private sector, providing confidence in a pipeline of activity, while prioritizing local capacity. Government attention specifically on the delivery of infrastructure can have a profound impact on both scale and affordability.

3. **Address risk and uncertainty in the housing delivery value chain**. These are key factors contributing to the high cost of housing and the reticence of investors to fully commit to this segment of the economy. Governments at all spheres of operation can impact significantly on both of these factors by formally adopting policy and promulgating clear legislation for the housing sector, while also developing and implementing protocols that establish clear timeframes for the delivery of administrative approvals or the implementation of other regulations. Focused attention to the time it takes to deliver and achieve approvals, and the trust necessary for the system to work, is a key contribution that government can make to engaging the housing value chain for growth.

We commit ourselves:

We, the members of the AUHF, confirm our commitment to the growth and development of affordable housing across our continent. As individual housing sector practitioners, and collectively as members of the African Union for Housing Finance, we reiterate our commitment to the clauses contained in the New Urban Agenda, specifically:

46. We commit ourselves to promoting the role of affordable and sustainable housing and housing finance, including social habitat production, in economic development, and the contribution of the sector to stimulating productivity in other economic sectors, recognizing that housing enhances capital formation, income, employment generation and savings and can contribute to driving sustainable and inclusive economic transformation at the national, subnational and local levels.

140. We will support the development of appropriate and affordable housing finance products and encourage the participation of a diverse range of multilateral financial institutions, regional development banks and development finance institutions, cooperation agencies, private-sector lenders and investors, cooperatives, moneylenders and micro finance banks to invest in affordable and incremental housing in all its forms.

We are further committed to:

1. The **financing and delivery of affordable, adequate housing** for all residents of our cities across the countries in which we work. In this, we will work towards

a. Better targeting: As banks and pension funds, to think more carefully about risk and to price for this in the mortgage sector, engaging in our pricing and underwriting mechanisms with the particular characteristics of low income households, how they earn their income and how they manage their housing investments.

b. Products that address the reality of affordability, not limited to mortgage finance and developer-driven housing, promoting and engaging effectively with the savings of the poor.

c. More appropriate underwriting standards that engage with the informal sector. We will continue to explore mechanisms to qualify informal incomes for housing lending

d. Leveraging the power of technology and innovation platforms to improve affordability and our ability to deliver at scale

e. Promotion of local businesses, awarding contracts locally. This is critical to mobilising the housing investment multiplier locally. Use of local building materials and supporting housing affordability

f. Showcasing good practice

2. Shifting the **focus of our investments towards affordable housing** in particular, making the capital markets relevant to the real economy enabling longer tenor loans.

3. **Ethical business practice**, that champions sustainable impact together with financial return. In the delivery of products and services to our clients we are committed to sound and effective consumer education to support their sustainable entry into the property market.

4. Working effectively in the development of **strategic partnerships** with each other, our governments, and the wider housing sector in our cities, countries and regions.

5. **Tracking these commitments** with clearly defined key performance indicators, to which we will each contribute, and we will report back on these at our next AGM, to be held in the fourth quarter of 2018.

The AUHF is keen to engage with respective governments at the national and local level on both macro and micro economic issues, including interest rates, tax and monetary policy, and housing and land policy as it influences the growth and performance of housing markets. The AUHF and its members look forward to working with governments and other stakeholders, in their respective cities, countries, and across the continent, in driving investment in Africa's housing sector so that it contributes substantially to Africa's growth agenda.

15 November 2017
AUHF Board of Directors: Oscar Mgaya (Chairman), Charles Inyangete (Vice Chairman), Cas Coovadia (Treasurer), Omar Sarr (Secretary), Femi Adewole, Ruth Odera, Reginald Motswaiso, Joseph Chikolwa

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Housing news from the Asia-Pacific Union for Housing Finance

↳ **By Zaigham M. Rizvi**

Housing finance in Pakistan, measured in terms of outstanding mortgages did not see any visible signs of improvement, since the last quarter, hovering at around US$ 0. 65 billion. The major share of the pie is with Islamic banks, followed by banks in the private sector and the House Building Finance Co. [HBFC]. The HBFC's outstanding housing finance loan book stands at around US$ 0.125 billion, which is shrinking due to more prepayment than new financing.

In terms of gender, around 92% of the total outstanding borrowings were to male clients. In terms of income source, around 60% of the loans originated from the salaried class, 10% from the self-employed and 30% from business borrowers.

The HBFC, the state-owned specialized housing finance institution, has completed its financial restructuring process, under which it is now 90% owned by the State Bank of Pakistan [SBP], the central bank of the country. With this restructuring, the effective ownership of HBFC has now moved away from the Ministry of Finance, Govt of Pakistan to the SBP and SBP is now the owner as well as the regulator of HBFC.

Mr. Syed Basit Aly has recently assumed the role of Managing Director of HBFC. Mr. Basit is a seasoned banker and is well versed with housing and housing finance in Pakistan. Prior to joining HBFC, Mr. Basit was heading the function of housing and housing finance at SBP. With his joining as Head of HBFC, the market expects that HBFC will soon be geared up to play its due role in housing finance, with a focus on low-income affordable housing.

Philippine

Philippine housing sector to continue growth but funding remains a barrier

The Philippine housing sector is likely to continue growing due to increasing local demand coupled with a push coming from regional integration, although funding remains a key barrier in terms of further expansion. Officials at the National Housing Mortgage Finance Corp. [NHMFC] at the NHMFC Philippine Housing Finance Conference 2016 estimated that a 5.7 million backlog for low-cost and socialized housing will persist as access to financing channels remains limited to traditional avenues.

Bangko Sentral ng Pilipinas [BSP] Deputy Governor Diwa C. Guinigundo said increased demand for housing and commercial space is expected as the country moves towards the Association of Southeast Asian Nations [ASEAN] integrated market, which would tap a 630 million consumer base and amid increased domestic activity that has propped up demand. However, he flagged access to finance as the key barrier to home ownership.

"Despite strong demand, some developers experience tightness in financing for huge real estate projects. There is a need for new, alternative mechanisms; probably a more creative, imaginative way of providing financing to the industry to fund long-term needs for real estate," Mr. Guinigundo said during the conference at the Makati Shangri-La Hotel.

The central bank official said that they want banks to maintain their lending standards and continue to extend more loans to the sector with "prudence," amid growing demand for housing units led by a change in preferences among the working class and rapid demand for office space.

Philippine banks extended P1.138 trillion in real estate loans during the first half of 2016, a fifth higher than the P949.88 billion tallied a year ago, based on BSP data. This accounted for 19.2% of banks' total loan portfolio as of end-June 2016, with 75% of the credit given to property developers and construction firms.

Mr. Guinigundo said the Philippines is far from seeing an asset bubble just yet, with robust demand for housing units driving up prices rather than an over-supply. The cost of acquiring a home rose by 9.2% during the first quarter from a year ago, according to central bank data.

Rodelio B. Racadio, National President at the Subdivision and Housing Developers Association, Inc. [SHDA], said housing production should be increased to 350,000 units annually to catch up with the backlog, against a 15-year average of 180,000 units. Comprehensive government subsidies and tax incentives, simpler licensing procedures, and affordable financing schemes for buyers would also allow the housing gap to narrow, Mr. Racadio added.

(Source: Melissa Luz T. Lopez, Senior Reporter Business World Oct 07, 2017)

Thailand

↳ K.I. Woo

Residential developers in Thailand remain cautious on additional housing investments in late 2017 because of low consumer confidence and still tepid economic recovery.

The Real Estate Information Center [REIC] said that its housing developer expectation's index dropped from 67 to 61 in Q3 2017 due to projections of weaker revenues, presales, investments, employment and new project launches. Economic activities are expected to continue slowing down in Q4 while development costs are expected to increase. The REIC's developer's presale confidence index also dropped slightly from 53.7 to 53.1, in line with a commensurate consumer confidence index fall.

Despite the gloomy forecasts, developers remained confident that Q3 revenues would increase from Q2. Developers expected increasing Q3 revenues because they are selling higher priced homes. The REIC report also said that housing developers were focusing future developments in higher demand and strong purchasing-power segments.

Surachet Kongcheep, Associate Director of property consultant Colliers International Thailand, told the Bangkok Post that although the Thai economy was still recovering slowly it was showing positive signs because of export and tourism market growth.

"The overall economy is still sluggish. People don't feel the economy had improved and many businesses especially in the retail sector are struggling." He said office space demand has remained strong but will be challenged by a large amount of new supply in the future.

GH Bank expects lending growth of 8% in 2017:

Chatchai Sirilai, GH Bank President said that loan growth this year is expected to be about 8% per annum. At the same time, he expected that loan growth in 2018 will only be about 3-5%.

"The Bank is unlikely to maintain its 8% growth rate in 2018 because 2017 will be a very high base-year," he said.

GH Bank's expected 8% loan growth rate in 2017 will largely be attributed to numerous low –interest loans that attracted new homebuyers and borrowers from the other lenders, he said. For instance, the Bank recently launched its For Home program, that offers interest rates of 2.9% for the first two years; 4.5% for the third year and the minimum retail rate [MRR] minus 1% for the remaining term for employees of companies with special loan agreements with the Bank. GH Bank's current MRR is 6.75%.

The Bank's numerous low-interest rate programs, Chatchai said, helped boost housing loan demand even though home lending in general was relatively thin early this year.

Thailand's Government Housing Bank is expected to maintain its non-performing loan rate at 4% in 2018.

Chatchai Sirilai, GH Bank president told the Bangkok Post that the Bank's NPL ratio is expected to reach 4.2% at the end of this year. During 2017, the Bank sold bad loans with more than three years of late payments of Bt 6.97 billion ($US 211 million) to Bangkok Commercial Asset Management [BAM] for 55% of loan value.

Chatchai said GH Bank's housing NPL ratio is higher than that of five largest commercial banks (below 3%) because of the Bank's mission to serve government policy and consequently it has greater risk exposure. In the future, GH Bank is hoping to amend the existing Government Housing Bank Act so that it could establish its own asset management company to sell NPLs.

"We expect to achieve higher selling prices if our NPLS are managed by our own asset management company," he said.

The amended law is expected to be approved by the National Legislative Assembly by the second quarter of next year.

GH Bank's net profit was Bt 9 billion baht ($US272 million) as of October 16, compared with this year's total net profit target of Bt11 billion ($333 million).

Its outstanding loans increased by 4.67% from the end of last year, while its capital adequacy ratio of 14.4% exceeded the Bank of Thailand's minimum requirement.

Developers and banks offering fantastic deals at 2017 Thai home and condo show:

To spur tepid demand, Thai housing developers and financial institutions offered fantastic housing deals at this years' Thai home and condo show in October 2017.

The event was hosted by the Thai Real Estate Association, Thai Condominium Association, and the Housing Business Association at the Queen Sirikit National Convention Center.

The Nation reported that Ananda Development Plc's Ananda Heart Sale campaign offered buyers zero baht booking fees, monthly installments of Bt1,500 ($US45) for residential units priced at Bt1 million each ($US30,000), and discounts of up to Bt300,000 ($US9,090) for condominium units priced between Bt1 million and Bt2.6 million ($US30,000 and $US78,787).

The Government Housing Bank offered special 2.90% interest rates on mortgage loans and no loan fees for the first three years of any loans. Home buyers signing contracts at the event will not be required to pay transfer fees.

Adirek Sangsaikaew, the event's chairman said that expected home sales at the event will be between Bt4 billion and Bt8 billion ($US121 million and $US242 million). He estimated that property sales will grow by about 10% in 2017, because of the country's continuing economic recovery and higher purchasing power. Commercial banks, he said were also beginning to relax loan qualification requirements, making it easier for buyers to obtain home mortgages.

India

Indian Mortgage Finance Market: Performance Update and Outlook

India has a unique housing finance regulatory regime model, whereas housing finance by commercial banks is regulated by the central bank, the Reserve Bank of India [RBI], the National Housing Bank [NHB] is the regulatory agency for housing finance companies. The NHB, a wholly owned subsidiary of RBI, was set up on 9 July 1988 under the National Housing Bank Act, 1987. NHB is an apex financial institution for housing. NHB has been established with an objective to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support incidental to such institutions and for matters connected therewith. NHB registers, regulates and supervises Housing Finance Companies [HFCs], keeps surveillance through On-site & Off-site mechanisms and co-ordinates with other Regulators. As of 17.03.2006 there were 44 registered Housing Finance Companies. Out of these, 22 HFCs have Registration Certificates with permission to accept public deposits. *(Source: NHB)*

"Housing for all' program has been launched by the new PM Mr. Narendra Modi.

Prime Minister Modi has been on a mission to expand affordable housing in Asia's third-largest economy and second in terms of population, next to China. In a country where slums sit cheek-by-jowl next to palatial luxury – including what has been reported as the world's most expensive private home (Ambany House in Mumbai), India's unhoused may soon become a more potent economic growth driver. *(Source: All India | © 2017 Bloomberg L.P | Archana Chaudhary and Pooja Thakur Mahrotri, Bloomberg, May 09, 2017)*

Prime Minister Narendra Modi's drive to bring homes to the country's 1.3 billion people, together with rising incomes and the best affordability in two decades will unleash a $1.3 trillion wave of investment in housing over the next seven years, according to CLSA India Pvt. The firm expects 60 million new homes to be built between 2018 and 2024, creating about 2 million jobs annually and giving a tailwind of as much as 75 basis points to India's gross domestic product. Under the program the Government is supporting each potential client for a house with a grant of Rs 120,000 from the budget. The government has granted affordable-housing builders "infrastructure status," making them eligible for state incentives, subsidies, tax benefits and institutional funding.

Malaysia

↪ Datuk Chung Chee Leong, Chief Executive Officer, Cagamas Berhad

The residential property market has picked up, with total transaction value registering a positive annual growth of 0.9% for the first time since 2015 (Q4 2016: - 11.6%). Volumes of housing transactions conducted also improved, recording a smaller contraction of 5.4% in Q1 2017 (Q4 2016: -12.7%). This is mainly driven by transactions for the purchase of houses priced above RM500,000 in both primary and secondary markets.

The average house price registered an annual growth of 5.3% in Q1 2017. Housing loans for affordable homes remain available with a loan approval rate of 72% for houses priced below RM500,000. However, it is observed that new launches in this price segment have remained sluggish since 2015. Moving forward, the affordable housing outlook remains challenging, particularly for first-time buyers.

The Malaysian House Price Index (MHPI) increased by 5.6% in Q2 2017 (Q1 2017: 6.7%), reflecting a moderation in house prices.

The residential sub-sector continues to be the key market driver with 61.8% market share and 48.4% in terms of value. Demand for affordable housing continues to rise with 83% of the residential transactions within RM300,000 and below.

Unsold residential units recorded a new high of 130,690 units, with 83% of unsold units above RM250,000 price range. Source: Central Bank of Malaysia, Ministry of Finance

Promoting Access to Finance for Affordable Housing Conference organized by Habitat for Humanity - October 26, 2017, Washington DC, USA

Microfinance CEOs have led the way in developing housing products with the help of Habitat for Humanity's MicroBuild Fund. The participants shared some stories and ideas on how to further promote the mission.

The CEOs – representing Chaitanya in India (Mr. Samit Shankar Shetty, www.chaitanyaindia.in), Al Majmoua in Lebanon (Dr. Youssef Fawaz, www.almajmoua.org) and a representative of LOLC in Cambodia – offered their insights on what worked and what did not, as they financed their clients' home construction and improvement. At the networking session participants also discussed possible solutions to overcome the largest constraints to expanding housing microfinance and to creating better housing opportunities for low-income people.

Housing is considered to be a basic human need, known to have many social benefits for households and their communities including health, child development and social and economic empowerment. The challenge is expanding its size and nature as over 1.6 billion people globally live in substandard housing, and over 800 million people live in slums.

Low-income people face many housing challenges, with a lack of available financing and mortgages being among the most persistent. In fact, 3 billion people worldwide have little or no access to formal financial services. One area that shows great potential to solve these challenges is housing microfinance, which is defined as small, short-term, non-mortgage-backed loans offered in succession to support incremental building for low-income populations.

What has the experience been? Has housing microfinance provided returns to investors and social impact to clients? The sub-groups formed at the networking session discussed issues and possible answers.

Food, clothing and shelter are basic social needs. While a beggar may ask for food and the poor may ask for clothing, the shelterless poor at the base of the pyramid and from low-income segments of the population, all need shelter and need economic empowerment to have a shelter. Microhousing Finance aims to offer economic empowerment to these shelterless poor, which is the mission of the Habitat for Humanity International MicroBuild Fund. Housing microfinance, even by micro finance institutions (MFIs) takes only a very small slice of their microfinance activities i.e.t 2% or so. The candidates for housing microfinance generally originate from slums, squatter settlements and inadequate habitat and are not getting due attention and support from urban planners and municipal administrations. The issue of slums originates with the failure of the State and urban planners in addressing challenges of urbanization, which leads to emergence of slums/squatter settlements. The possible answers on the supply-side are in programs for slums improvement, slums rehabilitation and slums restatement. The possible answers on the finance – side are housing-microfinance loans for renovation, incremental housing and new construction.

The major challenges being faced by housing microfinance are short term loans, which are caused by the absence of long term funding sources available to MFIs. High interest rates are being offered by MFIs engaged in housing microfinance, which is due to high intermediation costs.

The discussion group on finance stressed that MFIs need to explore "blended finance" options, so as to have a blend of various financing sources of funds, with varied tenors and a mix of fixed and variable interest rate options. The conference also stressed that MFIs need to have focused gatherings to explore ways and means to manage intermediation costs. The international forums like Habitat for Humanity International/MicroBuild, World Bank, Asian Development Bank, Islamic Development Bank and African Development bank can play a valuable role here as did the Habitat/MicroBuild conference in Washington.

News from Latin America and the Caribbean; some facts and figures on the mortgage banking sector

↳ By Claudia Magalhães Eloy

Housing finance systems in Latin America and the Caribbean are still, with few exceptions, relatively small, even though many countries experienced a significant mortgage expansion in the last decade. The mortgage credit to CGP ratio ranges from as low as 1%, as is the case with Paraguay, to above 22% in Chile, the highest rate in the region, while Brazil and Mexico stand at around 10%, surpassed by smaller economies such as Bolivia (11%) and Costa Rica (16%).

Using univariate regressions in a cross-country analysis, Cerutti, Dagher and Dell'Ariccia (2016) find that differences in GDP per capita and the credit-to-GDP ratio explain, respectively, more than 50 and more than 60% of the variation in the mortgage-to-GDP ratio. They also observed important variations, linked to institutional, cultural, and macroeconomic factors, in the depth of mortgage markets across countries with similar levels of economic development.

The development of housing finance systems is indeed highly dependent upon macroeconomic stability, as well as information (about the borrower and the property given as collateral), registration systems and legal framework, notably lender recourse and foreclosure procedures. Warnock (2014) finds that LAC countries already tend to score well in depth of credit information systems, yet there is need for improvement regarding legal rights for borrowers and lenders, as well as registering property. In relation to registration, the cost of registering property reaches 7% of the property value in Argentina, to give one example.

This round up intends to focus briefly on the LAC banking sector, which, despite some development in the region's capital markets, remains the backbone of local housing finance systems. Cull, Martinez Peria and Verrier (2017) have observed significant transformations in ownership structure around the world, since the mid-1990s: an increase in foreign bank participation and a decline in government-owned banks. This widespread process of financial liberalization was also seen in LAC countries and it led to the entry of foreign banks, but generated more concentrated systems in the region.

Moreover, although some would argue that financial liberalization has gone further in LAC than elsewhere, as a result of financial crisis in the region, most of its largest economies – Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay – still have publicly owned mortgage lenders, often responsible for large shares of the mortgage market. CAIXA, in Brazil, has a share of 67% and the National Housing Bank of Uruguay, around 50%. A common explanation for the importance of governments and public banks in their housing finance systems is the role they play in expanding down-market access:

"Chile's sole government-owned bank, Banco Estado, plays an important public policy role by

(i) catering to low-income individuals with an explicit mandate towards promoting home ownership and national savings;

(ii) offering financing to small and mid-sized enterprises (SMEs); and,

(iii) providing banking services to remote rural areas that are not served by private sector alternatives." (Moody's, August/2017)

Indeed, Banco Estado, a survivor of the waves of bank privatization in the mid-1970s, 1980s and 1990s, is one of the three largest banks in the country, responsible for 13% of total loans and 18% of all deposits. More importantly, it is the largest bank in the residential mortgage segment, with a market share of 19% (loan volume), responsible for 53% of total mortgage contracts (mortgage loans account for 38% of the bank's loan portfolio). Moody's (2017) estimates that Banco Estado needs to receive a capital injection of approximately USD1.6 billion, in order to meet the minimum 4.5% Common Equity Tier 1 (CET1) and comply with Basel III.

CAIXA, the major Brazilian mortgage lender needs a much higher capitalization of USD3.1 billion, which has been denied by its shareholder, the Federal Government. CAIXA is in search of an alternative solution that comprises the sale of perpetual bonds to FGTS, the workers' indemnity fund under its management, while the housing industry sector fears a shortage of credit. Such a high level of dependency upon one sole public bank may therefore be troublesome.

On the other hand, the risk aversion of private banks favors short term commercial and consumer loans, as observed by Domínguez, Fernandini, Riquelme and Schneider (2017), "[during] the 2008-09 period, only 13% of the total credit portfolio in the region was earmarked for mortgages, while 60% corresponded to commercial loans, and the rest to consumer loans."

Furthermore, overall, capital markets in LAC countries have fallen short from expanding long term funding for mortgage and credit supply, while equity and derivative markets have shown significant growth.

Another interesting aspect is that LAC housing finance systems are generally characterized by a small number of firms originating and funding mortgage loans – only 15 in Chile and Brazil, 24 in Mexico and 35 in Colombia. This may help explain, at least partly, the often-found prevalence of relatively high spreads. Yet, this contradicts expectations of increased competition stemming from the liberalization of financial markets, greater reliance on market mechanisms and improved macroeconomic stability throughout the region, which has often included overhaul of the regulatory and supervisory systems for financial institutions.

The shortage of credit supply to real estate developers is another issue still present in some countries. The Inter-American Development Bank (2017) has observed that in Paraguay, for instance, there is no credit source specifically designed or suitable for the housing construction business and developers access only personal or business credit products backed by personal or corporate guarantees.

It appears that further analysis of the mortgage banking sector and capital markets in the region would encourage broader understanding and new perspectives regarding the development of LAC housing finance systems.

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News from the US:

What have the massive guarantees of mortgages by the U.S. government achieved? [1]

↳ By Alex J. Pollock

The U.S. government, through multiple agencies, indulges in massive guarantees of U.S residential mortgages. Much, but not all, of this happens through the formerly celebrated, then failed, humiliated and notorious, Fannie Mae and Freddie Mac. These companies, now owned principally by the U.S. Treasury and completely controlled by the government as conservator, are still mammoth, with $5 trillion in combined assets. And there are trillions of dollars of additional government involvement in the U.S. housing finance sector, which with $10.4 trillion in outstanding first lien loans, is the largest loan market in the world.

In the early 2000s, in the days B.B.B. [Before the Bursting Bubble], I had the pleasure to meet in Copenhagen with representatives of the Danish Mortgage Banking Association. They presented their highly interesting, efficient and private mortgage bond-based housing finance system, and I presented the government-centric, Fannie and Freddie-based mortgage system of the United States. (I was describing, by no means promoting, this system.) When I had finished my talk, the chief executive of one of the Danish mortgage banks made this unforgettable observation, "You know, in Denmark we always say that we are the socialists and America is the land of free enterprise and free markets. But I see that in housing finance, it is just the opposite!"

He was so right.

What has all the U.S. government intervention in mortgage credit achieved, if anything?

In 1967, the U.S. home ownership rate was 63.6 %. Today, in 2017, it is 63.7%. After fifty years of intense government mortgage credit promotion and guarantees, the home ownership rate is just the same as it was before. The government mountain labored mightily and brought forth less than a mouse, at least as far as the home ownership rate goes.

The scale of the U.S. government's absorption of mortgage credit risk boggles the mind of anyone who prefers market solutions. Fannie Mae guarantees or owns more than $2.7 trillion in mortgages. Freddie Mac guarantees or owns more than $1.7 trillion. Fannie and Freddie are said to be "implicitly guaranteed" by the U.S. Treasury, but whatever it is called, the guarantee is real. This was proved beyond doubt by the $187 billion government bailout they got when they went broke in 2008.

Then we have Ginnie Mae, a wholly-owned government corporation which is explicitly guaranteed by the U.S. Treasury. It guarantees another $1.7 trillion in mortgage-backed securities, with its total slightly greater than Freddie's.

The three together absorb $6.2 trillion of mortgage credit risk, all of it ultimately putting the risk on the taxpayers. This is more than 59% of the total mortgage loans outstanding. The U.S. government is in the mortgage business in a big way!

But this is not all. There is, interlocked with Ginnie Mae, the Federal Housing Administration [FHA], a part of the federal Department of Housing and Urban Development. The FHA is the U.S. government's official subprime lender. (Of course, they don't say it that way, but it is.) It insures very low down-payment and otherwise risky mortgage loans to the total amount of $1.4 trillion.

The federal Veterans Administration insures mortgages for veterans of the armed services to the amount of $596 billion.

The Federal Home Loan Banks, another government-sponsored housing finance enterprise, have total assets of $1.1 trillion.

Even the federal Department of Agriculture gets into the mortgage credit act. It guarantees housing loans of $108 billion.

A more recent, but now huge government player in mortgage credit is America's central bank, the Federal Reserve. The Fed is the largest investor in mortgage-backed securities in the world, owning $1.8 trillion of very long-term, fixed rate MBS guaranteed by Fannie, Freddie and Ginnie. So, one part of the government guarantees them, taking the credit risk, and another part of the government buys and holds them, taking the interest rate risk.

How does the Fed finance this long-term investment? By monetization – creating floating-rate deposits on its own books. This results in the Fed having the balance sheet structure of a 1980s American savings and loan: holding very long-term fixed-rate assets financed with variable rate liabilities. There is no doubt that this would have astonished and outraged the founders of the Federal Reserve System, and that for most of the Fed's history, its new role as mortgage investor would have been thought impossible.

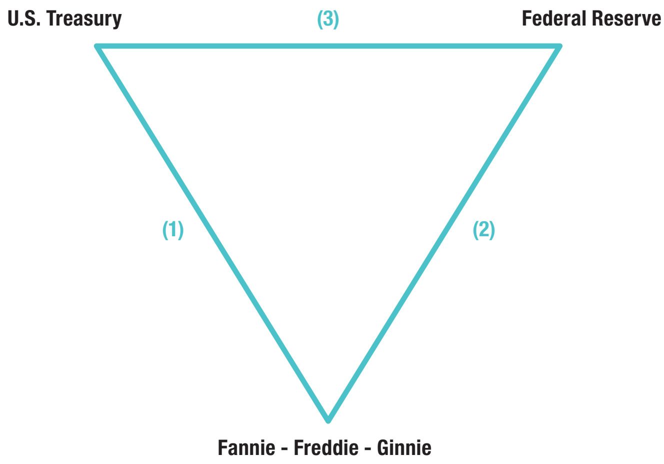
We can see that the U.S. now has a giant Government Housing Combine. It has a lot of elements, but most importantly there is a tight interlinking of three principal parts: the U.S. Treasury; the Federal Reserve; and Fannie-Freddie-Ginnie. It is depicted in Figure 1 as an iron triangle.

Let us consider each leg of the triangle:

(1) The U.S. Treasury guarantees all the obligations of Fannie, Freddie and Ginnie, which allows them to dominate the mortgage-backed securities market. The Treasury owns 100% of Ginnie, and $189 billion of the senior preferred stock of Fannie and

[1] This article is a based on my presentation, "The U.S. Government in the Mortgage Business, or: Who's the Socialist?" to the IUHF World Congress in June 2017, Washington DC.).

GOVERNMENT HOUSING COMBINE IRON TRIANGLE



Freddie, plus warrants to acquire 79.9% of Fannie and Freddie's common stock for a minimal price, virtually zero. Essentially 100% of the net profits of Fannie and Freddie are paid to the Treasury as a dividend on the senior preferred stock. Fannie, Freddie and Ginnie are financial arms of the U.S Treasury.

(2) The Federal Reserve owns $1.8 trillion in mortgage-backed securities, mostly those of Fannie and Freddie. Without monetization of their securities by the Fed, Fannie and Freddie would either have much less debt, or have to pay a significantly higher interest rate to sell it, or both. Without the guarantee of the Treasury, Fannie and Freddie could sell no debt whatsoever. The Fed earned $46 billion on its MBS investments in 2016, almost all of which was sent to the Treasury. The U.S. government is reducing its budget deficit by running its big mortgage business.

(3) The Federal Reserve finances the Treasury, as well as Fannie and Freddie. The Fed owns $2.5 trillion of long-term Treasury notes and bonds, in addition to its $1.8 trillion of MBS. Almost all, about 99%, of the Fed's profits are sent to the U.S. Treasury to reduce the budget deficit.

You can rightly view all this as one big government mortgage business. As my Danish colleague wondered, who is the socialist?

We asked before what this massive government intervention in housing finance has achieved. There are two very large, but not positive, results: inflating house prices and inducing higher debt and leverage in the system. Government guarantees and subsidies will get capitalized into house prices, and with the impetus of the Government Housing Combine, U.S. average house prices are now back up over their bubble peak. This makes it harder for new households to buy a house, and it means on average they have to take on more debt to do so.

Confronted with these inevitable effects, one school of politics always demands still more government guarantees, more debt, and more leverage. This will result in yet higher house prices and less affordability until the boom cycle ingloriously ends. A better answer is instead to reduce the government interventions and distortions, and move toward a housing finance sector with a much bigger private market presence.

I propose the goal should be to develop a U.S. housing finance sector in which the mortgage credit risk is at least 80% private, and not more than 20% run by the government. That's a long way from where we are, but defines the needed strategic direction.

HomeStart Finance: a unique approach to affordable home ownership

↳ **By John Oliver**

1. Profile of South Australia

South Australia [SA] is the 5th largest state of Australia with a population of 1.7m people (7% of the national total), and the 6th largest by population density, yet is also one of the most highly centralised: 76% of people live in the capital city, Adelaide, and the next largest urban centre is Mt Gambier (450km south east, with just 25,000 people). Principal industries are wine, agriculture and mining, while the state is known as being a sporting, cultural, food and wine centre. A number of world class wine regions such as the Barossa Valley are within only an hour of the Adelaide Central Business District [CBD].

In Australia, housing policy is largely the domain of the states. While in practice there are agreements between the Commonwealth and the states on how certain housing policy levers are run, each state has the capability to chart its own course. As a consequence, while several states experimented with home ownership programs only SA and Western Australia were able to develop and run sustainable and successful models, both of which continue to operate today.

Housing in SA is significantly more affordable than the populous eastern states, notably Sydney and Melbourne. The table below presents data from property analytics group CoreLogic, which highlights the difference in price levels via the 'month end value', a function of slow population growth including migration, and higher unemployment in SA than other states.

As at the 2016 Census, median rent in SA was $260 per week compared with $311 nationally, and 10.2% of households were paying more than 30% of their income to rent, compared with 11.5% nationally. Similarly, the median mortgage payment in SA was $1,491 per month compared with $1,755 nationally and only 6.6% of households paid more than 30% of income to home ownership, compared with 7.2% nationally.

2. Background information on HomeStart

Why do we exist?

A statutory corporation established by the state government in 1989 with the purpose of operating a home ownership assistance program, HomeStart operates as a home lender. In its 28 year history, HomeStart has helped an entire generation of home buyers purchase a home (almost 70,000 households), generated a profit in every year of operation and returned over $600M to the SA government. It is estimated 90% of customers would have been unable to get a loan from a mainstream financial institution. HomeStart's loan portfolio is approximately $1.9bn, supported by net assets of around $165M.

CoreLogic RP Data Daily Home Value Index: Monthly Values - 31 July 2017

CITY	ALL DWELLINGS			HOUSES			UNITS		
	Month End Value	% Change Year on Year	% Change Month on Month	Month End Value	% Change Year on Year	% Change Month on Month	Month End Value	% Change Year on Year	% Change Month on Month
Sydney	1133.36	12.37 ▲	1.37 ▲	1235.44	12.81 ▲	1.30 ▲	810.86	10.30 ▲	1.71 ▲
Melbourne	941.55	15.93 ▲	3.12 ▲	1010.68	17.17 ▲	3.09 ▲	554.80	4.63 ▲	3.48 ▲
Brisbane (inc Gold Coast)	552.73	3.16 ▲	-0.67 ▼	575.84	3.27 ▲	-0.66 ▼	403.30	2.15 ▲	-0.75 ▼
Adelaide	483.93	2.06 ▲	1.07 ▲	498.60	2.19 ▲	0.69 ▲	360.82	0.59 ▲	5.55 ▲
Perth	566.53	-2.12 ▼	-1.32 ▼	575.89	-2.49 ▼	-1.55 ▼	466.74	2.96 ▲	1.75 ▲
5 capital city aggregate	845.39	10.40 ▲	1.45 ▲	886.90	10.83 ▲	1.37 ▲	634.80	7.45 ▲	2.02 ▲
Brisbane	535.77	2.22 ▲	-0.57 ▼	555.37	2.58 ▲	-0.57 ▼	391.12	-1.42 ▼	-0.56 ▼
Darwin	459.10	-2.09 ▼	-1.20 ▼	480.29	-3.56 ▼	-1.28 ▼	387.44	4.57 ▲	-0.85 ▼
Canberra	721.28	12.94 ▲	2.36 ▲	750.37	13.15 ▲	2.30 ▲	462.69	9.99 ▲	3.22 ▲
Hobart	384.45	6.54 ▲	0.87 ▲	389.46	6.98 ▲	0.71 ▲	341.36	2.41 ▲	2.47 ▲

Note: 5 capital city aggregate includes Sydney, Melbourne, Brisbane (inc. Gold Coast), Adelaide and Perth.
Month and Year Changes are updated monthly and calculated as at the end of each calendar month respectively.

Source: https://www.corelogic.com.au/research/monthly-indices, accessed 4 August 2017

HomeStart's reason for being is simply to "make home ownership a reality for more people in more ways". This is achieved by:

- Accepting lower deposits for certain groups of customers, such as people with formal qualifications above a certain level, key workers (e.g. nurses) or trades
- Accepting a wider range of customer income sources for loan servicing, including social security benefits (e.g. disability pension, unemployment benefits)
- Increasing customer borrowing power without increasing monthly instalments, through subsidised rate home loans or structures such as shared equity
- Reducing upfront costs by not requiring Lenders Mortgage Insurance (LMI), also known as Mortgage Indemnity Insurance in some jurisdictions.

HomeStart was established as a response to housing unaffordability, in part brought on by very high interest rates in 1989 in excess of 17%. Over ensuing decades, HomeStart has remained focused on its overall mission, whilst continuing to evolve how it solves home ownership problems for customers. Within the Australian mortgage market HomeStart has been at the forefront of significant innovation, including acceptance of rental history as a contribution toward genuine savings, recognition of educational qualifications as part of lending criteria, and the use of shared equity.

HOMESTART BY THE NUMBERS

$ 6.5 BILLION FUNDS LENT SINCE 1989

70,000 HOUSEHOLDS ASSISTED

$ 1.9 BILLION CURRENT PORTFOLIO

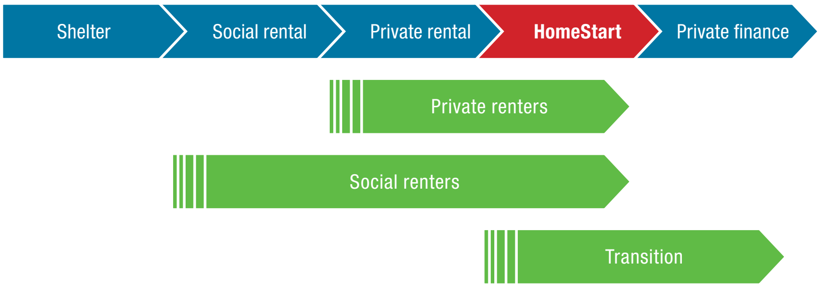
$ 600 MILLION FUNDS RETURNED TO SA GOVERNMENT

1 IN 6 FIRST HOME BUYERS IN THE STATE USE HOMESTART

90% OF NEW CUSTOMERS UNLIKELY TO GET A LOAN FROM A MAINSTREAM LENDER

$ 20.2 MILLION PRE-TAX PROFIT IN 2017

0.41% EXPECTED TOTAL LOSS RATE ON LOANS WRITTEN LAST 15 YEARS



HomeStart operates as a financial institution, complies with relevant consumer credit legislation and holds an Australian credit license.

Role in the SA housing market

HomeStart's role in the home finance market is best described using the housing continuum diagram above, illustrating the different housing tenures.

The diagram shows how HomeStart is targeted at people in private or public rental and enable them to shift to the right, moving away from government support including Commonwealth Rent Assistance [CRA][1]. It also highlights that home ownership via HomeStart provides a net financial benefit to government, as opposed to the cost of services through provision of public rental (e.g. HousingSA[2]), private rental assistance (e.g. CRA) or resulting from homelessness.

HomeStart's "transition" strategy

A key message from the housing continuum is that HomeStart is the gateway for customers to eventually achieve home ownership via mainstream finance. To this end, HomeStart positions itself as a way to buy a home sooner, and also as an interim step between renting and home ownership.

Customers who discharge their HomeStart loan (either by repayment or to refinance to another lender) represent successful home ownership policy outcomes, brought to life in what HomeStart terms a "transition strategy", whereby it deliberately does not seek to retain customers – an approach completely at odds with typical financial institutions.

At times in the past HomeStart has proactively worked to refinance customers to other lenders. Strategic levers – an interest rate in line with market but never discounted, use of brokers for distribution, and below-market commission rates – are used to achieve this goal in the long run.

3. Financial relationship with SA government

HomeStart's funding is obtained from the SA government central borrowing authority [SAFA], which borrows in its own name from wholesale markets. HomeStart is subject to a borrowing limit, currently $2.105 billion, with an annual review. HomeStart's raw cost of funds therefore represents that of the SA government as a borrower.

In line with Australian government principles around "competitive neutrality", i.e. a government entity should not have a competitive advantage over commercial organisations operating in the same market, a guarantee fee is levied upon HomeStart. In theory the fee is supposed to represent the difference in borrowing costs for HomeStart to access capital markets in its own name, versus the cost of funds for the SA government.

As a state government entity, HomeStart does not pay income tax to the Federal government, but does pay an income tax equivalent [ITE] to the state. It also pays 60% of net profit after ITE to the state as a dividend. In aggregate, HomeStart remits approximately $40 million per annum to the SA government, while maintaining equity in the order of $165-$170 million. HomeStart has generated a profit every year since inception.

Annual agreements are made between the Minister for Housing and Urban Development, and HomeStart, as to financial performance. Presently these include a target pre-ITE return on equity of 9%, a cost to income ratio below 55%, and a capital adequacy ratio in excess of 12%. HomeStart has exceeded all of these

[1] CRA is an income supplement paid by the Federal Government to eligible people living in rental accommodation.

[2] HousingSA is the SA government agency responsible for providing social housing services.

metrics in the most recent financial year (ending 30 June 2017) where it also delivered a record net profit of $20.2 million.

4. A truly unique home loan structure

HomeStart's standard home loan differs fundamentally to home loans used all over the world. In contrast with credit foncier structures, the HomeStart loan has a flexible term, with an instalment initially set as a percentage of income that is indexed annually by inflation. Therefore as interest rates rise or fall the term will increase or decrease. At current rate levels a home buyer today could expect to fully amortise their loan within 18 - 20 years.

Net income is used to calculate loan servicing capacity, with ratios established for single and double income households and reductions in loan servicing capacity for dependents. A "multiplier" is then applied to net income available for loan servicing to determine borrowing power. For example, at the time of writing the multiplier is 190x which means that a customer capable of servicing a mortgage of $1,000 per month can borrow $190,000.

Because the loan term is sensitive to real rate movements, HomeStart sets the multiple around long term expected interest rates and inflation so as to achieve a notional loan term of around 30 years in such an environment. However with rates below long term levels it means that customer loans written today will amortise faster than expected initially, but if rates rise in the future then the amortisation rate will slow. Despite the structure introducing the possibility of capitalisation (negative amortisation), through prudential analysis of the market environment, lending patterns, and loan structures, HomeStart has successfully managed the product through various interest rate cycles and economic shocks.

There are pros and cons to such a structure, and while it is valued by customers in high-rate environments it can become problematic as rates fall or remain very low. Some customers become frustrated by continual rises in instalments even when rates are falling; although others do appreciate it is helping them to build equity, faster. From a financial perspective, the rate of amortisation on the loan book creates a substantial headwind to building portfolio growth and consequently margin income, requiring a careful watch on operating expenses.

Notwithstanding all these issues, the fundamental structure of the product has now survived almost 30 years of interest rate volatility and remains relevant. Critically, with almost a third of customers reliant upon government benefits (e.g. social security) as a primary income source, the indexation of the loan instalment tends to match the behaviour of customer incomes, which are also indexed.

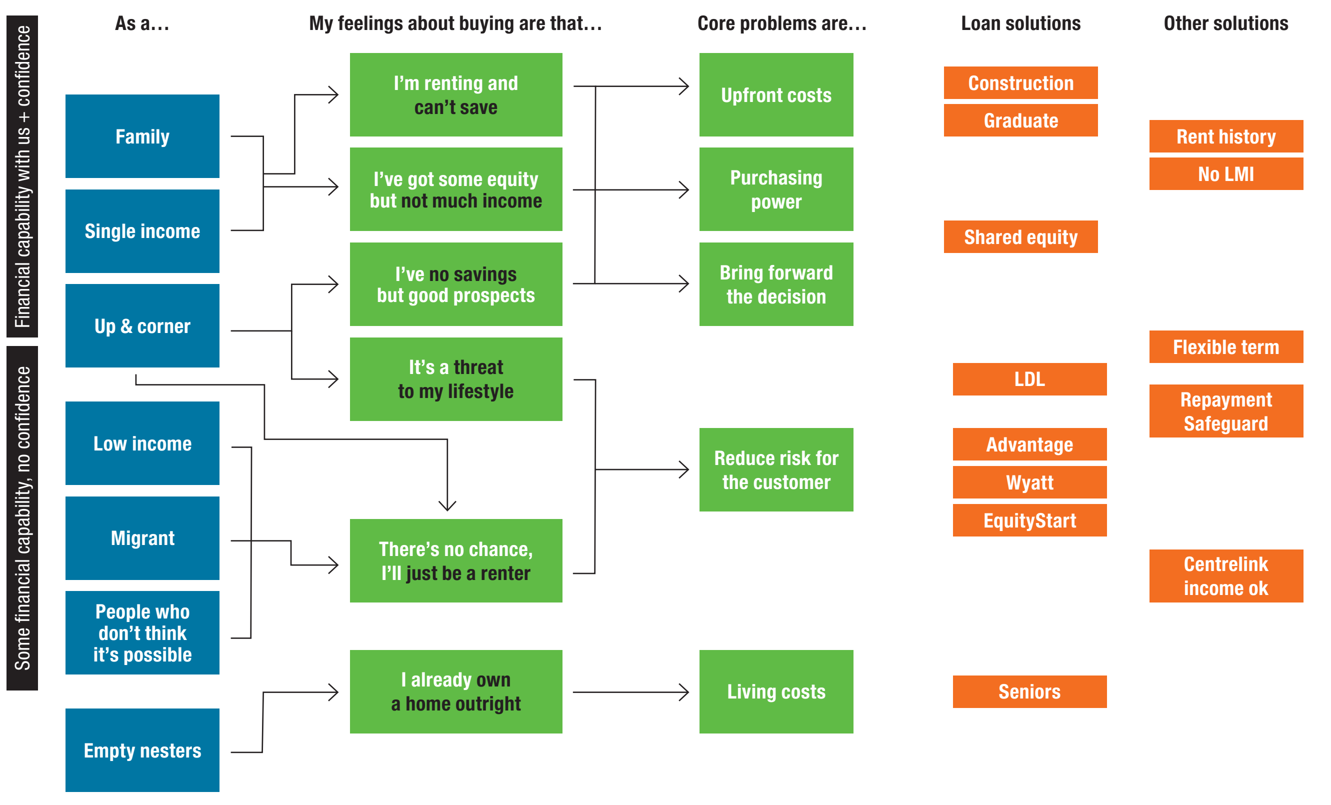
5. Interest rate setting

In Australia, most banks offer a "standard variable rate" [SVR] as a headline, and a variety of discounted variable rates and products, such that discounts of 0.60-0.80% are common. HomeStart works differently by offering a single standard variable rate, which is positioned generally within the range of SVRs offered by major banks. No discounts are available and these policies support HomeStart's overall 'competitively neutral' market positioning. Fixed rates for terms of 1 - 3 years are also offered and priced off prevailing swap rates.

6. Loan distribution

Loans are largely distributed through a network of brokers with approximately one third of new lending originated internally.

Mortgage brokers receive a unique value proposition from HomeStart. While commission rates are slightly below market, the presence of HomeStart in the market creates an opportunity for brokers to write a loan for a customer who may otherwise miss out. HomeStart's transition strategy



Sources: existing segmentation (2016), Square Holes journey research (2015), points of difference review (2017) then effectively creates an opportunity for the broker to regularly monitor the customer's home loan, and once they have accumulated sufficient equity, the broker can assist them to obtain a cheaper home loan from the private sector. In the meantime, HomeStart expects to be able to hold the home loan long enough in order to make sufficient return to meet performance targets. Average loan life is currently around six years.

7. Product solutions

HomeStart's products are designed to cater for the issues faced by various market segments in entering home ownership. Problems are distilled down to either borrowing power or upfront costs. The diagram on the previous page illustrates the organisation's customer-centric approach to developing solutions, which starts with customer segmentation. The context of each customer is considered, with core problems identified and product solutions arranged against them.

Generally, major areas of activity are in the Graduate Loan product (see at right), the standard or HomeStart Loan (also referred to as the 'Established' product) and, increasingly, lending to finance construction of a new dwelling. The latter in particular attracts significant activity from customers who are also 'Graduate' Loan customers (i.e. a customer can be in both categories, although the chart below will only count them in one area).

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8. Customer barriers to home ownership

HomeStart has focused its endeavours on what are seen as the two core barriers to home ownership: purchasing power and upfront costs. In addition to its standard home loan for established properties, the main product variations offered by HomeStart are grouped into the categories of lifting borrowing power or addressing deposit / upfront costs. They are:

8.1. Purchasing power and affordability

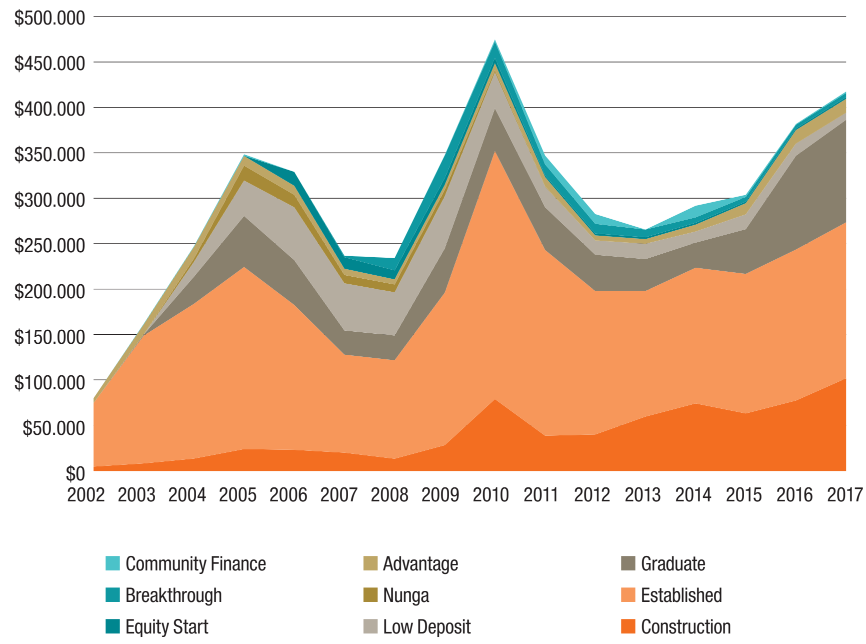
Advantage Loan – subsidised rate product for low-moderate income people designed to lift borrowing power without increasing monthly commitments.

EquityStart Loan – as per Advantage Loan but for social housing tenants only

Breakthrough Loan – a shared equity product

Construction Loan – build a new home with no repayments for 9 months or until construction is complete.

HomeStart new lending by product group ($000s)



8.2. Upfront costs

Graduate Loan – 3% deposit for people with a particular level of educational qualifications

Wyatt Loan – funded by the Wyatt Trust, a 5 year interest free loan of up to $10,000 for upfront costs

Low Deposit Loan – a 3% deposit product for people without educational qualifications

Other niche products or offers have been made over time including the Nunga Loan which was available for Indigenous home buyers, Community Finance loans available to community housing providers, and reverse mortgages.

A selection of HomeStart's products are explored in more detail below.

8.3. Products to lift purchasing power without increasing commitments

Advantage Loans

Since 1996 HomeStart has offered the subsidised rate Advantage Loan, which is a 'secondary' loan attached (i.e. sub-account) to the customer's primary home loan. Eligibility for the Advantage Loan is determined by income, and the funds are available once the customer has borrowed to their maximum capacity, in effect making it a purchasing power top up product.

The benefit to the customer is that the Advantage Loan increases their purchasing power without increasing their monthly commitments. This is because there are no scheduled instalments for repayment of the Advantage Loan; instead, it accrues interest at a rate equivalent to inflation until the primary loan is repaid. At that time, instalments are then directed to repayment of the Advantage Loan. While interest is capitalised, the real amount of debt remains the same over the life of the loan. Due to HomeStart's unique product structure, it simply has the effect of adding several years to the overall life of the loan, which over the history of HomeStart still tends be repaid well inside 30 years.

Until 2013 the Advantage Loan provided an interest rebate to customers if they were able to repay it within five years from settlement. The rebate was removed as part of a product restructure in 2014 in order to significantly increase the size and availability of the loan such that it is now a maximum of $45,000 and available for incomes up to $60,000 (net). Around a third of HomeStart's new customers take an Advantage Loan, and the organisation receives subsidy payments from the SA government to cover the negative interest margin. The Advantage portfolio stands at approximately $69 million, and supports almost 3,000 households.

EquityStart loans

Similar to the Advantage Loan, HomeStart also offers an EquityStart Loan to public and social housing tenants. EquityStart enables the customer to borrow their first $50,000 at a subsidised rate, with structures which otherwise mirror the Advantage Loan. The EquityStart program has assisted over 1,400 public and social housing tenants to purchase a home since inception in 2007 with more than $64 million advanced (excluding the primary home loan).

Shared equity

In Australia, HomeStart helped pioneer shared equity products, introducing the "Breakthrough Loan" to the market in 2007. The Breakthrough Loan enabled a household to increase their purchasing power by up to 35%, or lower their repayments, in exchange for HomeStart taking a share of future capital gains or losses, as well as an ongoing facility fee (3%).

Capital gain sharing is not pro-rata, with HomeStart taking a share equivalent to 1.4 times the proportion funded by the Breakthrough Loan; in other words, if the Breakthrough Loan was 30% of funding then HomeStart would take 42% of capital gains. Loss sharing is made on a pro-rata basis.

Over 1,300 households have taken out a Breakthrough Loan, in conjunction with their standard HomeStart loan, since launch with over $100 million advanced in the form of shared equity financing.

In practice the product proved immensely popular after launch with substantial take up; a function of rising rates at the time (rates peaked in 2008 at 9%) as well as continued strength in property prices through to 2010.

In 2017 HomeStart undertook a significant review of its shared equity offer which concluded that shared equity needed to be substantially simplified in order to become more accessible and accepted. To this end, HomeStart is now in the process of implementing a new shared equity product which has a simple pro-rata sharing of capital gains and losses, and is capped at 25% of total facility. The previous facility fee (3%) has also been removed. The shared equity component is held on HomeStart's balance sheet.

8.4. Products to reduce upfront costs

Graduate loans

HomeStart's Graduate Loan was first launched in 2002 and at the time enabled customers with tertiary level qualifications (i.e. university degree, or higher) to purchase a home with a lower deposit. Initially the program commenced offering a 100% LVR although this was later wound back to 97% where it remains today.

Over time the qualification hierarchy eligible for a Graduate Loan has extended, firstly encompassing Diploma level qualifications and more recently expanding to include all Certificate III (vocational) level education. Arrears and loss levels for Graduate customers are significantly lower than experienced across the rest of the portfolio.

Analysis of employment and income outcomes by qualifications tier identified a positive correlation, particularly once Certificate III/IV level qualifications were achieved. From this level onward, the employment outcomes across the qualification hierarchy were similar, and while earnings had a positive correlation with education, Certificate III/IV appeared to be an inflection point. HomeStart considers this could be a significant predictive factor for mortgage success that is so far untapped by the financial sector. By way of example, the expected loss rate for the Graduate portfolio is currently at 0.08% compared with 0.41% for all loans.

9. Our customers – who we exist for

Approximately 90% of customers would be unable to get a loan from mainstream sources at the time they purchased a home. Notwithstanding this, at least half of the loans made to first home buyers are refinanced which means that once a customer has spent several years building equity and demonstrating a repayment history with HomeStart they become attractive for mainstream lenders.

This is the essence of HomeStart's role: creating opportunities which give people a start in home ownership and then encouraging an eventual shift to private sector financing. It recycles HomeStart's capital and limits the exposure of the state government.

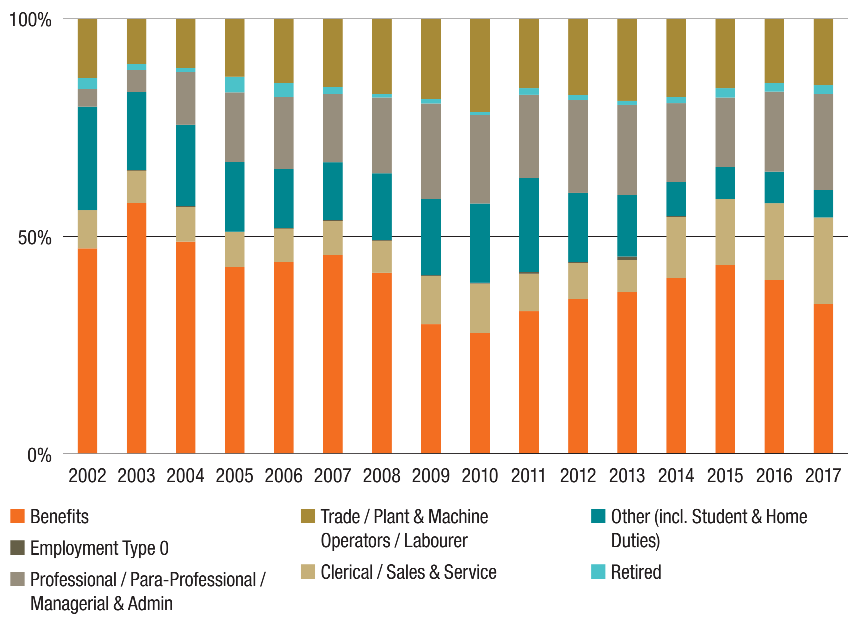
A snapshot of HomeStart's lending in the past decade[3] shows that:

- 51% of loans were to first home buyers
- 35% relied on social security as their primary income
- 20% were in professional or managerial occupations
- 19% worked part time or casual
- 71% were earning less than $65,000
- 48% were moving out of private rental

9.1 Employment and income source

HomeStart's acceptance of Centrelink (social security) income for loan servicing (subject to certain criteria) represents a key difference to mainstream lenders. This has been a feature

HomeStart: % of new lending by employment type



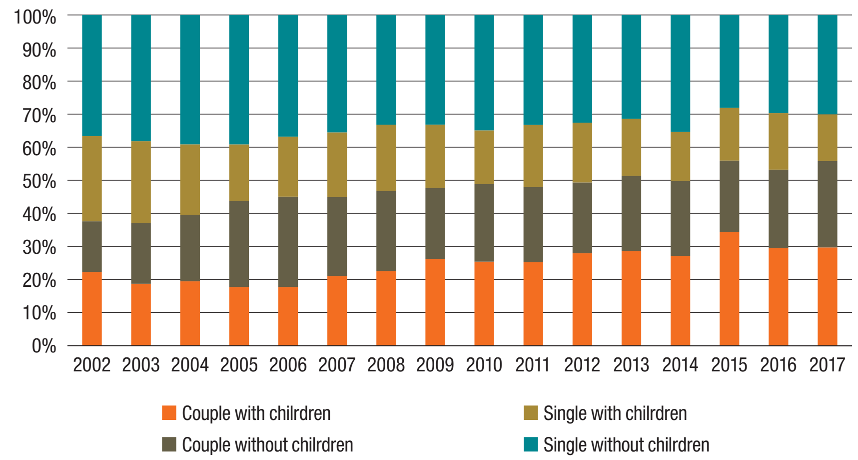
Source: HomeStart internal data

[3] HomeStart internal data from FY08 to FY17.

of the organisation's lending since inception although the proportion has substantially declined from almost 60% in 2003 to around 35% in 2017. Long term growth is evident in other employment classes notably trades, professional/managerial, and administrative roles. This is the result of two factors:

- Long term house price growth has outstripped inflation, creating an affordability gap
- Deliberate targeting of key workers (nurses, trades, teachers) who are first home buyers with difficulty raising a deposit and covering upfront costs. As an aside, these people tend to refinance their loans faster than other categories of buyers. For example since 2008, the average age of a loan held by a nurse or teacher when refinanced is 3.9 - 4.1 years compared with 6.9 years for a customer reliant upon Centrelink income.

% of new lending by household type



Source: HomeStart internal data

9.2. Household composition

Household composition of new customers is generally aligned with the market segments that have the most difficulty with affordability: young singles who represent around 35 - 40% of lending. There is also a correlation between changes in household and employment types when viewed over the longer term.

9.3. Indigenous people

Home ownership rates amongst the First Australians are significantly lower than the wider community. In an effort to provide assistance, HomeStart launched the Nunga Loan in 2004 with more than 400 loans written over a 7 year period.

Developed as a package of products and lending criteria, with some credit underwriting from other government agencies, the Nunga Loan recognised the barriers to buying a home for Indigenous people and made an effort to adjust criteria to accommodate these issues. Lending of up to 110% was possible, for a period, while security properties in remote outback locations were accepted.

New loans had a weighted average loan to valuation ratio [LVR] of 100%, with 87% of lending made over 95% LVR. The high LVR was accepted to reflect that a major barrier to Indigenous home ownership was often the presence of unsecured personal debt; the home loan provided an opportunity for the household to lower their servicing costs by rolling a portion of it into the home loan. HomeStart received some funding towards credit losses, whilst customers also paid a rate premium – albeit still lower than personal finance rates – to borrow in excess of the value of their home.

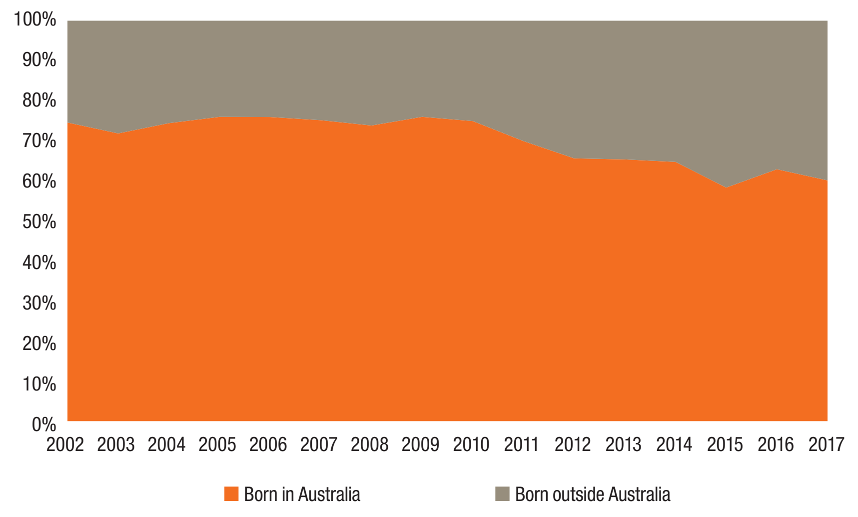
Losses experienced on the program were – as expected – far higher than average with an estimated final loss rate of 3.8%, and the ability to borrow to 110% was removed from 2009. Significant lessons were learned from the program. For example, customers buying in remote or country areas often encountered difficulty in navigating the real estate market, characterised in such towns with only 1 - 2 real estate agents and significant information asymmetry. Equipping vulnerable customers with better information and assistance in working through the process would be beneficial. Use of a buyer's advocate, as well as mandatory building and pest inspections are ways that more support could be provided. If running the program again, HomeStart would seek to ensure such items were funded as part of the overall package.

9.4. New arrivals to Australia

HomeStart has played a substantial role in creating home ownership opportunities for overseas migrants to Australia, many from diverse backgrounds. HomeStart's analysis of the market found that many migrants face difficulties accessing private rental, and that the major gap was between 2 and 5 years after arrival. The graphs below show both the increase in proportion of customers born outside Australia, as well as significant changes in countries of origin. In recent years, between 15-20% of new lending has been to people from these communities.

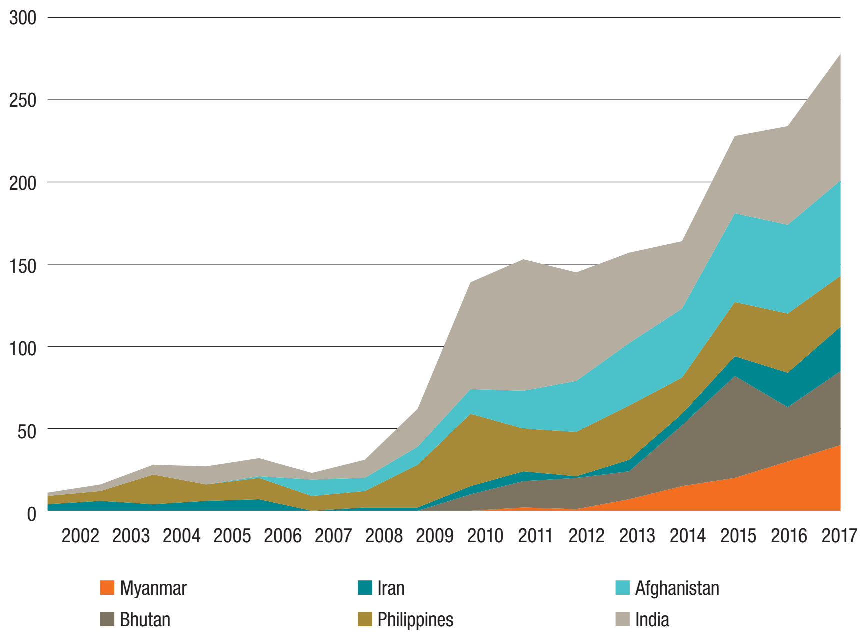
An example is the Bhutanese community, which now has a significant population in Adelaide. HomeStart has worked with them to facilitate

% of new lending to first home buyers, by country of birth (primary applicant)



Source: HomeStart internal data

No. loans by selected countries of origin (primary applicant)



Source: HomeStart internal data

home ownership through offering educational seminars and support, including interpreter services. Other communities of migrants have also worked hard to build a culture of home ownership including groups from Burundi and Afghanistan.

10. Success through industry and community partnerships

10.1. Construction industry partnerships

The state government provides a grant to first home buyers who construct a home, currently $15,000. HomeStart has worked with major builders and developers to harness this grant and create innovative construction packages by allowing it to go towards deposit, fees and charges. Mainstream FI's do not accept the grant as a deposit. Participating builders have also reached agreement with HomeStart as to a fixed price contract and construction period, limited progress draws, and deferred settlement of the land. When combined together, these packages can enable some customers to build a new home for as little as $3,000 upfront. HomeStart also allows the customer to make no repayments for 9 months (or until construction is complete) thereby enabling the customer to continue renting during the build, or to save additional funds for the loan.

In 2017, construction lending was 28% higher than the year before, up 28%, and exceeded $100M in value for the first time. Lending for these purposes now represents around 22% of total loans advanced and is expected to be sustained.

10.2. Wyatt Loan

Recognising the impact of upfront costs, the Wyatt Trust has worked with HomeStart since 2008 to offer an interest-free, five year loan available to customers who meet income and other criteria. Wyatt provided an initial $2M to support the initiative, designed so that as customers reach their five year review period and repaid loans, the funds could be recycled.

The Wyatt Loan is available to contribute to upfront costs (e.g. fees, charges, or even moving costs) and is generally around $10,000 taken in addition to the customer's HomeStart Loan. So far over 300 Wyatt Loans have settled. The program is therefore meeting its original objectives by creating a recycling pool of highly targeted capital.

10.3. Partnerships with local government

Arrangements similar in nature to the Breakthrough Loan have been facilitated with local government, where a council has developed surplus land, contributing the land to the deal as a shared equity 'portion', and HomeStart has provided the remainder of the loan. Such arrangements substantially reduce the entry cost for the customer. Through direct involvement, a council can often have influence over the type and style of properties delivered as well as targeting the affordable outcomes.

City of Salisbury and 'Brahma Green'

Brahma Green was a development of 11 house and land packages on surplus council land. It was a joint initiative of the City of Salisbury, HomeStart Finance and a builder, with council supplying land, with payment deferred until subsequent sale of the property. In exchange, council enters an arrangement to share capital gain (or loss) with the home owner, proportional to the value of the land. This reduced the upfront cost for the home buyer, enabling the houses to be made available to local first home buyers with an income less than $59,000.

Adelaide City Council and 'Ergo' apartments

The Ergo apartments were constructed in the Adelaide CBD on land provided by the Adelaide City Council. Fifty-two apartments were designed to be affordable and these customers were able to finance their property using a standard HomeStart Loan and a shared equity loan. The latter was a combination of a contribution from the Adelaide City Council and federal grants.

11. Credit risk

It is essential to understand that HomeStart's lending is not "subprime": lending policies and credit criteria are strict, and full verification of income is required. Customers with poor credit histories are not eligible for a HomeStart loan. Notwithstanding these guidelines, HomeStart's customers typically sit outside the criteria for mainstream finance due to lack deposit or income sources, but not due to poor credit history.

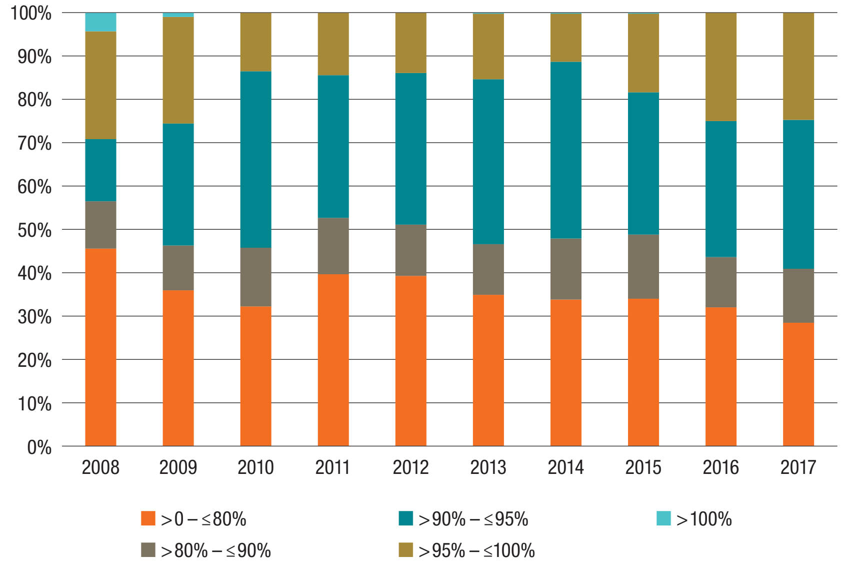
11.1. Customer deposit and LVR

Reflecting the organisation's purpose and place in the market, a large proportion of loans are written to customers with relatively low deposits. The graph over page shows the distribution of new lending by loan to value (LVR) ratio. It shows that around 35% of new customers have a deposit of 5 - 10%, and 25% have a 3 - 5% deposit (predominantly graduates).

11.2. Arrears performance versus market benchmarks

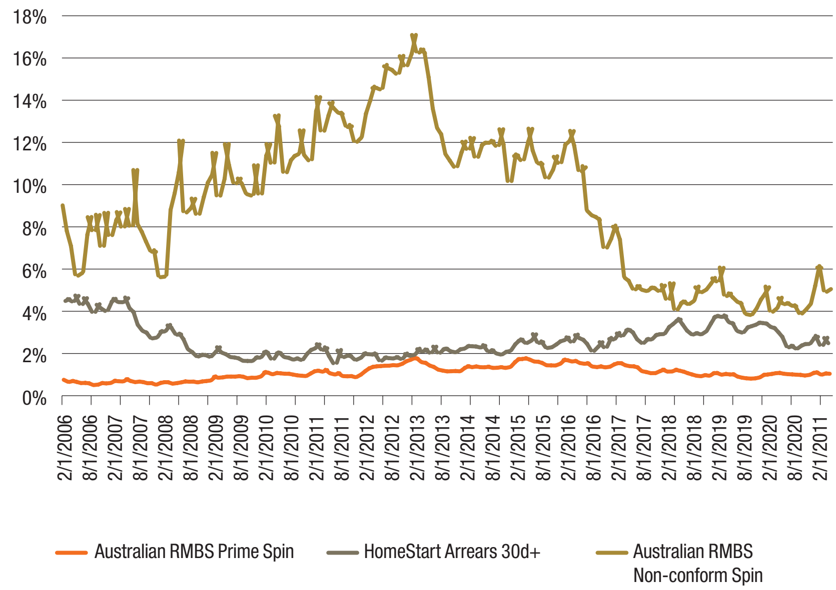
The graph over page compares arrears data on prime mortgages as represented by the Standard & Poors Mortgage Performance Index [SPIN], arrears for sub-prime mortgages, and arrears on HomeStart's mortgages. HomeStart's arrears sit above that of prime mortgages, but are materially better than sub-prime lenders, reinforcing the point that HomeStart's customers are capable of receiving and sustaining mortgage finance. An overall loss rate of approximately 0.41% is expected on loans originated in the last 15 years.

HomeStart % new loans by original LVR



Source: HomeStart internal data

HomeStart arrears (1mth+) vs Standard & Poors Australian RMBS prime and non-conforming arrears



Source: HomeStart internal data

12. Impact of HomeStart on the market - University of Adelaide research

The ultimate measure of success for a home ownership program is, of course, the impact on home ownership rates. Census data shows that home ownership rates across all Australia are generally declining, particularly in the eastern states (notably Sydney) where price growth has been strong.

In 2017 HomeStart sought the assistance of the University of Adelaide's International Centre for Financial Studies [ICFS] to ascertain the extent to which HomeStart has had a measurable impact on home ownership rates in SA. ICFS' study[4] found that for every 1% rise in the penetration rate of HomeStart loans in a suburb home ownership rates increased by 0.65%. Significantly, this relationship was found to be strongest in low-middle income suburbs which, in the eyes of the researchers, leads to a conclusion that these buyers would have otherwise been unable to access finance.

The research also found that where HomeStart has a market penetration rate of 5% or more in a particular suburb, the home ownership rate is approximately 8% higher than for similar suburbs in New South Wales, and 3.5% higher than for similar suburbs in Victoria. Neither state offers a home ownership program like HomeStart, which suggests there exists a significant opportunity in these areas, particularly outside the main metropolitan markets of Sydney and Melbourne.

13. Concluding remarks

The experience of HomeStart shows how innovation in housing finance can be sustained over long periods of time, generating significant positive outcomes for the community, and financial benefits for government. HomeStart's core customer base has demonstrated capacity to enter and sustaining home ownership, with high success rates, particularly when supported by strong and prudent risk management frameworks such as at HomeStart. A "hand up" not a "hand out".

Many lessons have been learned over the last 28 years and HomeStart is more than willing to exchange experiences, data, and ideas with other interested parties. There is much to learn from around the world, and small markets such as South Australia represent an ideal place to experiment and ultimately translate ideas into a larger scale elsewhere.

HomeStart now prepares to enter its fourth decade of operation from a foundation of strength, and looks forward to continuing to support future generations of South Australian home buyers.

[4] A copy of the research report is available on request to HomeStart.

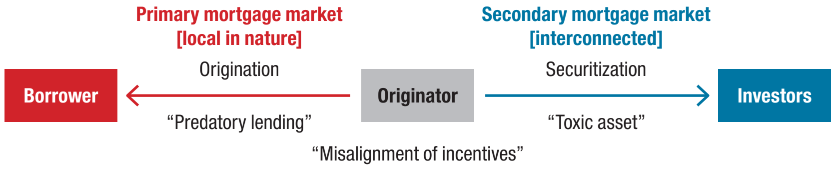
International trends in the regulation of mortgage markets

By Masahiro Kobayashi[1]

1. Introduction

After the global financial crisis of 2008, many regulatory changes were proposed including "Principles for Sound Residential Mortgage Underwriting Practices" by the Financial Stability Board [FSB] and the Dodd–Frank Wall Street Reform and Consumer Protection Act 2010 (Pub.L. 111–203, H.R. 4173), among others.

FIGURE 1



These regulations of mortgage markets were advocated because the origin of the global financial crisis was the US subprime market. The primary mortgage markets where the housing loans are originated for borrowers are local in nature. However, US subprime mortgages were securitized as secondary market operations and were packaged into mortgage backed securities [MBS]. Those MBS were sold to investors in the capital markets, which were global and interconnected in nature. Many sub-prime borrowers defaulted on their mortgages and the credit risk of the underlying mortgages was transferred to the global capital market through securitization [Figure 1].

Following the crisis, tightening of regulation was proposed both in the primary and secondary mortgage markets. In this paper, the structure of the US sub-prime mortgage market is reviewed in the context of the global financial crisis, then, regulatory proposals in the primary mortgage market and secondary mortgage markets are reviewed in order, and conclusions drawn.

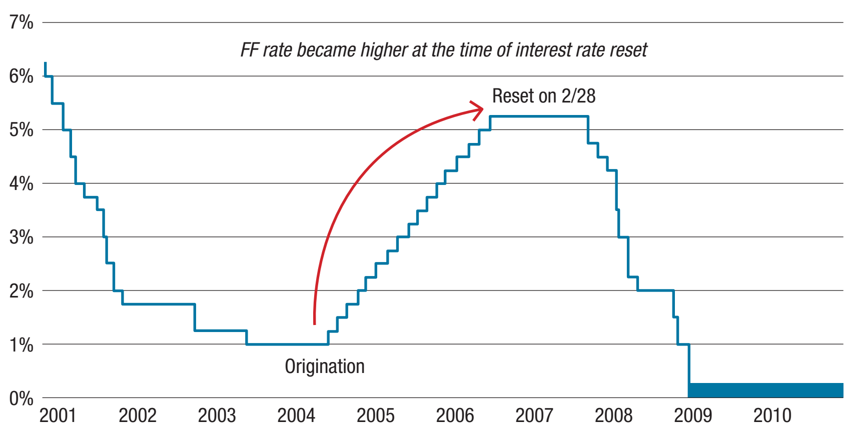
2. Structure of subprime mortgage market and global financial crisis

Lenders, mainly non-depository financial institutions which were not subject to federal supervision, originated mortgages which had not been typical in the US. The US is known for 30-year fixed rate pre-payable mortgages, but many subprime borrowers in the early 2000's chose different types of mortgage products. Those were what were called 2/28 hybrid ARM (adjustable rate mortgage); interest rates were fixed for an initial 2 years and then reset to the prevailing market interest rate and thereafter fluctuated depending on financial market conditions. In some cases, subprime borrowers did not understand the risks associated with such products, or lenders did not explain the risks. Sometimes, lenders originated mortgages which were not in the best interest of the borrower, which can be characterized as "predatory lending".

The volume of sub-prime mortgage origination increased from 2003 to 2006. The Federal Reserve, the central bank in the US, maintained its target of federal fund [FF] rate at the historically low level of 1% from June 2003 to May 2004. Then, the Federal Reserve started to raise its target of FF rate drastically to address inflationary pressure in the US economy. The interest rates of sub-prime mortgages that were originated in around 2004 were very low (called "teaser" rates). But those mortgages became subject to an interest rate reset in 2006 when the market interest rate became much higher [Figure 2].

Many subprime borrowers faced payment difficulty, or "payment shock", and started to default

FIGURE 2 Target (range) of federal fund rate



Source: FRB

[1] The views and opinions are author's own and do not represent those of JHF or the Government of Japan. This article has been prepared for the sole purpose of providing information only and not as an offer, sale or inducement to buy or sell bonds.

on their obligations. Some borrowers expected to refinance to another hybrid ARM and enjoy a teaser rate again, but many lenders refused to refinance because house prices started to decline in 2006.

These subprime borrowers missed their payment not because they lost income due to unemployment. The unemployment rate in the US started pick up in 2008, but delinquency rates of the subprime borrowers with ARM started to pick up in 2006, 2 years ahead of the rise in unemployment. The implication of this phenomenon is that interest rate risk is transformed into credit risk, although they used to be considered to be independent of each other previously. The increase in mortgage default increased fire sales of the collateralized properties and this increase in foreclosure then put downward pressure on house prices, thus aggravating loss severity (loss given default). The US housing market spiraled downward.

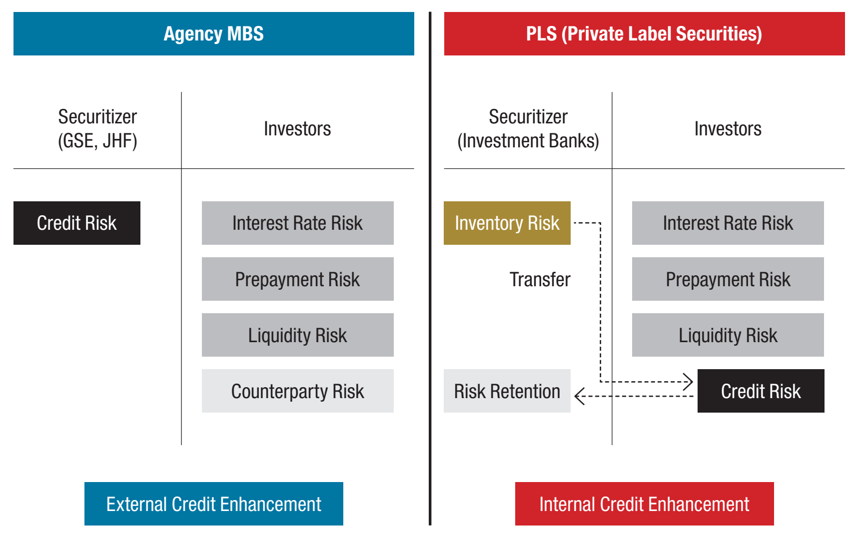
These subprime mortgages were securitized by investment banks or other private financial institutions (not by US Agencies; i.e. Fannie Mae, Freddie Mac or Ginnie Mae). These MBS are called "PLS", or private label securities. Usually, PLS used a subordination structure as a method of credit enhancement. Under such an internal credit enhancement structure, credit risk of the underlying assets is transferred to investors in PLS. Agency MBS is different in that agencies guarantee timely payment of principal and interest to investors. Agencies underwrite the credit risk of the borrower and externally extend credit enhancement.

Many investors of PLS purchased these products because they received an AAA rating from the rating agencies. However, the models and parameters used by rating agencies were based on the historical performance record of traditional mortgages, which was quite different from those of non-traditional sub-prime mortgages. The price of these PLS plummeted in 2007 after rating agencies downgraded many PLS. Investors lost confidence in PLS and for nearly ten years, the issuing market for PLS has been almost dead in the US. The PLS market has also become sluggish in Japan.

3. Regulations in the primary mortgage markets

Based on the abovementioned background, the Financial Stability Board [FSB] published a thematic review on residential mortgage underwriting and origination practices. Based

FIGURE 3 Risk transfer in securitization transaction



on the findings of the review, six recommendations were set out, one of which asked the FSB to develop an international principles-based framework for sound underwriting practices. Draft principles were issued for public consultation in October 2011 and the FSB finally released "Principles for Sound Residential Mortgage Underwriting Practices" on April 18, 2012.

The Principles span the following areas, some of which proved to be particularly weak during the global financial crisis that started in 2007:

(i) effective verification of income and other financial information;

(ii) reasonable debt service coverage;

(iii) appropriate loan-to-value ratios;

(iv) effective collateral management, and;

(v) prudent use of mortgage insurance.

The report also sets out an implementation framework to promote minimum residential mortgage underwriting standards, and describes tools that could be used to monitor and supervise these standards. The FSB Principles set out a general framework for sound underwriting practices, but actual implementation remains in the responsibility of each jurisdiction[2].

In Europe, the Mortgage Credit – Directive 2014/17/EU[3] came into force on March 20, 2014 and the rules became applicable on March 21, 2016. Mr. Cristian Koenig explained the contents of Mortgage Credit Directive including the European Standardised Information Sheet (ESIS) in detail during his presentation at the IUHF 30th World Congress[4].

In the US, the Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111–203, H.R. 4173) was enacted on July 21, 2010. The Dodd-Frank Act is a wide-ranging piece of legislation, but I would like to highlight a point which directly relates to the mortgage market; the concept of "Ability-To-Repay [ATR]". The ATR rule was introduced by the Consumer Financial Protection Bureau [CFPB] which was also created under the Dodd-Frank Act. The CFPB amended Regulation Z, which implements the Truth in Lending Act [TILA]. Regulation Z implements sections 1411 and 1412 of the Dodd-Frank Act, which generally require creditors to make a reasonable determination in good faith of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-ended credit plan, time-share plan, reverse mortgage, or temporary loan) and establishes certain protections from liability under this requirement for "Qualified Mortgages [QM]", among others. Under the rule, the debt to income ratio [DTI] with 43% or less would enjoy safe harbor treatment. Loan to value ratio [LTV] is not a criterion to judge whether a loan is QM or non-QM.

There are some jurisdictions which introduced lower LTV limits after the financial crisis. In the US, conforming loans (i.e. mortgages eligible to be purchased or securitized by Fannie Mae or Freddie Mac) have an 80% LTV limit if there is no mortgage insurance[5].

[2] FSB Principles state "In general, the range of residential mortgage underwriting practices reflects the distinct real estate markets, cultural differences and socioeconomic policies that shape each jurisdiction's mortgage market. Hence, these Principles should be implemented according to national circumstances, and as appropriate to national institutional arrangements, whether through legislative, regulatory or supervisory measures, or through industry practices."

[3] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02014L0017-20140228

[4] His presentation material is available at the following URL; http://www.housingfinance2017.org/fileadmin/2017/Presentations/7_1_Koenig.pdf

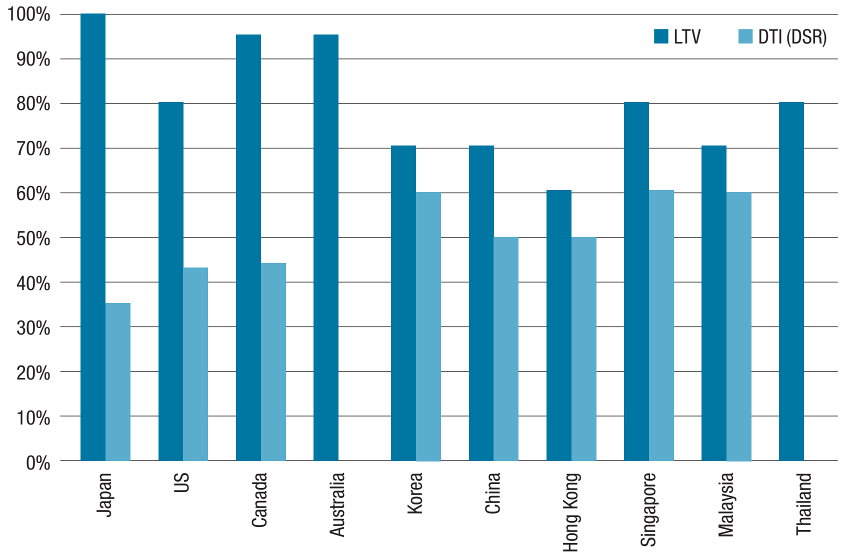
[5] FHA and VA have higher LTV limits. FHA is 97% and VA is 100%.

However, those mortgages which had LTV lower than 80% at origination went underwater after the house prices went down in the late 2000's. For example, if we look at mortgages held by Fannie Mae in 2012, the LTV for mortgages originated in 2006 and 2007 was less than 80% on average. But mortgages of that vintage had more than 100% LTV on average by 2012 due to the decline in property prices. In this regard, an underwriting mortgage based only on LTV would be vulnerable to the fluctuation of property prices and ATR should be the first line of defense.

In Japan, 100% LTV is available for loans purchased by JHF. However, higher LTV loans have a tendency towards higher delinquency. Down-payment is evidence of the propensity of a borrower to save and borrowers with higher down-payment may perform better than others that have a poorer record of saving. Thus, JHF charges 44 basis points higher guarantee fees for borrowers with LTV higher than 90%.

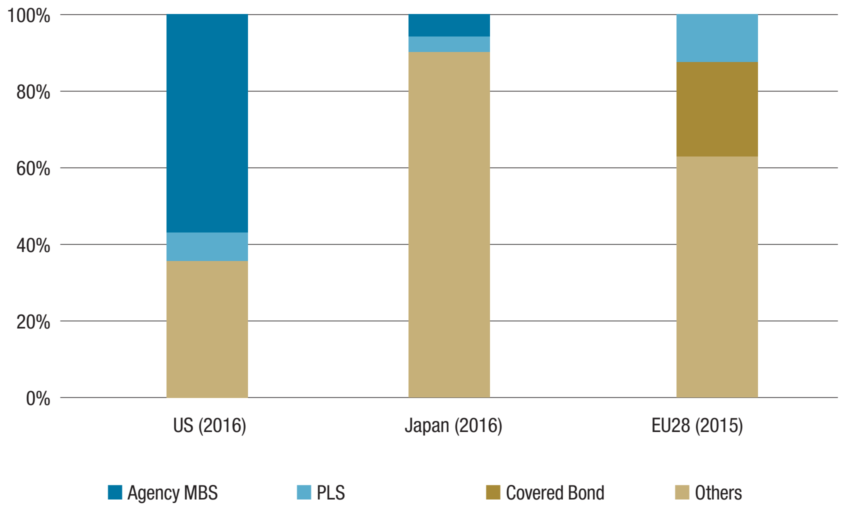
So far as we have observed, advanced economies have a higher LTV limit than emerging economies while the former have lower DTI than the latter [Figure 4]. This is to some extent related to the inflation rate. Advanced economies have lower inflation rates than emerging economies and hence lower nominal mortgage interest rates. With lower interest rates, monthly payments would decline if other factors were equal. In Japan, a 35-year fixed rate mortgage rate is around 1% and average DTI is less than 20% although the average LTV is around 90%.

FIGURE 4 Maximum LTV and DTI in selected countries



Source: JHF research

FIGURE 5 Funding mix of mortgages in US, Japan and Europe



Source: FRB, SIFMA, EMF, ECBC, Bank of Japan

4. Regulation in the secondary mortgage markets

Another dimension to regulation in the mortgage business is the funding side. "Toxic assets" that contained subprime mortgages were securitized and disseminated to the global capital market. Securitization of mortgages became subject to punitive regulation.

One of the criticisms of securitization is the misalignment of incentives; i.e. entities that securitize mortgages such as investment banks have no incentive to prudently underwrite mortgages because the credit risk of the borrowers is transferred to investors by structured transactions. For them to have "skin in the game", risk retention has been proposed. In many cases, the originator of MBS is required to retain 5% or 10% of the credit risk of the underlying assets either in the form of a vertical or horizontal slice of the tranche. Agency MBS is excluded from such regulations because agencies underwrite the credit risk of the borrower by guaranteeing timely payment of principal and interest to the investors.

One trend in the financial market is the spread of covered bond legislation both in advanced and emerging economies around the globe. Covered bonds used to be a financial instrument proprietary to Europe [Figure 5], but after the financial crisis, such jurisdictions as Australia, New Zealand, Korea, and Singapore have enacted covered bond legislation. Covered bond frameworks differ among jurisdictions, but the main feature is that the lender retains the collateralized assets on its balance sheet and if the lender becomes insolvent, the collateralized assets are segregated from the balance sheet and investors receives cash flow generated by those assets, immune from the ordinary bankruptcy procedures (called "asset encumbrances").

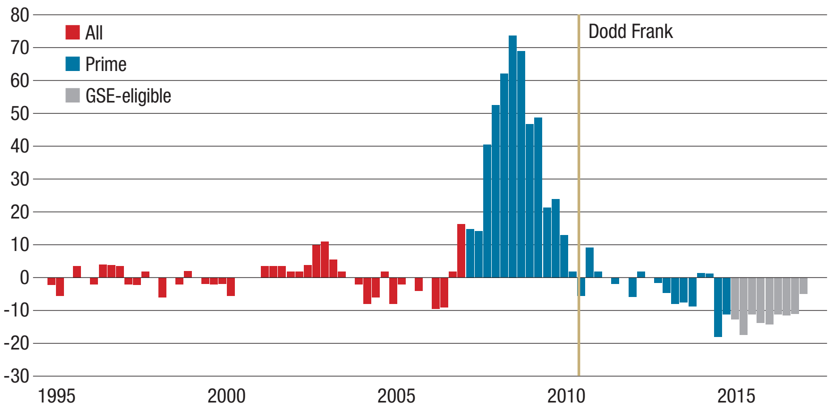
Covered bonds are not a new product. They have more than two centuries of history and there has never been a default. They are quite different from MBS in various respects [Figure 6], and enjoy more favorable regulatory treatment than MBS, including treatment under capital or liquidity regulations under Basel III. However, covered bonds are usually issued with a bullet structure, meaning that there is no amortization, and thus not suited to finance the 30 or 35-year fixed rate, pre-payable mortgages which are available in the US or in Japan.

FIGURE 7 Comparison of MBS and covered bond

	MBS (PLS)	Covered Bond
History	Since 1970 US Origin	Since 1770 German Origin
Balance Sheet Treatment of Assets	Off-Balance (Static Pool)	On-Balance (Dynamic Pool)
Credit Risk of the Borrowers	Transferred to Investors (→ 5% retention)	Retained by Issuers
Moral Hazard	More Likely (Originate to Distribute Model)	Less Likely (Originate to Hold Model)
Loan Modification	Difficult	Easy
Market Condition	Almost Collapsed	Relatively Stable
Regulatory Treatment	Unfavorable	Preferential
ALM Risk	Transferred to Investors (Option Premimum is included)	Remains with Issuers

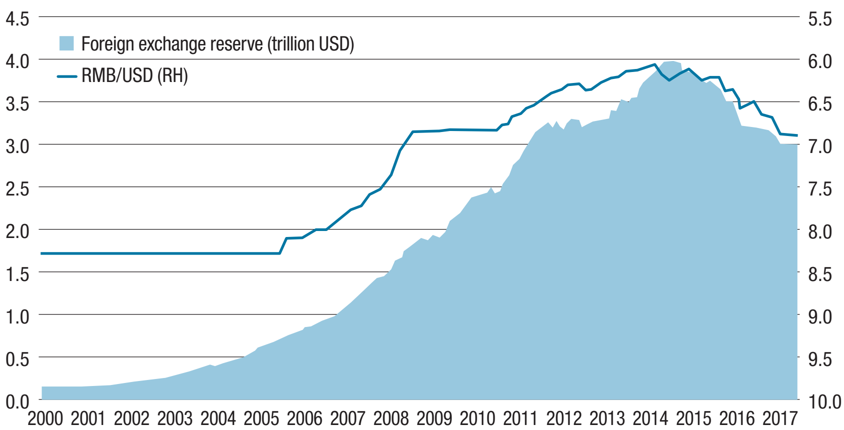
FIGURE 8 Senior Loan Officer Opinion Survey on Bank Lending Practices

DI: Net Percentage of Domestic Respondents Tightening Standards for Mortgage Loans



Source: FRB

FIGURE 9 Foreign exchange reserve in China and its currency against USD



Source: State Administration of Foreign Exchange (China), FRB

5. Other topics relating to mortgage market regulations

Tightening of regulation may be necessary to enhance financial stability, to protect consumers, and to restore confidence among investors in the mortgage markets. However, such tightening should not reduce the opportunity for homeownership nor damage the potential for growth of the overall economy.

In this regard, the timing of implementation may matter. For example, the Dodd-Frank Act in the US was enacted in July 2010. At that time, many lenders had already tightened their lending standards for mortgage loans substantially [Figure 8]. To address the increase in default and collapse of the housing market, lenders had already tightened their underwriting criteria voluntarily[6]. After the enactment of the Dodd Frank Act, the standards for mortgage loans were not tightened materially, but several lenders got out of the mortgage business because of the increased cost relating to compliance with CFPB rules.

Fortunately, the US housing market recovered, thanks to the extraordinary monetary accommodation by the Federal Reserve. This support by the central bank in the US is quite different from the case in Japan in the early 1990's.[7]

Regulations under Basel III are also being phased in. Some jurisdictions have already introduced some of the proposals. As for the counter-cyclical capital buffer, which was aimed at alleviating the procyclical nature of financial transactions, this has been or is planned to be introduced only in three jurisdictions. There are more banks identified as G-SIBs [Globally Systemically Important Banks] in Europe which are subject to higher capital requirements. This may be one of the causes of the stagnant recovery of the European economy compared to that of the US.

6. Examples of unintended consequence

Regulations which seem irrelevant to the housing market can also affect it.

In China, regulations on capital outflow are affecting property markets. The Renminbi Yuan [RMB], Chinese currency, started to depreciate against US dollar in 2014 and since then the foreign exchange reserve of China has declined by around 1 trillion US dollar as a consequence of preventing the RMB from depreciating further [Figure 9].

6 Tightening of underwriting criteria was to some extent motivated by the action by Fannie Mae and Freddie Mac in requesting lenders to repurchase mortgages in default due to breaches of representation and warranty sales agreements.

7 Kobayashi [2013].

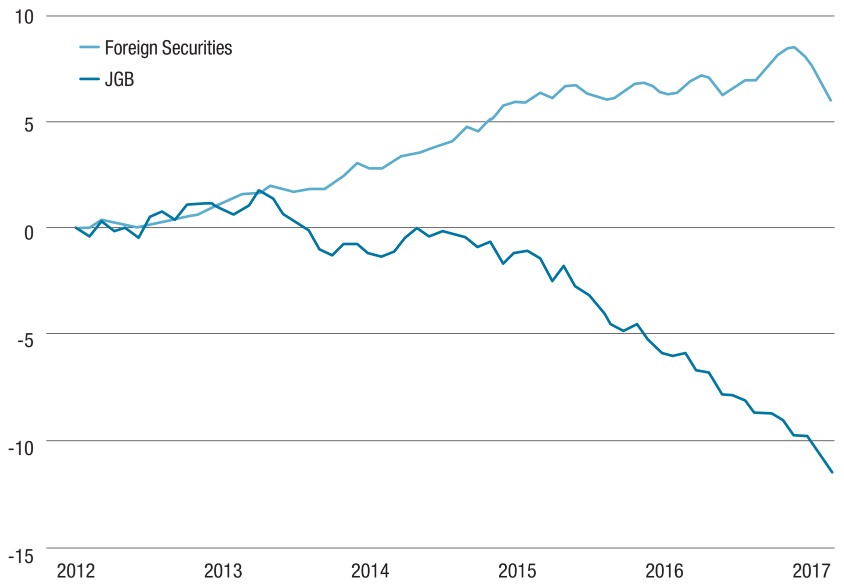
The Chinese authorities are reported to have tightened capital outflow and the money which cannot leave out of China has been invested in the property market in China. The Chinese authorities have implemented regulations to tighten credit for the housing market to subdue any bubble, but this capital inflow is undermining the regulation of the property market.

In Japan, the Bank of Japan has been implementing extraordinary monetary easing since April 2013. Under such accommodative monetary conditions, banks are struggling to find investment opportunities ("search for yields"). Portfolio rebalancing is prominent [Figure 10]. Banks have decreased their holding of Japanese Government Bonds [JGBs] and increased their investment in foreign securities which bears higher nominal yields than JGBs. These may include US Agency MBS or European covered bonds. However, it was reported that the Financial Service Agency may introduce new regulation to check if regional banks are implementing adequate foreign exchange risk management or not, according to the Nikkei newspaper. If such regulation were introduced, Japanese banks might reduce their exposure to those securities and hence adversely affect the housing market in the US or in Europe, though to a minimal extent.

7. Conclusion

Considering the immense impact of the global financial crisis, tightening the regulation of mortgage markets in various respects was inevitable. However, the structure of housing markets remains local in nature in terms of mortgage products and the funding method, among other things. There is no "one size fits all" and as such, regulation of mortgage markets remains heterogeneous among jurisdictions. We have to monitor whether the regulations are properly balanced between financial stability, consumer protection, and homeownership opportunities as well as the potential growth of the national economy. In this regard, exchange of information at an international level remains as important as ever.

FIGURE 8 Outstanding balance of securities held by regional banks: change from January 2012 (in trillion JPY)



Source: Bank of Japan

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APPENDIX:
Regulations on mortgage and securitization in selected countries

		JAPAN	US	EU	CANADA	AUSTRALIA
Underwriting criteria	LTV	— JHF +44bp for LTV>90%	80% for QM	—	LTV<95%	LTV<95%
	DTI (DSR)	DTI<30 or 35%	43% for QM	—	44% (GDS) 39% (TDS)	—
Explanation to consumers (Consumer Protection)		—	Dodd Frank		Financial Consumer Agency of Canada Act	Australian Consumer Law
Quantity limit		—	—		—	YoY<10% for investor credit IO share <10% of total mortgage
Risk weight for residential mortgage		To be revised	To be revised	To be revised	35% 50% 75% 100%	35% 50% 75% 100% (APS112)
Securitization	Risk retention	Introduced	Introduced by Dodd Frank	Introduced by Directive	—	Introduced by Guideline (Prudential Standard APS 120 Securitisation)
	Risk weight for RMBS	To be revised	To be revised	To be revised	0% 35% 100%	35% 50% 75% 100%

		KOREA	CHINA	HONG KONG	SINGAPORE	MALAYSIA
Underwriting criteria	LTV	LTV<70%	LTV<70%	LTV<60%	LTV<80%	3rd House LTV<70%
	DTI (DSR)	DTI<60%	DTI<50%	DSR<50%	TSDR<60%	DSR<60%
Explanation to consumers (Consumer Protection)		Framework Act on Consumers	People's Republic of China Law (on Protection of the Rights and Interests of Consuers)	Money Lenders Ordinance	Consumer Protection (Fair Trading) Act	1. Consumer Protection Act, 1999 2. Personal Data Protection Act, 2013 3. Building and Common Property (Maintenance and Managment) Act, 2007 4. Housing Development (Control and Licensing) Act, 1966 Act 118 5. Strata Titles Act, 1965 Act 318
Quantity limit		—	—	—	—	
Risk weight for residential mortgage		35%	50%	15%	35% 75% 100%	LTV<80% – 35% LTV80%-90% – 50% LTV>90% – 100%
Securitization	Risk retention	— (Draft)	Introduced by Directive	— (Draft)	— (Draft)	—
	Risk weight for RMBS	— (Draft)	20% (AAA to AA-)	50% 20% (HKMC)	35% 75% 100%	RAM's Rating Scale: AAA to AA3– 20% A1 to A3 – 50% BBB1 to BBB3 – 100% BB1 to BB3 – 350% B1 and below – 1250% Unrated – 1250%

Source: JHF Research

Access to mortgages and home ownership for young people; International perspectives

↳ By Peter Williams and Christine Whitehead

1. Introduction

The starting point for this article is concern that younger households and more generally first-time buyers are facing problems in accessing owner-occupation, specifically as the result of changes in mortgage market regulation after the global financial crisis [GFC]. There are a number of trends that make this a reasonable hypothesis to be tested:

- Owner-occupation rates have either fallen or stayed constant in most EU countries since the GFC;
- The regulatory environment for consumers and mortgagors in particular has been tightened and strengthened in most countries since the GFC;
- There is considerable evidence that younger households are finding it harder to leave the parental home and set up as separate households.

At the same time, there are other factors which could be having a similar impact on access to owner-occupation. In particular, young people are experiencing higher unemployment rates, rising student debt, at best stagnant wages and the increasing prevalence of insecure work contracts. Equally house prices have risen, both before and since the GFC in many EU countries making it harder for potential purchasers to access mortgage finance, while rents have also risen making it more difficult to save.

In this context the OECD asked the authors to review mortgage market regulations and controls across a range of European and other countries and to identify changes in the conditions applicant households must fulfil to obtain a mortgage, in particular with regards to their income and/or labour market status. A second objective was, where possible, to examine available data on mortgagors, especially first time buyers, to examine the extent to which such changes are taking place. The report was published by the OECD in 2016 and can be found at: http://www.oecd-ilibrary.org/social-issues-migration-health/oecd-social-employment-and-migration-working-papers_1815199x. This article draws on that report.[1]

2. Trends in Home Ownership

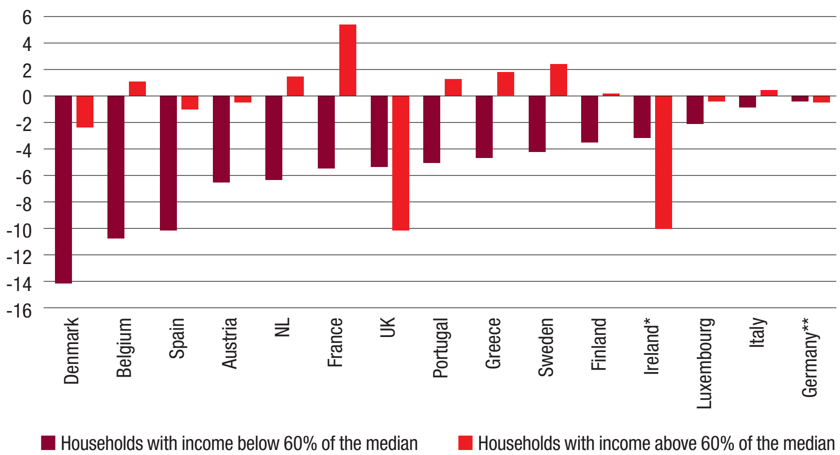
Although levels of household debt in many countries remain historically high (André, 2016), in the majority of European countries the proportion of households who are owner-occupiers has fallen during the current century. The only exceptions are some Eastern European countries and countries such as the Netherlands and Poland where there has been significant government support to expand the sector.

In some countries the decline in owner-occupation rates has been concentrated in the period following the GFC, sometimes from a peak level of home ownership achieved in 2009 or 2010. However, in many other countries falls in owner occupation rates were as great, or even greater, during the period between the turn of the century and the start of the crisis. During that time mortgage markets across Europe were particularly generous in lending terms. However, in the main this helped existing owners to buy more housing, pushing up prices to a point where new entrants found it hard to afford to enter the market (Lunde and Whitehead, 2016). In some cases, falls in the rate of home ownership among younger households started much earlier around the 1989/90 crisis (see for example for the United Kingdom: IFS, 2016).

After the crisis perhaps against expectations, across the EU mortgage debt on average mortgage debt as a proportion of GDP grew. In some contexts this simply reflects business as usual. More generally, it tended to be because the recession that followed the crisis in many countries resulted in significant declines in GDP (for example, Greece, Ireland and Spain). Younger people were particularly affected by

FIGURE 1 Changes in owner-occupation rates by income groups

(Share of population in owner-occupied dwellings, Change by percentage point between 2007 and 2013)



Households with income below 60% of the median | Households with income above 60% of the median

Source: European Survey on Income and Living Conditions [EU SILC]

[1] Our thanks to the OECD for permission to draw upon this longer report.

the recession and, even with significantly lower interest rates, the evidence on owner-occupation rates is that first time buyers have found it difficult to enter the market.

Figure 1 shows how heavily reductions in owner-occupation rates have been concentrated in lower income households – but with some exceptions notably in the UK and Ireland where the impact has been significant across the market.

The decline in owner-occupation rates has been associated with significant increases in private renting across a number of European countries (see for example de Boer and Bitetti, 2014). It has also been reflected in increasing numbers of younger people continuing to live with their parents (Pittini et al, 2015; OECD, 2016).

3. Changes in Regulation

3.1. International regulation

For some thirty years from the early 1970s the emphasis across Europe was on liberalisation of mortgage markets. Increasingly after the turn of the century there was a growing trend towards harmonisation of rules governing the European finance system including a regulatory framework for mortgage supply. The broadest regulatory frameworks for the banking sector are based on the Basel II Accord which provides a global, voluntary regulatory framework on bank capital adequacy, stress testing, and market liquidity risk. Basel II began to be introduced in the early 2000s' but the financial crisis intervened before it became fully effective. Its successor Basel III includes more stringent standards in the light of the financial crisis. However, the Basel III framework does not come fully into force until 2019 though it has already been adopted in a number of countries.

Within this general framework changes in the international regulation framework have had a number of elements – both expansionary and restrictive:

- deregulation processes that have enabled a wider range of funding instruments and reduced the cost of bearing risks – supporting the expansion of the mortgage markets and opening up secondary funding markets;
- more sophisticated approaches to risk assessment which, in the main, made mortgage lending rather easier for institutions; and latterly,
- the Mortgage Credit Directive which introduced a framework to make lending processes more transparent; controlling restrictive practices; clarifying risks associated with particular products and beginning to put in place a consistent approach to credit assessment associated with adequacy and security of income and capacity to sustain the mortgage in the face of economic change.

From the point of view of the mortgage market, the most significant changes have related to the appropriate capital ratios to be required for different types of loan (notably here mortgages to individuals to purchase or refinance residential property) and the size of the loan in relation to the value of the property. The changes mainly operate through their impact on the total supply of mortgage funding and the relative costs to lenders of high loan to value ratio loans. The Mortgage Credit Directive which began to be introduced in 2014 however concentrated far more on the nature and quality of products available to mortgagors, mortgage product innovation and the creditworthiness of borrowers.

3.2. National regulation

Table 1 sets out the European Systemic Risk Board's understanding of the specific measures in place in different countries in early 2016. Many of these specific regulations have been introduced or strengthened in the previous two years as a result of the Mortgage Directive.[2]

Table 1 shows that the emphasis has been almost entirely on reducing acceptable loan to value ratios – which inherently increase the deposit required from a mortgagor. Some countries have introduced supplementary indicators of risk, taking more direct account of income and also of other types of debt. Other countries have moved to limit the mortgage term and, particularly in Scandinavia, households are being required to make some equity repayments. Perhaps the most important initiative has been the introduction of stress tests which look to measure how well people might be able to deal with significant increases in interest rates. This is obviously of particular importance in the context of the low interest rate environment which has been reinforced by Europe wide quantitative easing policies. However, the stress tests often ask for income coverage for interest rate rises which are out of line with macroeconomic predictions.

4. Mortgage Markets since the Crisis

The GFC had two distinct impacts on today's mortgage markets. First, it placed enormous pressure on the banking systems not only in the immediate aftermath of the crisis but into the longer term and indeed continuing right up to today. This was the case not only in countries with large residential mortgage exposure, e.g. USA and UK, but also in countries such as Germany and Denmark where there were issues around internal treasury management. An early priority was to strengthen macro-prudential rules to stabilise financial systems (see Carreras et al,2016). These measures then impacted on mortgage markets and this has led to on-going macro-prudential interventions to help ensure greater resilience and to curb any emerging tendencies for excessive lending.

Second, real economies suffered into both the medium and longer term with falling incomes and employment and in some the recovery has still not brought them back to pre-2008 levels. It has impacted not just on the overall demand for mortgage finance but also on the attitudes to risk taking by both borrowers and lenders. However, the picture does vary considerably.

TABLE 1 Specific measures that impact on mortgage loans and prices

Loan-to-value	Czech Republic, Denmark, Estonia, Ireland, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Poland, Romania, Slovakia, Finland, Sweden, Norway
Loan-to-income / Debt-to-income	Denmark, Ireland, United Kingdom
Debt- service-to-income/ Payment-to-income	Estonia, Cyprus, Latvia, Hungary, Poland, Slovakia
Stress test / sensitivity test	Denmark, Ireland, Cyprus, Latvia, Luxembourg, Slovakia, United Kingdom, Poland, (Norway)
Loan maturity	Czech Republic, Estonia, Latvia, Netherlands, Poland, Slovakia
Loan amortisation	Denmark, Netherlands, Slovakia, Sweden, Czech Republic, Norway

Source: Table 1.1 ESRB (2016).

[2] Details of how individual countries have been implementing these measures can be found in table 2.3 of the OECD report (Whitehead and Williams, 2016); while broader based macro-economic regulations are addressed in Table 2.4.

It is evident that at one extreme there are countries such as Germany and France with sophisticated regulatory systems and where the mortgage market hardly suffered directly during the global financial crisis and if anything the market is now stronger than it was in 2007; we also observe that countries such as the Czech Republic and to a lesser extent Poland where the mortgage markets were of limited importance and with little history of risky lending, have maintained and improved their position. However probably the majority of countries suffered considerable disruption in their mortgage markets during and after the GFC and in these both macro-prudential and individual credit assessment rules have now been put in place to rectify the situation. At the other extreme there are a minority of countries where there was almost complete breakdown of the mortgage and banking systems - as well as massive economic disruption, e.g., Ireland, Iceland, Portugal and Hungary who are only now regaining fully working mortgage markets.

Generalising, the immediate response to the GFC was in the form of emergency packages to help institutions and in some cases individuals to recover from – or at least survive – the immediate finance related shocks, with the more formal macro-prudential responses beginning to be put in place around 2010. These focussed on capital ratios and risk weighting but some were mortgage market specific - notably with respect to maximum LTVs. Again, as a generality, industry and individual behaviour became much more risk averse, driven not least by central bank guidance though we should not ignore the impact of lower incomes and higher unemployment and less secure jobs. We saw a decline in mortgage lending in many countries.

A number of governments have been looking for mechanisms to increase investment in housing and to 'normalise' mortgage markets but there is an inherent tension between incentivising demand and reducing mortgage constraints on the one hand and putting in place a long-term strategy for risk management on the other. These tensions are exacerbated by the fact that, in most countries, the impact, in terms of mortgage possessions and evictions, has been limited, not least as a consequence of falling interest rates - so residential lending is seen by many to be relatively low risk.

Under the EU Mortgage Credit Directive, industry practice is being codified and modified to generate a more risk based approach to mortgage lending. This in turn will make it more difficult for riskier clients to borrow, or to borrow enough, to enter owner-occupation. Given the specific changes those excluded are likely to include some first-time buyers who cannot raise the required deposit or who cannot pass stress tests with respect to security of income and do not have the liquidity required to be able to pay higher interest rates. Those with insecure jobs or who are self- employed are particularly likely to be affected.

5. The Impact on First Time Buyers

There is surprisingly little statistical evidence across countries about first-time buyers and particularly by age group. What we do know more about is changes in owner-occupation rates among different income groups. Figure 1 shows that for many EU countries declines in ownership rates between 2007and 2013 were concentrated among lower income groups, defined as households with income below 60% of the median (Bouyon, 2015). At the same time ownership rates among higher income households (60% above the median) increased in Belgium, Finland, Greece, Italy, Portugal and Sweden, and only slightly decreased in Austria, Germany, Luxemburg and Spain. The exceptions are Denmark, Ireland and the United Kingdom where rates among higher income households also declined significantly.

As part of the OECD research, country experts were asked directly about their understanding of the position of first-time buyers and especially young people in the current housing market environment (late 2016).

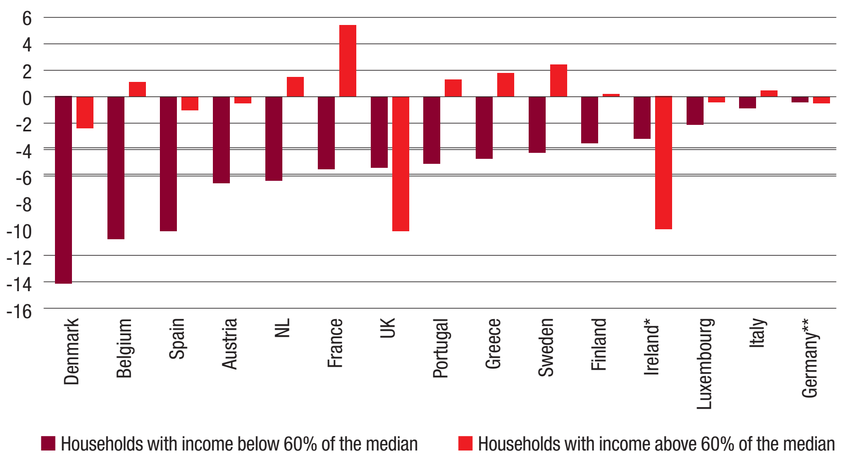
Responses from country experts provide a remarkably consistent picture across countries, with younger households almost universally facing great difficulties entering the housing market as owner occupiers. The evidence suggests that the most privileged will still gain access, not least as a consequence of parental assistance. The importance of different barriers to ownership varies between countries but high prices, high transaction costs, insecure employment and low incomes are key drivers. The fact that large proportions of younger people are still living at home suggests that it has become increasingly difficult to enter both owner-occupation and renting. What also appears to be true is that even those who can afford to buy and obtain a mortgage may not be prepared to do so in the current economic environment.

Below are a number of examples from countries at different stages of development and with different approaches to regulation. These stress how important housing and labour market fundamentals have been in excluding younger and less well-off households from becoming home owners and they also point to the importance of family either in providing finance to overcome deposit constraints to enable younger households to buy or in providing housing in the family home while they save a deposit, which often cannot be done if they are paying rent.

- **Australia:** Tighter underwriting standards and increasing house prices mean that many first-time buyers are excluded. In response some first-time buyers are going direct to the investment sector, buying a cheaper property to rent out and for capital gain. Around half of first time buyers need help from parents.
- **Czech Republic:** House prices have been rising for 3 years but affordability is still very good because of extremely low interest rates, generous tax subsidy, high employment rates, increasing salaries and previous house price decline (2009-2013). Differential access to family wealth is also important.

FIGURE 1 Changes in owner-occupation rates by income groups

(Share of population in owner-occupied dwellings, variation in percentage points between 2007 and 2013)



Source: European Survey on Income and Living Conditions [EU SILC]

- **France:** While there are state guarantees for lower income households there is no potential for those with insecure employment to obtain a mortgage. The main reasons for lack of access are around employment and job insecurity, not regulatory change.

- **Germany:** is a particularly good example of the issue of the importance of overall transaction costs rather than simply the deposit. Banks in Germany expect a down payment of around 20%. The down payment cannot be borrowed and most young households obtain money from their families. Transfer taxes have increased in most Bundesländer and there are no exceptions for young households – this varies from around 3.5% to 6.5%.There are also fees for real estate agents at 3.5% or more, which are also a burden. Thus, a new purchaser needs maybe 30% of the purchase price in upfront cash (Voigtländer, 2016).

- **Portugal:** Youth unemployment is very high, salaries are low and jobs insecure. The greater insecurity of incomes has been one of the main characteristics in Portugal, after the crisis. About 58% of Portuguese aged between 18 and 34 still live with their parents, mostly due to unemployment or temporary contracts of

Overall, the strengthening of global regulatory regimes has meant that many countries have imposed new requirements on both lenders and borrowers. These undoubtedly both constrain decisions and impact on behaviour. However, at the present time these impacts appear to be relatively unimportant as compared to more immediate uncertainties about incomes and employment. Thus, their full impact may not be seen until economies experience more sustainable recovery.

6. The UK: a case study

During the 1990s and as a result of financial liberalisation, there was a substantial increase in competition, resulting in more mortgage innovation and wider access to home ownership in combination with the government's Right to Buy for tenants of public housing. In 1985 over 600,000 loans were made to first-time buyers and home ownership grew peaking at around 71% of households in the early 2000s when affordability constraints began to bite sharply.

Mortgage lending peaked in 2007 at £360 billion of gross lending when mortgage market competition was at its highest – with huge numbers of products and relatively lax lending standards. With the onset of the crisis and the closure/merger and take-over of a number of banks, building societies and centralised lenders, we saw a major contraction in lending (both in terms of LTV and types of products). The number of loans to first-time buyers fell to 192,000 in 2008, before slowly recovering to 313,000 in 2015 and 360,000 in 2017 though numbers are still around half of what they were in previous decades. Partly this is a product of rising house prices relative to wages and not least in the post- GFC period when economic growth has been slow. Despite historically low interest rates which have eased mortgage payment to income ratios the major problem for buyers has been the decline in high LTV products and the need to raise very substantial deposits.

6.1. Mortgage Regulation

In the early 2000s the Financial Services Authority [FSA] was given new powers to create rules governing the way in which mortgages should be sold. This regime was reviewed in 2005, looking at responsible lending practices in the areas of sub-prime, interest-only, self-certified mortgages and lending into retirement. Weaknesses were found in responsible lending practices and assessments of a buyer's ability to afford a mortgage. These problems were exacerbated by the crisis and in October 2009 the FSA published its conclusions arguing that the existing regulatory framework had proved to be ineffective in stopping risky lending and unaffordable borrowing. In the subsequent Mortgage Market Review [MMR] extensive change was proposed with final rules published in October 2012 and coming into effect in April 2014.

Whilst work on the MMR was progressing, the Coalition Government, which had come to power following the May 2010 General Election, abolished the FSA and created two new financial services regulators: the Prudential Regulation Authority [PRA] and the Financial Conduct Authority [FCA]. In essence there are now two parts to mortgage regulation: Conduct regulation, run by the FCA and via Mortgage Conduct of Business [MCOB] rules and prudential regulation, which sets lenders capital requirements for offsetting their lending risks and mitigating risks in the wider financial system. The PRA oversees deposit-taking firms; and the FCA the non-deposit taking firms. In addition to this, lenders have to have regard to additional macro-prudential regulation in the form of directions and recommendations made by the Bank of England's Financial Policy Committee [FPC].

The industry view is that the new MMR rules have had considerable impact although there has been no independent review of the scale of the impact. Aside from resulting in longer mortgage interviews and requiring tighter affordability checks and the use of stress tests, the effect of the new rules has been to limit lending on high LTV mortgages and on interest only mortgages, both of which were key elements of the pre-2008 mortgage market. As noted above, the creation of the Financial Policy Committee [FPC] at the Bank of England in April 2013 has been significant. It is charged with a primary objective of identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the United Kingdom financial system. The FPC has a secondary objective of supporting the economic policy of the government. Though there is no specific housing/mortgage remit the FPC recognises the key roles of this market. As a result it has been active with respect to the mortgage market. For example, in June 2014, the FPC made the following recommendation:

'When assessing affordability, mortgage lenders should apply an interest rate stress test that assesses whether borrowers could still afford their mortgages if, at any point over the first five years of the loan, Bank Rate were to be 3 percentage points higher than the prevailing rate at origination[…]'.

In 2015, the government gave the FPC new Powers of Direction over the PRA and the FCA in relation to loan to value and debt to income limits in respect of owner occupied lending, and over the PRA in relation to leverage ratio tools for the rental market. The PRA has recently undertaken a review of underwriting standards in the buy-to-let mortgage sector. This highlighted concerns about lenders' growth plans and how they might meet them. The findings suggested a need for micro-prudential action. In March 2016 the PRA published proposals which aimed to ensure lenders conduct their buy-to-let business in a prudent manner without a marked loosening in buy-to-let underwriting standards and curtail inappropriate lending and the potential for excessive credit losses. A Supervisory Statement was published in July 2016.

In summary the evolution of mortgage regulation in the UK highlights the growing complexity of the requirements for mortgage lending. The UK now has a safer mortgage market in terms of its place within the economy and with regard to households. However, it is a smaller market – more households are excluded –one estimate is that since 2007 over 2 million households who would have been home owners prior to the global financial crisis failed to become owners and part of the explanation for that is mortgage regulation.

One result is that among 20-25 year olds some 35% used to be mortgaged home owners but this is is now around 10%. For 25-34 year olds, the expectation of buying a home has declined since 2013 down from 78% to 70% (while for 16-24 year olds we have seen a fall from 83% to around 78% since 2008). Some 17% of young adults are now living at home with their parents and around 35% of first time buyers only enter the market though parental assistance. For single people the likelihood of being an owner has all but disappeared in many markets. The age of first-time mortgage borrowers has risen to 30 years old.

To offset some of these effects and their consequential impact on new housebuilding, the government in England (and in Scotland and Wales) has introducing the Help to Buy equity loan scheme to assist tackling the deposit deficit and a Mortgage Guarantee scheme to help restart the high LTV market (though the latter closed at end of 2016 having achieved its purpose). Both supply and first-time buyer numbers have been edging up but the reality is that some households will now never enter home ownership or that if they do it will be much later. In that regard the UK is moving towards a more continental European model of becoming home owners in late 30s or early 40s rather than the previous pattern of entry in the early 20s.

The distributional impacts are beginning to emerge (e.g., IFS, 2016; Redfern,2016, Social Mobility Commission, 2016, Resolution Foundation, 2017)). Though we still lack the detail the evidence does suggest that those without access to parental wealth and those in lower paid jobs now find access to home ownership very difficult. Government schemes have helped bridge the gap to a degree (Finlay et al, 2016; Walker, 2016) but substantial differentials remain as is evident from the simple statistics on the numbers of first time buyers (see also Williams et al, 2017).

7. Conclusions

7.1. Major trends

The comparison between what is happening now and before 2008 raises a number of distinct issues. First it is clear that, in the period running up to the GFC in many countries, competition for market share in increasingly deregulated markets resulted in lenders providing loans which were outside established industry norms (Scanlon et al, 2011). Thus, comparing the situation now with just before the crisis when the market was in its most expansionary phase may over-estimate the extent of any changes that have taken place in terms of 'normal' lending.

Second, despite the evident lending excesses, most countries did not see as much mortgage default as was expected, so while there were major problems for banks it was not normal for first-time buyers to lose their homes. In part this was because governments took steps to limit the impact of market collapses. Those countries with massive defaults were generally the ones where the housing market experienced major house price falls and cutbacks in housing activity, as well as loss of employment, e.g. Ireland and Spain. Others limited the falls by underpinning the housing market by reducing the costs of mortgages, offering guarantees and putting in place safety nets for buyers in difficulty, e.g. the UK, Australia and the Netherlands, but the upshot of that has been house prices were kept at higher levels than might otherwise have been justified.

Third, quantitative easing has led to far lower interest rates which have made access to funding easier and of course eased the debt service burden for many existing borrowers. This therefore placed more emphasis on regulation and controls as a means of limiting an individual mortgagor's exposure to risk - via stress tests as well as LTV and LTI caps. However, for other buyers it has provided the potential for taking on more debt, which in turn has helped fuel the purchase of additional properties to rent out, as well as the widespread extension and improvement of existing homes. Both have had major implications for those trying to enter the market for the first time.

The vast majority of evidence comes from macro-prudential legislation and scrutiny – which is relatively well documented although we have yet to see any fundamental reviews of the impacts of the regulatory changes made. Even in this macro-prudential context it is not always clear what is legally binding and what is recommendation – it varies both between countries and over time. Importantly, and as a generalisation, countries seem to move through phases in terms of the regulation of individual transactions, in part as a result of the GFC and then the EU Directive.

7.2. The impact on younger households' access to owner-occupation

There is relatively little statistical evidence of the impact of regulatory changes at the individual household level and indeed often nothing at all on first-time buyers. Evidence from country experts suggests that the countries in our sample fall into three or perhaps four major groups:

- **(a)** Countries where there were few problems during the GFC and where demand for owner-occupation has increased since that time (sometimes with an initial dip). The most notable is Germany but it also applies to Slovenia and to some extent the Netherlands along with countries that are aiming to boost housing investment. In these countries, while there are usually macroprudential rules in place there is a strong funding market and, if anything, regulations as applied to individuals are currently being relaxed;
- **(b)** At the other extreme, countries where the mortgage market has not recovered and there is very little lending of any type – notably Greece and Hungary and to a lesser extent Spain and Portugal;
- **(c)** In between, countries that have strengthened their regulatory framework but where there is no evidence of this causing significant constraint given demand such as Belgium and the Czech Republic; and,
- **(d)** A small number of countries where the regulatory constraint appears to be biting at least to some extent, such as for instance the UK and Canada.

It is mainly in countries in the last two categories that we see a clearer link between changes in regulation and exclusion from owner-occupation.

The first and most important concern relates to meeting the deposit. In this context there are four distinct reasons why it has become more difficult in addition to regulatory change: private rents have increased making it more difficult for potential owners to save for a deposit; real incomes, notably for younger people, have decreased making it harder to save; interest rates on savings have declined – making it more difficult to achieve a given deposit; and house prices have risen so deposit requirements are higher. The importance of parental assistance has clearly increased – so those without family support will find it harder to find a deposit than those who benefit from that support – but in a number of countries with high unemployment and falling incomes family capacity has also declined.

The second issue is that incomes in general have been less buoyant since the financial crisis. The evidence suggests that lower income households have not been entering owner-occupation in the same numbers. The third issue arises from the fact that unemployment and job insecurity have risen rapidly especially among younger people. In most countries it has always been necessary to have a permanent job in order to obtain a mortgage (or sometimes to have a parental guarantee). This group of potential owner-occupiers would therefore generally not have been able to enter the sector except perhaps in the period before the crisis when there was a substantial expansion in what was called the 'subprime' market where lenders widened their criteria to include people with poor credit history and sometimes less well documented income and where lending was predicated on continuing house price inflation.

The emergence of student debt in some countries, shorter term employment contracts and the loss of employee benefits such as pensions all further undermine the capacity of younger households to enter or sustain home ownership. Moreover, for many, renting a home becomes a logical choice as it gives flexibility to reflect their position in the labour market. However, with higher rents the capacity to save for a mortgage has become more limited. Equally demand for investment properties has in some countries increased house prices further restricting access to owner-occupation.

A fourth element relates to individual attitudes to risk. Before the GFC we saw individuals pull back and it seems possible that individual attitudes could well be more conservative than current stress tests. In this case it is demand which has declined rather than regulation that has constrained. The outcome of risk aversion on both sides is reflected in the increases in the numbers of young people living with their parents and with lower than predicted rates of household formation.

Finally, in some countries governments are offsetting the effects of regulatory changes by a range of initiatives aimed at helping first-time buyers. These include special schemes focussed on both housing demand and supply, tax measures including reduced tax liability and also tax reliefs.

Overall, regulation is clearly having both a direct impact on access to mortgages but there are many other reasons why younger households are finding it more difficult to buy. However, regulatory constraints may bite more when, and if, economies improve. This would reduce housing choice not just for those who are now young but for those entering middle age.

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Real Estate Investment Trusts [REITS] in Pakistan

By Muhammad Ejaz, Faraz Arif and Adnan Rizvi[1]

1. Introduction

The dawn of June 26, 2015 saw the listing and commencement of trading for South Asia's first REIT scheme; Dolmen City REIT 'DCR' on the Pakistan Stock Exchange [PSX]. This marked a new chapter in the history of capital markets and real estate business in the region. The PKR 22.237 billion fund (circa USD 206.75 million[2]) - Dolmen City REIT is the only Shariah Compliant, Rated, Listed, Closed-end, Perpetual, Rental REIT fund in Pakistan and includes a commercial office component and retail mall located at the scenic seafront in Karachi. This article looks at the regulatory framework for REITs, Shariah structure, the real estate environment and the opportunities and the challenges facing REITs in Pakistan. Finally, it discusses the structure and operational performance of Dolmen City REIT, which remains the only listed REIT fund in South Asia as of the date of this article.

REITs in Pakistan conform to the REIT Regulations 2015, which were promulgated by the Securities and Exchange Commission of Pakistan [SECP], the apex securities regulator in the country. The intent of introducing REIT regulations was to expand capital market activities by bringing real estate as a new asset class to the market. The Specialized Companies Division's, Non-Banking Finance Companies [NBFC] department of the SECP is entrusted to regulate both the REIT Management Companies and REIT Schemes. For the success of underlying business, SECP's regulations expect that the sponsors/management of a REIT Management Company [RMC] have expertise in both the real estate and the capital markets business. This skill requirement was fulfilled by two leading groups in their respective areas of business joining hands to launch REIT management in Pakistan.

MANAGEMENT COMPANY AND THE SPONSORS OF DCR

REIT Management Company

Arif Habib Dolmen REIT Management Limited was established with the objective to launch REIT Schemes and provide REIT Management Services in accordance with REIT Regulations. It was incorporated in Pakistan as a public limited (un-quoted) company in 2009 and registered with SECP as RMC under the Non-Banking Finance Company 'NBFC' Rules, 2003. The combined experience of its Management and leadership from the Sponsors and Board of Directors enables the company to carry out efficient REIT Management operations. It aspires to develop the REIT industry in Pakistan with multiple projects in the pipeline. The company is 50%:50% Joint Venture between Arif Habib and Dolmen Groups. The joint ownership provides financial and operational synergies to conduct effective REIT Management services.

Sponsors

Arif Habib Group, is one of the major conglomerates in Pakistan managing assets in excess of USD 500 million. In addition to several real estate projects, the group holds interests in securities brokerage, investment and financial advisory, private equity, investment management, fertilizer, cement, steel, dairy and energy industries.

The Dolmen Group is one of Pakistan's leading real-estate developers primarily engaged in the development, construction and management of prime commercial real-estate. The Group currently owns and manages the largest portfolio of shopping malls in the country. Dolmen has redefined Pakistan's retail landscape by providing major international standard shopping malls across Karachi.

2. REITs' regulatory framework in Pakistan

REITs in Pakistan operate as listed, closed-end, rated, equity financed schemes. REITs are required to acquire real estate in the title of Trustee prior to the Initial Public Offering (IPO) of the REIT scheme. Similar to mutual funds, in order to be a tax pass-through structure, REIT schemes have to distribute at least 90% of their accounting profit for the year. REITs can either be conventional or Shariah compliant.

The REIT Regulations classify three categories of REITs in Pakistan:

a) **Rental REIT Schemes –** those that invest in commercial or residential real estate to generate rental income;

b) **Developmental REIT Schemes –** those that develop real estate for industrial, commercial or residential purposes through construction or refurbishment with the aim to sell or rent subsequent to development; and

c) **Hybrid REITs** which have both a developmental component and readily rentable component of real estate in the portfolio

The REIT Regulations ensure several levels of due diligence for protecting the interest of investors. These layers of control include RMC, Trustee, Valuer, Auditor, Underwriter, Shariah Advisor, Rating Agency and the regulator [SECP and PSX]. The following are the

[1] The authors of this article are associated with Arif Habib Dolmen REIT Management Limited.

[2] Currency conversion rate = PKR 107.55/USD, used throughout this article.

roles and qualifications of the parties involved in a REIT scheme:

REIT Management Company [RMC]:

Role: The RMC is obligated to launch and manage REIT schemes and appoint all parties involved in the REIT including the trustee and report financial performance to the SECP and unit holders. It steers the REIT operations and distributes REIT income as dividends to unit holders. The RMC conducts its own due diligence of all the properties that are to be acquired by a REIT scheme and gives an undertaking on the property title and encumbrances if any.

Qualification: Under the Regulations, the RMC must be registered with SECP under NBFC Rules 2003 meeting a minimum paid-up capital requirement of PKR 50 million [USD 0.46 million]. The promoters, directors and key executives of an RMC shall comply with the fit and proper criteria as stated in the regulations. The assessment of fitness is done on four factors:

i) integrity and track record,

ii) financial soundness,

iii) competence and capability, and;

iv) conflict of interest.

The RMC must have adequate systems and resources to provide REIT management services. Adherence to strictly defined rules and regulations for proper corporate governance is required to ensure investors' interest is protected at all times. The RMC cannot delegate its core functions such as: investment decision making, risk management, and compliance.

Trustee role: The trustee is the custodian of REIT assets and acquires the real estate in its name on behalf of the unit holders. It certifies the RMC's performance in compliance with the REIT Regulations to SECP. It is obligated to carry out the instructions of the RMC in line with the approved business plan of a REIT scheme.

Qualification: The trustee can be the central depository company [CDC], a scheduled bank with a minimum AA rating or a foreign bank operating as a scheduled bank in Pakistan. SECP examines the appropriateness of systems, qualification and experience of personnel of the trustee before approving its appointment.

Valuer role: The Valuer assesses the real estate on quarterly basis (in case of developmental REITs) and on semi-annual basis (in case of Rental REITs). Valuers are required to carry out their assessment based on three approaches (Cost, Sales Comparison and Income Capitalization) maintaining compliance with the guidelines of International Valuation Standards Council.

Qualification: Valuers are required to be incorporated as company limited by shares and should be on the list of approved Valuers of Panel-I or Panel-II within the unlimited valuations category maintained by Pakistan Banks Association. They must have employed at least 3 engineers and/or architects who are registered with the Pakistan Engineering Council or the Pakistan Council of Architects and Town Planners. Valuers are appointed for a period of 3 years and shall not be reappointed until lapse of 2 years of their last appointment.

Property Manager:

The Property Manager manages the tenancy and carries out marketing activities and maintains the property in a Rental REIT. Being experts, they carry out the front-end of real estate business operations with the strategic input and approval of the RMC.

Development Advisor role: Under a Developmental REIT, the Development Advisor undertakes the planning, design, costing, scheduling, contract preparation, coordination and supervision.

Qualification: It is a single entity or a consortium of entities duly registered or licensed with their respective professional body/association/council.

Shariah Advisor role: To ensure Shariah compliance in respect of all documents, investments, borrowing, trust deed, sub-lease deed, binding purchase agreement, and tenancy agreements.

Qualification: Appointment of a Shariah Advisor is required for every Shariah compliant REIT scheme. Although there are no specific mentions in the REIT Regulations, the appointment is generally based on the requirements as per the State Bank of Pakistan [SBP] fit and proper criteria, which specifically mentions 4 years' experience of giving Shariah Rulings and completion of the course of Shahdatul Aalmia (Dars e Nizami) from a recognized Board of Madaris securing a minimum of 70% marks.

Rating Agency and Auditors:

A credit rating agency rates the REIT scheme and RMC on their investment and management scales on annual basis and Audit firms perform external audit of the REIT Scheme and RMCs' financial performance and report their opinion.

Salient features of the REIT Regulations 2015 and the process flow are as follows:

- **Unit holding Requirement:** The RMC shall own at least 5% of the units of all REIT schemes that it launches/manages. Additionally, Strategic Investor(s) are required to hold 20% of the units (minimum 5% each, in the case where the strategic investor is a group/consortium) of a REIT scheme and such units shall be kept in a blocked account for the life of the REIT Scheme. The RMC may apply to SECP for transfer of its holdings to a Strategic Investor after 3 years of establishment of a REIT scheme;
- **Borrowing:** A REIT scheme may borrow up to 30% of the value of real estate; however, the borrowing can only be on an unsecured basis and REIT assets cannot be utilized for its repayment. This effectively means REITs cannot borrow. We are already engaged with the SECP to amend

Process Flow – REIT Regulations 2015

REAL ESTATE APPROVAL BY SECP

Due Diligence Certificate by Lawyer | RMC Undertakings and Affidavit | Confirmations of relevant authorities

↓

TRUST DEED APPROVAL & OTHER SUBMISSIONS TO SECP

Draft Trust Deed | Business Plan | Valuation Report

↓

REGISTRATION OF REIT SCHEME

Binding Purchase Agreement | Registered Trust Deed | Unit Holding Undertaking by RMC

↓

PUBLIC OFFER

Rating of REIT Scheme | Underwriting of Issue | Regulatory approval on Prospectus

↓

Operations of REIT

this provision and allow REIT schemes to borrow just like any other commercial entity is allowed.

- **Property Transfer:** in the name of Trustee, is required before IPO and after the REIT scheme has been registered and pre-IPO funds are raised.
- **Fund Size:** of the REIT Scheme is linked with the Listing requirements of the Pakistan Stock Exchange;
- **Occupancy and track record:** Real estate to be considered for a Rental REIT must have at least 80% occupancy and a 1-year track record;
- **Location:** Real estate to be considered for acquisition by a REIT scheme should be located in Karachi, Lahore, Peshawar, Quetta or Rawalpindi/Islamabad. For real estate located in any other city of Pakistan, prior permission of SECP is required.

Islamic (Shariah Compliant) REITs invest in properties where tenants operate in businesses that comply with Shariah principles, including the guidelines on Sharia-compliant permissible assets. The REIT fund itself must be structured and run in a manner that is consistent with Shariah. Any income generated from activities deemed as non-Shariah compliant is to be earmarked for charity.

An Islamic REIT, in the initial stage, is a 'Musharaka' (partnership) between all unit holders. If the property is meant to generate rental income, this arrangement falls under the concept of 'Ijarah' (lessor / lessee contract). Hence the Shariah ruling of Musharaka and Ijarah would be applied to REITs along with all the necessary clauses of a valid contract.

3. Pakistan real estate market

Real Estate trading and development is a major contributor to economic growth. It is one of the largest employment providers and a potential source of revenue for the Government. Pakistan has the world's 6th largest population with the adult population expected to grow to over 200 million by 2030. The GDP of Pakistan stands at USD 311 billion [USD 1,629 per capita] growing at 5.28%, which is the 25th largest in the world in purchasing power parity terms.

With a growing middle class, improving income levels, favorable demographics and an evolving regulatory framework, real estate of all types is in high demand with housing being at the forefront. The housing backlog in the country is estimated at 10 million units and is growing at a compound annual growth rate 'CAGR' (18 years) of 4.8%. To gauge the potential of this sector, the housing industry in Pakistan contributes 2.6% to GDP compared with 8.04% in India and 8.1% in the UAE.

Pakistan is undergoing a growth phase with its capital market recently upgraded from Frontier to Emerging Market (Morgan Stanley Capital International – MSCI 2017). There is a huge opportunity for the organized sector to move into the real estate business and several large local corporations have already stepped into the real estate business. Examples of these are Packages Limited, Yunus Brothers Group 'Lucky', Siddiqsons, Army Welfare Trust, Nishat Group, Bahria and Defense Housing Authority to name a few. These players are inclined to adopt the formal tools of financing and managing the business. They are trying to bring standardization to the real estate market and therefore prefer REITs. At the same time, a large and growing segment of the financial market - Islamic Banks, have a huge appetite for Shariah compliant assets and are eager to invest in REITs. The government needs to escalate its support towards REITs as it is prudently recognizing the role that REITs could play in improving the documentation of real estate transactions. There is a sizeable land bank in Pakistan whose potential could be unlocked through an investment vehicle that can draw investment from all investor classes.

4. Role of REITs in the evolving real estate sector

REITs have the potential to provide stimulus for the growth of the real estate sector bringing it under the documented economy. REITs bring the benefits of real estate investment to all income groups and simplify the taxation complications for lay investors as shareholders simply pay income tax on dividends. The REIT Regulations 2015 addressed several industry requirements and resulted in an immediate surge in interest by market players. It brings discipline in project and risk management through adherence to specifications, enhanced due diligence, several layers of supervision and involvement of the trustee, the regulator [SECP and PSX], Rating Agency and Auditor. It provides an opportunity for developers to undertake large projects and gives greater market confidence through transparency in operations.

REITs can expose inaccurate property valuations in the sector, enhance government revenue, develop better housing and infrastructure in the country, and create employment opportunities especially for low-skilled workers. They expand capital markets by creating an investment class which allows small savers to take exposure in large scale real estate developments thereby promoting savings. Liquidity through stock exchanges and regulation induces confidence amongst local and foreign investors.

As funds are raised at inception, REITs mitigate the risk of project completion associated with development projects. They promote non-speculative growth of the real estate sector, boosting economic activity and encouraging the government and private institutions to monetize their land banks in a transparent manner.

The launch of Dolmen City REIT has attracted international markets to the country as evident from the improvement of Pakistan under Global Real Estate Transparency Index, 'GRETI' 2016, published by JLL (Jones Lang LaSalle). According to the report Pakistan was among the countries, which have shown the strongest advances over the last two years. On the transparency scale, Pakistan was upgraded from the 'Opaque' to 'Low Transparency'. The report cites the launch of REITs in Pakistan as a rationale for the ranking improvement.

5. Challenges

- General Market Practice: There is an overwhelming domination of the informal sector across the real estate value chain in Pakistan (Developer, Contractor, Sales & Marketing services and brokers). Violation of building laws and distortion in valuation/recorded prices is common in the informal sector to serve builders/sponsors own needs. These practices create a disadvantage for the formal sector.

  The formal sector is interested in transparency and discipline and therefore is attracted to REITs. Borrowing forms an integral part of a conventional business model, which is not allowed under the present regulatory framework for REITs and hence acts as a deterrent. SECP should consider allowing secured borrowing for the operations of REITs. We are engaged with SECP, in proposing requisite changes to the regulatory framework for REITs. The depth of capital markets in Pakistan is gradually increasing. New investors will be attracted towards REITs as more schemes are launched under an improved regulatory framework.

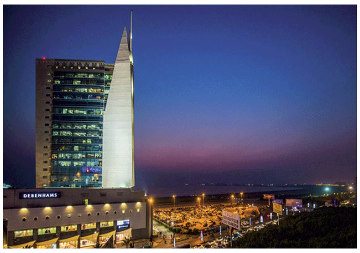
- Property transfer taxes: In Pakistan real estate is constitutionally a provincial subject. Provinces levy transfer taxes and duties on the official value of real estate based on the provincial district councilor's valuation estimates which are much lower than the fair market value. The provincial government of Sindh has provided major impetus to REITs by levying favorable rates on land registration fee, stamp duty and capital value taxation on property transactions under REIT modality making them competitive with conventional property transactions. The rationalized tax structure on the transfer of immovable property if extended to REIT transactions in all provinces of the country would further encourage further schemes.

- Income Taxes: Corporate investors pay tax on their dividend income from REITs at 25% compared with 12.5% paid on income from their investment in any other stock fund. Enhanced government support by bringing favorable changes in the Income Tax Ordinance of Pakistan is critical to encourage formal sector participation.

Dolmen City REIT

The real estate of this scheme comprises:

The Harbour Front
19 story Office Building
Built up area of 270,271 square feet



Dolmen City Mall
International standard shopping mall
Built up area of 1.29 million square feet

Scheme Overview

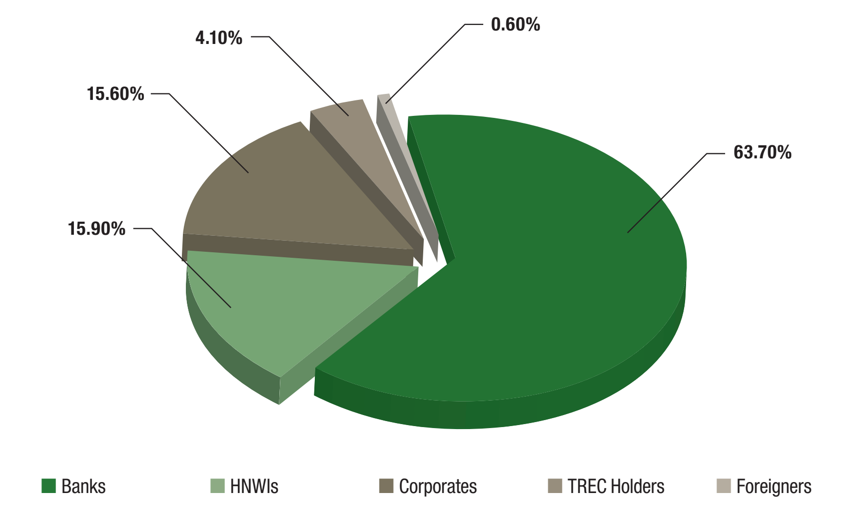
Nature of the Scheme	Perpetual, Rated, Listed, Closed-end Shariah Compliant Rental REIT
Project Real Estate	– Dolmen Mall Clifton; and – The Harbour Front
Leasable Area	– Dolmen Mall Clifton: 554,518 square feet – The Harbour Front: 257,161 square feet **TOTAL: 811,679 square feet**
Fund Size	PKR 22,237 Million
Trustee	CDC
Rating	**"RR-1"** by JCR-VIS Credit Rating Agency
Occupancy	– Dolmen Mall Clifton: 95.88% – The Harbour Front: 100%
Net Asset Value	**PKR 18.77 per unit** (As at June 30, 2017)
Dividend Yield	11.50% (June 2017)

The mall and office buildings are regarded as some of the finest commercial spaces available in the country. Long term tenancy agreements with weighted average lease expiry of over 4 years and 10% annual rent escalation clauses assure well-paced future growth.

Being a Shariah compliant REIT Scheme coupled with the higher than average real estate yield generated vast investor interest especially from Islamic financial institutions, pension, endowment and mutual funds.

DCR has a fund size of PKR 22.237 Billion [$206.75 million] as the value of real estate. PKR 6.11 billion [USD56.86 million] was raised from capital markets with a premium of one (1) rupee per Unit or PKR 555.92 million [USD 5.17 million] through the book building and IPO of the issue at a strike price of PKR 11 per Unit.

% Share of Unit holding allocation in Book Building



Institutional investment in the private rented sector in the UK – coming of age

By Rob Thomas

1. Introduction

1.1. The long-awaited breakthrough for institutional investment

For many years there has been excited talk of institutional investors making large scale investments in the UK private rented sector (PRS). But in fact, since the PRS reached its trough in size around 1990, the considerable growth that has been achieved has been almost exclusively the result of small scale investment by individual landlords. However, this pattern is now beginning to change, with a range of institutions now actively pursuing investment opportunities in the sector. As explained below, the prospect for further such investment looks positive.

There is no single definition of what constitutes institutional investment in the residential property sector. But a reasonable definition, which is used here, would be any form of collective investment through public corporate structures or investment funds. This would include quoted companies such as Grainger plc, real estate investment trusts (REITS) – a structure that maximises tax efficiency – and pension funds investing in housing. It would also include the retained residential portfolios that some of the large housebuilders have accumulated and firms or funds aimed at niche sectors such as student accommodation, where firms such as the Unite Group plc have been active.

Using this broad definition, the UK PRS has always had an element of institutional investment. But often when the residential property industry discusses institutional investment it has a narrower range of investors in mind; large pension funds, insurance companies and direct investment funds. These have been much less active in the PRS in recent decades but that is beginning to change.

1.2. Background

At the start of the twentieth century the PRS was the dominant tenure in Britain, containing some 90% of the stock of homes. There followed a steady decline in this percentage, with the expansion of owner-occupation the main factor in the interwar period (1918-1939), followed by the expansion of the social rented sector in the first three decades of the post war period, as a result of a massive council house building programme. Chart 1 shows the relative decline of the PRS from 1918 until the end of the 1980s and its subsequent revival.

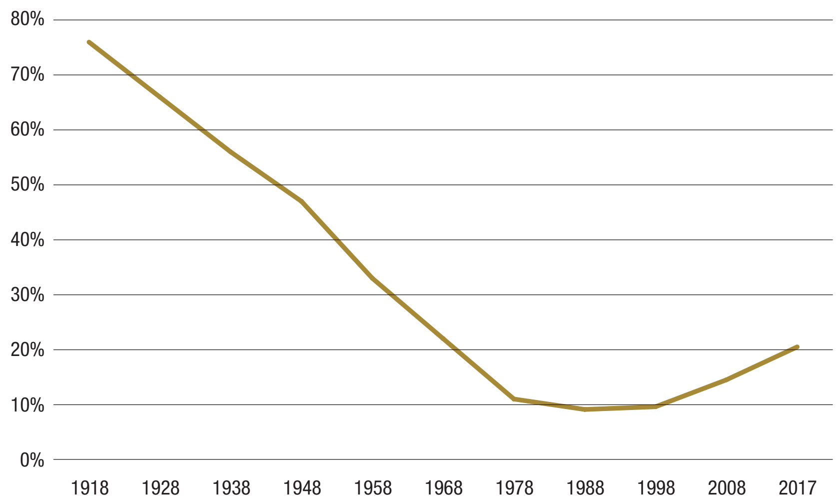
Legislation that controlled the level of rents was first introduced during World War I. Subsequent acts of Parliament altered the range of properties that were rent controlled and the mechanism for controlling rent, but the overall effect was to make the PRS unattractive for investors and most of the institutions such as pension funds that had held residential property before World War II gradually exited through the sale of their stock.

When Margaret Thatcher came to power in 1979, the emphasis shifted back to encouraging homeownership. Council house tenants were incentivised to buy their homes while deregulation of the mortgage market encouraged competition which widened the range of individuals who could access finance to purchase a home.

By the 1980s, the PRS had a serious image problem. Years of underinvestment had followed rent controls and competition from cheap council housing. At the same time, homeownership was firmly established as the preferred tenure of most households with owner-occupation rates rising from 55% in 1980 to 66% a decade later. By the end of the 1980s, the UK PRS contained just 9% of the housing stock, little more than 2 million properties out of 23 million. Renting privately was often seen as a last resort for people who had neither access to social housing nor the means to purchase a home. Students and migrant workers were two of the largest categories still dependent on the PRS.

The 1988 Housing Act heralded a recovery for the PRS by creating a deregulated rental sector through the introduction of the Assured Shorthold Tenancy [AST], which offered market rents and an absolute right of possession of the property for the landlord at the end of the tenancy. The AST proved to be the catalyst for a rebirth of the PRS. By the end of the 1990s, the sector had grown to 2.4 million but the investment in new property came not from

CHART 1 Percentage of households in the PRS since 1918



Source: Department for Communities and Local Government (DCLG). Partly estimated large investors but from an army of individuals, many novice landlords.

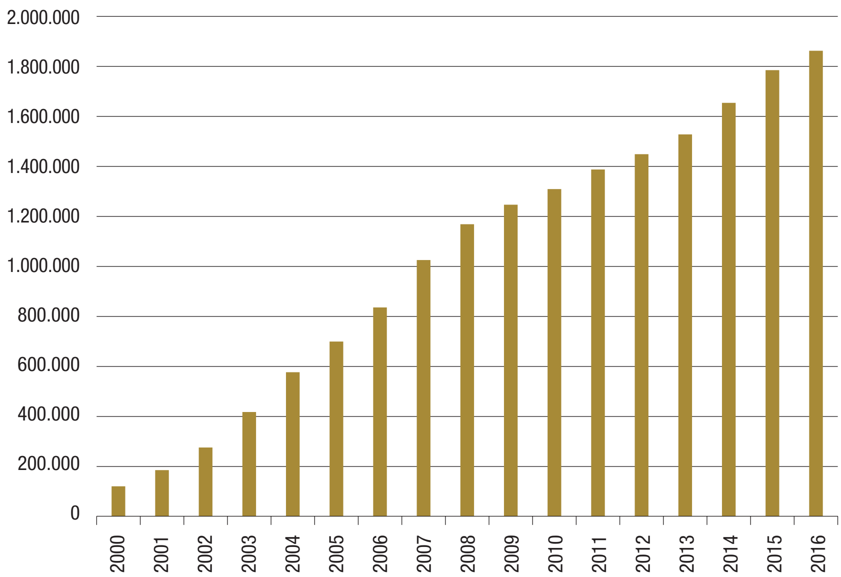
1.3. The buy-to-let phenomenon

From the mid-1990s these modest property investors were aided by the launch of the 'buy-to-let' mortgage by a small group of lenders. These lenders recognised the renewed interest in the PRS from ordinary investors and the relative safety of lending on properties with ASTs in place, and they started to offer mortgages on terms that, while not as favourable as those for owner-occupiers, were substantially better than anything previously available to landlords. The business loans that landlords had previously had to rely on often had maximum loan-to-value ratios of 50% with interest rates well above those prevailing in the mainstream mortgage market. Buy-to-let lenders introduced loan-to-value loans of up to 80% and sometimes above with rates much closer to those of the mainstream mortgage market.

Buy-to-let became an outstanding popular success, capturing the imagination of middle class investors. By the end of 2016, twenty years after the introduction of the buy-to-let mortgage, nearly 1.9 million properties had been purchased with buy-to-let loans (see Chart 2). The total investment made by these buy-to-let landlords is an estimated £230 billion. Yet the PRS as a whole increased in size by some 3.4 million over the same period, meaning an additional 1.5 million properties have entered the PRS without buy-to-let mortgage finance.

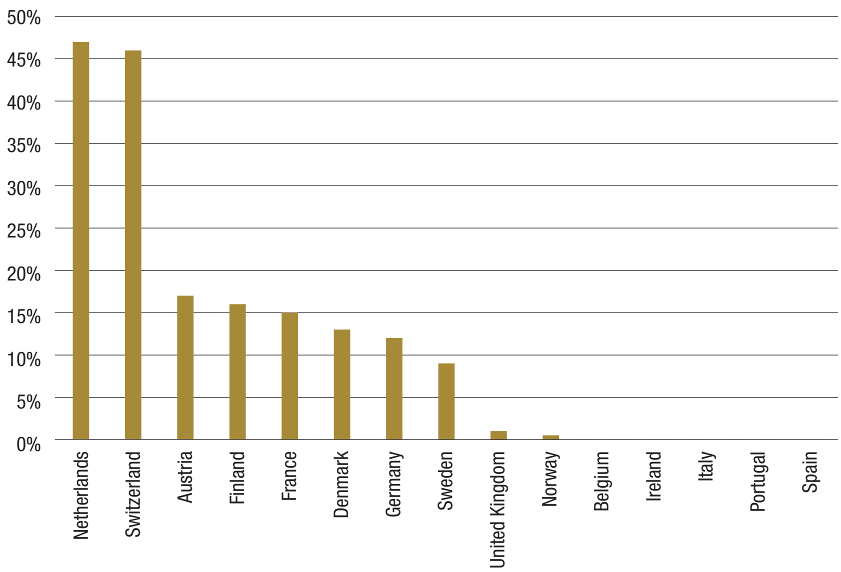
The available data suggests that even amongst these 1.5 million properties that have entered the PRS without buy-to-let finance, individual investors have dominated. Some investors bought property with cash, encouraged by falling returns from bank deposits and other assets. But many others made a decision to rent out properties that they were previously living in or that they had inherited. In total these investors injected another £180 billion into the UK PRS.

CHART 2 Number of buy-to-let mortgages outstanding



Source: Council of Mortgage Lenders

CHART 3 Percentage of institutional real estate investment allocated to residential property, 2011



Source: IPD/KTI

2. Early institutional investment

Institutional investment in the PRS in the UK has traditionally lagged behind that in a number of other European countries (see Chart 3). The reason for the comparative lack of interest in this investment class is discussed in Section 5 below. But here we examine those investment entities that have been the exception and focused on the UK PRS.

The most significant collective investments in the PRS have historically been in larger private companies and a small number of quoted companies. The best known of the quoted companies specialising in residential property investment is Grainger plc.

2.1. Grainger plc

Grainger is the largest quoted residential property owner in the UK. It can trace its roots back to 1912 when it was established in Newcastle upon Tyne to buy residential property. In the 1970s and 1980s it acquired a number of residential portfolios including one for British Coal. In 2007 it raised capital for G:res1, at the time the UK's largest market rented residential investment fund and in 2013 it established the GRIP unit trust in partnership with APG, the Netherland's largest pension fund asset manager, which was converted into a real estate investment trust (REIT) in 2016.

2.2. Quality Street

Quality Street was established in 1988 with backing from Nationwide Building Society. It grew rapidly to become Britain's largest private rented housing company owning 2,500 properties. However, it suffered in the early 1990s housing downturn and in 1997 Nationwide bought out its founder. Nationwide subsequently sold off the portfolio.

2.3. The Business Expansion Scheme [BES]

The BES was a government scheme, established in 1983, that provided tax breaks to investors who put funds into unquoted trading companies. It was designed to assist entrepreneurs and small businesses but in 1988 it was widened to include firms letting residential property on assured tenancies. With the property market suffering in the face of rising interest rates in the late 1980s, a series of residential property BES schemes were launched to buy repossessed properties, as well as others focused on student accommodation and social housing.

The schemes proved popular with investors as they could receive an up-front tax break while investing funds in what appeared to be a relatively secure asset while receiving a guaranteed minimum return. However, the BES rules required firms to operate for a minimum of 5 years, and by the end of this period property prices were for the most part well below the entry price. So, although the investor received the minimum guaranteed returns they were promised their experience of residential property as an asset was not positive, which coloured the financial market's attitude to collective investment in the residential property sector. However, it did leave a legacy of professional management that has assisted the subsequent development of institutional investment in the PRS.

2.4. Unite Students

Student accommodation is the component of the PRS which has seen the greatest institutional investment to date (although some commentators would classify student accommodation as a distinct asset class rather than a subset of the PRS). While the mainstream PRS market has contained very little in the way of purpose-built blocks until recently, students are used to living in such purpose-built units, so this was a natural market for institutional investors to enter as student numbers rose. One of the firms leading this investment is Unite Students, which was founded in 1991. It is now the UK's largest manager and developer of student accommodation, housing 50,000 students a year with shares quoted on the London Stock Exchange. In 2006 it formed Unite UK Student Accommodation Fund [USAF], Europe's largest unlisted and specialist student accommodation investment vehicle.

2.5. Hearthstone

Hearthstone was founded in 2009 as the UK's first specialist residential property fund manager. It is currently the only company to offer open-ended, tax-efficient funds (with Property Authorised Investment Fund status) investing in UK Residential Property without gearing. Funds are open to both private and institutional investors with Islington Borough Council in London being one of the largest fund investors.

3. The build-to-rent concept

3.1. The appeal of build-to-rent

Section 2 illustrates that institutional investors, in the broadest sense of the term, have always been a presence in the PRS. But since 2012, one factor above all has stimulated interest from institutions, including the pension funds that previously avoided this asset class. That factor is known as build-to-rent. When the government announced plans to support build-to-rent development in 2012, it coincided with a financial environment in which institutional investors were looking for safe investments that provided reasonable yields at a time when bond yields had fallen sharply. Unsurprisingly then, build-to-rent piqued the interest of many institutions and kick-started the most significant wave of new institutional investment in the PRS seen in recent decades.

Build-to-rent is the term given to properties (generally apartments) built specifically for tenants, with features designed to appeal to tenants or keep management costs down. Such purpose-built private rented property had not been a feature of the UK market until recent years. Previously, new-build property had either been built specifically for the social housing sector or for sale to private buyers.

Since the 1990s, an increasing number of properties built for sale to individual purchasers, particularly apartments, have been sold to investors planning to rent these properties out. But despite this trend, which in some apartment blocks in London and elsewhere has seen the majority of units sold to investors, developers have continued to build to standard designs that do not necessarily take account of the specific needs of tenants.

While individual landlords have to choose from the range of property that developers make available, institutional investors have both the financial clout and the incentive to commission entire developments. They can afford the cost of purchasing an entire newly built block and prefer to do so both because they can negotiate a discount from the developer and subsequently benefit from economies of scale in managing the renting of the whole block. They can also consider adding features such as a communal gym or pool which can raise rents throughout the block.

So as institutional investors have started to take an increased interest in the PRS most have focused on the possibilities provided by built-to-rent. Some have also taken on the development role, often in partnership with traditional developers, to capture some of the development margin, improving the financial viability of the investment and giving them control over the project from the outset.

3.2. Government's role in establishing build-to-rent

The Government's role in supporting build-to-rent has been a critical element in catalysing investor interest. The government backed build-to-rent as it saw it as a way of improving the quality of private rented accommodation, professionalising its management and increasing the supply of new-build property by attracting new sources of funding. In 2012, the Government commissioned the Montague review (*Review of the barriers to institutional investment in private rented homes*), which was published in August of that year.

The Montague review suggested that institutional investment had the ability to address previous perceived weaknesses in the PRS. For example, it felt it had the potential to offer longer term rental agreements, a better service to tenants and new purpose-built accommodation of a high standard of construction. It recommended that the government should:

- Look to provide a number of targeted incentives to encourage the development of build-to-let business models, which could include sharing development risk in the short term.
- Establish a PRS taskforce to support the development of build-to-rent.
- That local councils use flexibilities in the planning system to enable developments of privately rented homes where they can meet local need.

The government accepted these recommendations, announcing its intention to support the delivery of an additional 5,000 build-to-rent units in its September 2012 Housing Stimulus Package, through a £200 million Build-to-Rent Fund for England and a UK wide £3.5 billion private rented sector guarantee scheme to allow build-to-rent investors to borrow more cheaply. A Build-to-Rent Fund prospectus was published explaining to institutional investors how they could bid for funds under the scheme, whereby up to 50% of eligible development costs could be met from the fund, with government sharing the risk. The Build-to-Rent Fund was heavily over-subscribed so in the 2013 Budget the government increased the fund to £1 billion.

A large number of developers subsequently withdrew from the first bidding process, perhaps because of a recovering property sales market, so that the final allocation from the first round of the fund was £123 million, with nine contracts awarded to eight developers. The first contract, for 102 private rental units at Centenary Quay in Southampton, was signed in July 2013. A second round of the fund was launched in September 2013, with a shortlist of 36 developers announced in March 2014 bidding for the remaining £850 million.

By March 2016 it was confirmed that construction of 4,500 rental homes funded by the Build-to-Rent Fund had been started. In October 2016, it was announced that the fund would be rolled into a broader Home Building Fund, with no specific requirements that funding be used for PRS properties, in keeping with the government's intention of using the fund as a temporary catalyst for PRS development.

Alongside the 2017 housing white paper *fixing our broken housing market* the government launched a consultation on policies to improve the viability of new build-to-rent developments and to attract greater levels of institutional investment. The speed of planning consent and the nature of planning obligations imposed on institutional investors were identified as barriers that were preventing the sector from expanding more rapidly. The consultation proposed changing the National Planning Policy Framework (NPPF) to explicitly refer to build-to-rent as a model that planning authorities should consider.

3.3. PRS Housing Guarantee scheme

Announced alongside the Build-to-Rent Fund, the PRS Housing Guarantee scheme used the government's guarantee to reduce the cost of borrowing for housing providers. £3.5bn of government guarantees were made available to institutions developing new private rented housing. Take up of this scheme has been slower than that of the Build-to-Rent Fund with the first bond of £265 million (to match funds loaned under the scheme) not issued until November 2016. In the 2016 Budget it was announced that the Guarantee Scheme would be extended until December 2017.

4. Recent institutional investments in the PRS

Spurred by the Build-to-Rent Fund institutional investment in the PRS has increased significantly in recent years. The British Property Federation [BPF] tracks build-to-rent developments and reported that as of Q2 2017:

- There were 83,650 build-to-rent units either completed or planned across the UK, including 15,925 completed, 20,618 under construction, and a further 47,107 with planning permission.
- In London, there were a total of 47,238 units, comprising 10,313 completed units, 9,445 under construction, and 27,480 with planning permission, meaning that 56% of all build-to-rent units nationally were in London.

A substantial number of institutions are investing in these build-to-rent schemes and others are considering PRS investments beyond build-to-rent. Aggregate data suggests that this has already had a substantial impact on the total value of institutional investment in the PRS. Research by IPF published in October 2016, identified £15.6 billion of institutional investment, 1.5% of the £1,015 billion estimated value of the PRS, compared to the 1% figure in 2011 shown in Chart 3 above. Three of the more noteworthy new participants in the sector are:

4.1. Legal & General

Legal & General has been the highest profile of the new institutional investors in the PRS. With its development partner, Dutch pension fund manager PGGM, it has pushed ahead with build-to-rent development. Legal & General states that: "Through the creation of a new build-to-rent asset class, Legal & General is looking to use its long-term capital to help address the chronic long-term lack of supply of housing and meet the increasing demand for affordable, quality rental accommodation. The partnership will initially invest £600m into building purpose-built private rental housing across the UK, providing over new 3,000 homes."

4.2. M&G Real Estate

Since 2013 M&G Real Estate has made a series of investments in the UK PRS. Its first development deal in July 2014 was in Acton, West London. In May 2015, M&G Real Estate signed the first institutional investor/house builder framework agreement with Crest Nicholson, before also teaming up with other house builders. In total the M&G group has invested around £600 million in residential rental property since the beginning of 2013.

4.3 PfP Capital

PfP Capital Limited is a newly formed PRS fund management business established and owned by Places for People, one of the largest property and leisure management, development and regeneration companies in the UK which owns or manages 150,000 homes. One of the key advantages with the PfP Capital proposition is that it includes an existing PRS portfolio acquired from Places for People, giving it a rental return from the outset on a portfolio with a proven financial track record. It is therefore not a build-to-rent portfolio, differentiating it from most new investment vehicles, although PfP Capital may also launch a build-to-rent fund as well as a retirement property rental fund.

5. What previously held back institutional investors?

In many respects, it would appear that the residential property sector should always have been an attractive asset class to large institutional investors:

- It is the largest single asset class in the UK. The total value of privately owned property was just under £5 trillion at the end of 2016.
- Housing is a necessity, with tenant demand typically remaining relatively robust through the economic cycle. Indeed, tenant demand has been somewhat counter-cyclical as people tend to delay house purchase in times of economic uncertainty.
- House prices have exhibited a consistently low correlation with other asset prices such as those of commercial real estate and equities. This makes investment in housing an effective way to diversify risk.
- The UK has faced a structural under-supply of property since the 1980s as a result of inadequate rates of new house building and rising household numbers. This has contributed to rising capital values.
- House prices have been relatively stable in the past but with robust growth. In the 25 years from 1991 until 2016, according to the Nationwide Index, house prices rose in 19 years and fell in only 6 years. Annual growth over this period averaged 5.5%.
- PRS rents have been underpinned to a considerable degree by transfers from government in the form of Housing Benefit. Few other sectors enjoy such support.

- In the past, PRS rents have tended to rise broadly in line with prices. Between the final quarter of 1996 and the final quarter of 2016, both private sector rents and the consumer price index [CPI] rose by an average of 2.0% pa. Given that pension funds have large index-linked liabilities, they have a preference for assets which broadly match this profile. So, you would expect this latter characteristic of residential property to be particularly attractive for them.

But there have been a number of factors that have held back investment in residential property despite these apparent advantages:

- Investors have been concerned about the intensive nature of property management in the residential sector and the associated reputation risk when the manager has to enforce action against tenants, including eviction. Institutional investors that are used to commercial property investment, where tenants are usually responsible for property maintenance, can find the residential sector less appealing for this reason.
- There has been a lack of performance data. Institutional investors often measure their investment performance against industry benchmarks and such benchmarks are less developed in the residential property sector.
- Net rental yields in the residential property sector have generally been low relative to commercial property although this may reflect the lower rates of depreciation that are typical with residential buildings (the lifespan of the typical office or warehouse is much shorter than that of a house or flat).
- A lack of available housing stock of the right kind. Institutional investors are typically looking for the economies of scale in management that come from holding entire blocks which can be managed on an integrated basis. The UK has relatively little stock of this kind. The BES property funds that bought repossessed properties ended up with geographically dispersed portfolios, which added to management costs.
- Investors are often reluctant to take development risk so even where they are keen to invest in residential rental portfolios they are looking for existing portfolios with a proven track record of performance. They are less keen to invest in funds that propose to build a portfolio through building new blocks as this involves taking on additional development risk.
- Competition from buy-to-let landlords has been a concern in part because many small landlords are able to keep costs down by undertaking repairs themselves (so-called sweat equity). Also, the non-professional nature of many buy-to-let investors means they do not necessarily seek an adequate return on their equity, particularly where they have been landlords for many years and may not have any debt on the property. However, since 2015 the government has introduced a number of tax changes that disadvantage private landlords, including restricting the tax deductibility of mortgage interest, eliminating the wear and tear allowance for furnished lettings and raising stamp duty for investors. Although the removal of the wear and tear allowance and higher stamp duty also impacts corporate landlords, the restriction of mortgage interest deductibility only affects individual investors, creating a comparative advantage for corporate investors.
- The PRS is seen as a sector which always faces the potential for political risk. The memory of rent controls, which undermined returns in earlier decades, continues to cast a shadow over perceptions of the PRS amongst some investors.

Taken together these factors had been sufficient to deter large scale institutional investment prior to the build-to-rent initiative despite the apparent positive factors above.

6. Factors supporting institutional investor interest and outlook for further investment

Government initiatives to support build-to-rent have undoubtedly played a key role in kick-starting institutional interest in the PRS. But such support could never have proved sufficient to attract new funds unless the investment case was supported by a range of other factors. Key factors underpinning institutions' decision to invest in the PRS include:

- The macroeconomic environment, which has played a critical role in shifting attention to residential property. Ultra-low bond yields have made the yields offered by residential rented property look attractive. Low interest rates have also enhanced the attractiveness of assets like property that can be geared through debt.
- As the PRS has grown and matured it has become more accepted. The quality of property has risen as more middle-income households rent privately, and the social stigma previously attached to private renting has greatly reduced. In cities where property is expensive, such as London, even well-paid professionals find it difficult to purchase a property, providing ready demand for quality private rented property from tenants who are seen as low risk.
- Rising projected demand for rented accommodation is based on a rising projected population over the next few decades, a constrained supply of social rented property and constrained access to owner-occupation, resulting from high house prices relative to incomes and tighter mortgage availability due to tightened regulatory rules on mortgage affordability.
- New taxes on buy-to-let landlords introduced since 2015, which include curtailing the tax deductibility of mortgage interest for properties held directly by individuals, coupled with tighter regulation of buy-to-let mortgage lending, are likely to dampen future investment in buy-to-let, which since the 1990s has been the main source of investment in the PRS.
- Question marks over future returns from commercial property sectors such as retail and office driven by technological changes, which have driven both a rise in direct retailing via the internet and increased working from home, has made the PRS look like a safer and more attractive investment.

Despite these factors and the government's Build-to-Rent Fund, institutional investment in the UK PRS remains in its infancy. But as build-to-rent portfolios are developed more data will become available, providing institutional investors with the realistic benchmarks they require. Funds will also develop the track records that will allow comparison with returns in other assets classes such as commercial property.

There are still some concerns, not least the risk of increased regulation, which could even see rent controls reintroduced if a Labour government were to gain power. However, even the possibility of rent controls being introduced has not stymied investment as proposals to limit rent increases to the inflation rate (which mirror the rules in some continental European countries such as Switzerland), are seen as even-handed compared to the more draconian caps often imposed under previous rent control regimes.

There are also operational concerns. Finding ways to provide a quality service to tenants while controlling costs is a perennial issue for institutional investors who must compete to some extent with small scale buy-to-let landlords, many of whom use their own labour or so-called sweat equity to keep costs down. Acquiring sites that are appropriate for PRS blocks in competition with traditional developers looking to sell units straight into the open market also remains a challenge.

But for the first time in recent decades there is now the will on the part of major pension funds and similar institutional investors to commit to large scale investment in the UK PRS, with the challenges now seen as surmountable. The prospects for further institutional investment appear positive. With a rising population coupled with constrained alternative housing options, the fundamentals of future demand growth appear solid. This should set the foundations for further significant investment in the sector.

Closing the gap in affordable housing in the Philippines

↳ Speech delivered before the 3rd Annual Affordable Housing Conference, Kuala Lumpur, Malaysia, September 6th-8th 2017, by Senator Joseph Victor G. Ejercito, Senate of the Republic of the Philippines

Good morning to everyone! It is a great honor for me to address you all today, knowing that in front of me are experts and the best in the field of housing and urban development. As a public servant, it is a privilege to be among those who are driven to promote people's right to shelter and are committed to ensure that housing and urban planning solutions remain affordable and accessible for everyone.

You must all be aware that the Philippines is a vacation paradise and famous for its abundant white sandy beaches and its warm, friendly and peace-loving people. The Philippines is an archipelago consisting of 7,641 islands with a total land area of 301,780 square kilometers and an estimated 103.7M population. About half of our people are aged 12 to less than 24 years old. We are one of the biggest English-speaking nations in the world. It is a great place for business and tourism, a place for work and retirement and, of course, it's simply a beautiful place to live in, build your dream house, and raise a family. Our economy has been growing at an average of 6.58% the last five years.

1. Housing and resettlement situation in the Philippines

1.1. Increase in informal settlers and housing needs

Despite a yearly growth in our Gross Domestic Product [GDP] and reported increase in purchasing power, many still remain homeless and continue to live in poor housing conditions and inaccessible resettlement areas.

The 1987 Philippine Constitution mandates the State to undertake a continuing program for the provision of affordable, decent housing and basic services to our underprivileged and homeless citizens. This however has been one of the main challenges that our government faces every year with every change in administration. Intended housing beneficiaries include informal settler families, victims of calamities such as typhoons, earthquakes, fire, and armed conflict, and low-salaried employees.

Based on the Housing and Urban Development Coordinating Council [HUDCC] report as of January 2017, the total housing need of the country is at 5.55 million units. This comprises the accumulated need of 1.24 million, which includes households in unacceptable housing and doubled-up households in acceptable housing, as well as future/recurrent need of 5.1 million between 2017-2022. In addition to this, from 2011 data, there is an estimated 1.5 million informal settler families nationwide, of which 584,425 families or about 39% are in Metro Manila.

The total estimated housing need will rise to 6.57 million units by 2022 based on the Effective Housing Needs using Housing Accomplishments Projections. Considering the current rate of housing production in the country, we will never be able to reduce the housing backlog. As such, there is an urgency to concoct new approaches to address the ballooning housing demand.

The Philippine resettlement program in the past years has always been geared towards an off-site resettlement. However, empirical studies conducted by the Presidential Commission for the Urban Poor [PCUP] in 18 resettlement sites - from the year 2014 to the present - showed that, off-site resettlement escalated a set of problems. These include substandard and lack of basic utilities and social services such as water, power, and schools; job loss or decrease in income and lack of livelihood opportunities; and substandard housing infrastructure, among others. Moreover, the majority of the resettlement sites were prone to landslide, soil erosion and flooding. To borrow the words of the families in the off- site resettlements, they were relocated from "danger zones to death zones." Resettling households claim that after 10 to 20 years of living in off-site resettlements, poverty continues and their situation even became worse.

From the Philippine Development Plan for 2017-2022, all these challenges are attributed to the slow process in land acquisition, licensing and agency or local government unit clearances and permits, weak urban planning, and unclear rules and policies of the national and local government, institutional limitations among key shelter agencies, and limited budget appropriated to housing agencies. Housing was allocated only 0.5% of the annual budget or 0.12% of GDP – one of the lowest in Southeast Asia.

1.2. The impact of emergencies, natural disasters and combatting terrorism, internally displaced persons

Alongside the increasing demand for housing, shelter production is also impeded by weather-related disasters due to climate change. We now have stronger typhoons, earthquakes, and flooding that are causing more destruction to homes and properties.

1.21. Typhoon Haiyan housing

Five years after the devastation made by Typhoon Haiyan, the most destructive typhoon in history, we still have not completed and turned-over the majority of the 205,128 permanent housing units that the government promised to build for the victims left homeless. These families are from six regions, 14 provinces and 115 cities and municipalities from Central Philippines. From the latest data from the National Housing Authority [NHA], only 42,599 units have been completed, 11,541 occupied and about 76,119 units are still under-going construction. The slow implementation of the Haiyan Housing Projects is brought about by the lack of suitable sites for housing, slow conversion of safe sites from agricultural to residential, and difficulty in the titling of land and securing of necessary permits and licenses and other bureaucratic processes.

1.22. Reconstruction of Marawi City as a war-torn area

Let me now talk about man-made destruction that has happened in the southern-most part of the Philippines, particularly in Marawi City – which is the epicenter of the battle between government forces and rebel group Maute. As of July 2017, there have been 389,300 displaced individuals who were forced to flee their homes.

This is a harsh reality that we must face with terrorism as a world-wide problem and rebellion as a perennial trend in certain areas of Mindanao in the southern part of the country.

Right now, the city is in rubble but I believe this a challenge for us to look beyond the devastation, and look into urban planning and the correct way of rebuilding strife-torn cities such as Marawi. The President had already issued an Administrative Order instituting the Inter-Agency Task Force for Recovery, Reconstruction and Rehabilitation of Marawi City. We have begun the process of rebuilding.

Inclusivity at all levels of planning, implementation and monitoring is crucial for it to succeed and to ensure that all components of an integrated development are being addressed – this means decent and adequate housing, health, clean water, electricity, education, infrastructure, transportation, livelihood, economic opportunities and so on. At the Philippine Senate, the Housing Committee will help map out the reconstruction plan with the newly formed Senate Special Committee on Marawi City Rehabilitation. The Committee is tasked to review, assess and inquire into the extent of damage to properties, infrastructure and facilities as well as the actions that may be necessary for the immediate post-disaster recovery, rehabilitation and normalization of the community in Marawi City.

No one wants terrorism and rebellion to persist in the Philippines, but this is something that we should take into consideration since displacement of residents also involves mass movement of people to other cities. We should be ready.

2. Key directions for policy reforms – housing and urban planning legislative agenda

As the Chairman of the Senate Committee on Urban Planning, Housing and Resettlement, we are now implementing new and amended housing laws crucial in addressing housing backlog, urbanization, and primarily focusing on the access to and affordability of decent and secure shelter.

We passed a law, the 'Balanced Housing Development Program' that now provides for the building of more socialized housing units for the poor and homeless in subdivisions and condominiums. It now requires developers to develop an area for socialized housing equivalent to at least 15% of the total subdivision cost, and at least 5 of the condominium area or project cost in accordance with the standard provided by law. This law is a way of partnering with the private sector in building housing units that will help create a surge in the number of houses to be built for the poor and low-income families, which will help cut the massive shortage that the housing sector is facing. To date, there are more than 140 private developers that are helping provide much needed supply of socialized housing.

We are also working now on the passage of two landmark pieces of legislation – the Creation of the Department of Human Settlements and Urban Development, and the On-site, In-City or Near-City Resettlement Act.

The housing sector desperately needs a full-fledged housing department that would serve as the sole and main planning and policy-making, regulatory, program coordination, and performance monitoring entity for all housing and urban development concerns. At present, the Philippine housing sector is composed of six key shelter agencies and led by a coordinating body, the Housing and Urban Development Coordinating Council. Yes, we do not have an integrated department or a ministry for housing. The Council currently lacks the mandate and organizational setup to manage a national urban and shelter policy. The Department of Human Settlements and Urban Development will efficiently and systematically address the quagmire of issues affecting housing and urban development.

We are also pushing for the passage and implementation of the On-site, In- City or Near-City Resettlement Act which will help address the rapid urbanization and to end futile resettlement programs of the past. This is in consideration of the millions of informal settler communities that have dwelt within the cities for decades. Most informal settler families still choose to remain in Metro Manila and other key cities such as Cebu and Davao due to lack of job opportunities, and lack of access to public services such as transportation, hospitals, and utilities such as electricity and water outside of key cities.

It was reported by the Land Registration Authority that there are around 3,419 hectares of available government land within Metro Manila alone. These are potential sites for much needed parks and open spaces and in-city housing in the megalopolis. In adding other lands such as unregistered or abandoned properties, there are sufficient lands to implement the on-site, in-city and near city resettlement. The proposed strategy involves building of vertical style and high-density housing, including recreational and community facilities, to maximize the use of properties and create integrated neighborhoods.

I have no doubt that this can be achieved because we already have a success story and best practice for in-city relocation in the City of San Juan, where I w as Mayor for nine years. Saint Josephville is now being esteemed by local governments as the pioneer model for in-city housing projects in the Philippines. As of the moment, there are more than 348 families happily residing in Saint Josephville. Another in-city housing model is the Disiplina Village in Valenzuela City, also in Metro Manila. Displina Village is claimed to be the biggest in- city, low-rise building relocation project in the Philippines housing 3,852 families. Both housing projects have proven that with political will, a solid partnership between the National Housing Agencies, the Local Government Units and Informal Settler Families as future homeowners, On-Site, In-City Housing is possible.

3. Improving the Philippine mass transportation system

Related to all these are urban planning and transportation issues. We must consider a comprehensive development. Housing must be integrated with transport links and other infrastructure projects, as well as services and livelihood hubs.

Most of our major cities such as Metro Manila, Cebu and Davao are now choking in traffic due to the increase in car volume on the road, growing population in the metro, and lack of public infrastructure. We refuse to consider the traffic and transport problem as the 'new normal' since it greatly affects economic development, air quality, and most importantly our people's well-being.

According to the National Economic Development Authority (NEDA) – Transport Infrastructure Development Report (2014), Metro Manila only has 1 kilometer of road per 424 vehicles, and come 2030 all roads will be saturated if nothing is done now. The high volume of vehicles inevitably makes our roads inadequate. Car sales have been increasing at an average annual rate of 26% in the last three years, and about 40% of them are registered in Metro Manila. From a Japan International Cooperation Agency [JICA] study it was estimated that daily traffic jams in Metro Manila cost the economy 2.4 billion pesos or approximately 47 million US dollars, a day and if there is no intervention, it will rise to 6 billion pesos (or 117.4 million US dollars) per day in the future.[1]

[1] http://manilastandard.net/business/banking-report/244955/dpwh-spending-p160b-to-ease-traffic.html

4. Way forward

The Philippine government has taken seriously the challenges in the housing sector. As a response to these, the first ever National Housing and Urban Development Summit was initiated by the House Committee on Housing and Urban Development and the Senate Committee on Urban Planning, Housing and Resettlement, in order to facilitate the creation of an enabling environment to help address the major constraints in the provision of affordable shelter for the informal settlers and low-income groups. Series of meetings, planning, and learning sessions were conducted with over 70 groups composed of legislators, representatives from various government and key shelter agencies, private sector, developers and builders, civil society groups, the academic and professional associations, peoples' organizations and non-government organizations, that lasted for nine long months.

I want to share some of the innovative approaches identified in the Summit to close the gap of affordable housing in the Philippines. Foremost is the development of long-term housing programs that are REPLICABLE, targeting the 5th to the lowest income decile of the society who are poor and do not have access to affordable housing, this comes hand in hand with the provision of affordable housing financing. The Philippine Development Plan 2017-2022 resonates this strategy through intensification of the implementation of solutions such as public rental housing, mixed-income/mixed-use housing development, micro- finance initiatives, incremental housing programs, and housing cooperatives, in order to enhance affordability. The sector will continue to strengthen the relationship of the government and the private sector as partners in building homes. Private developers and builders contribute to the increase in housing production, but we have to find ways to make it profitable for them or at least make it worth their exercising social responsibility through incentives and other reward mechanisms. The shift to alternative approaches to housing production such as building of high-density mass housing and vertical developments for socialized housing is encouraged in order to maximize available lands. The adoption of other viable land acquisition approaches aside from land ownership, is encouraged - such as usufruct, long-term lease, lease variants and land banking – to make land acquisition for socialized housing faster.

We have a long way to go to be able to make Metro Manila and other major cities in the Philippines fit for sustainable living. To be able to accomplish this, we need to transcend politics and administrations in order to imitate eco-cities around the world such as Bandung Indonesia, which has worked on people empowerment through urban design and providing public spaces in the last three years; Tel Aviv, a small city that is doing great in terms of waste water treatment and is using smart city technologies; and to be greatly transformed like the City of Medellin, which used to be the cocaine capital of the world, but is now the pride of Colombia because it has not only transformed spaces, but has changed the lives of its people and their communities.

So, I hope you will always remember my country, the Philippines, not just for our challenges, not just for our wonderful beaches or our slums and traffic congestion, but that we are a country amid great changes, we are doing our best to catch up with our ASEAN and Asia Pacific neighbors in making affordable housing a reality for our people. We must change the way we see the people we serve, we must change the way we think of their needs, we must change the way we perceive and attack problems, we must change the way we do things – this year and in the years to come. We must change the way we work together, within our countries and as part of a global community. Only when we decide to CHANGE will anything fantastic happen in addressing affordability and access to housing.

Thank you again for inviting me here and I look forward to more collaboration and partnerships with you in the near future.

Thank you very much.

How does the U.S. rank in home ownership?

↳ By Alex J. Pollock

There are a lot of different housing finance systems in the world, but that of the U.S. is unique in being centered on government-sponsored enterprises. These "GSEs," Fannie Mae and Freddie Mac, still dominate the system even though they went broke and were bailed out when the great housing bubble they helped inflate then deflated. They have since 2008 been effectively, though not formally, just part of the government. Adding together Fannie, Freddie and Ginnie Mae, which is explicitly part of the government, the government guarantees $6.1 trillion of mortgage loans, or 59% of the national total of $10.3 trillion.

On top of Fannie-Freddie-Ginnie, the U.S. government has big credit exposure to mortgages through the Federal Housing Administration, the Federal Home Loan Banks, and the Veterans Administration. All this adds up to a massive commitment of financing, risk and subsidies to promote the goal of home ownership.

But as measured by rate of home ownership on an international basis, how is the U.S. faring? Before you look at the next paragraph, interested Reader, what would you guess our international ranking on home ownership is?

The answer is that, among 27 advanced economies, the U.S. ranks 21st. This may seem like a disappointing result in exchange for so much government effort.

Here is the most recent comparative data, updated mostly to 2015 and 2016:

Advanced Economies: Home Ownership Rates

RANK	COUNTRY	OWNERSHIP RATE	DATE OF DATA
1	Singapore	90.9%	2016
2	Poland	83.7%	2015
3	Chile	83.0%	2012
4	Norway	82.7%	2016
5	Spain	77.8%	2016
6	Iceland	77.8%	2015
7	Portugal	74.8%	2015
8	Luxembourg	73.2%	2015
9	Italy	72.9%	2015
10	Finland	71.6%	2016
11	Belgium	71.3%	2016
12	Netherlands	69.0%	2016
13	Ireland	67.6%	2016
14	Israel	67.3%	2014
15	Canada	67.0%	2015
16	Sweden	65.2%	2016
17	New Zealand	64.8%	2013
18	France	64.1%	2015
19	Mexico	63.6%	2015
20	United Kingdom	63.5%	2015
21	United States	63.4%	2016
22	Denmark	62.0%	2016
23	Japan	61.7%	2013
24	Austria	55.0%	2016
25	Germany	51.9%	2015
26	Hong Kong	48.9%	2017
27	Switzerland	43.4%	2015

Sources: Government statistics by country

It looks like U.S. housing finance needs some ideas other than providing government guarantees.

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