

HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance



- ➔ The state of the housing finance market in Ghana: the role of household characteristics and housing condition
- ➔ Creating a development bank to finance affordable housing in South Africa is a timely catalyst to address the demand and supply challenges
- ➔ Ethnic diversity and real estate market dynamics: the case of Riga, Latvia
- ➔ The Italian residential mortgage market
- ➔ REIWA Curtin University Buy-Rent Index for Perth, Western Australia

International Union for Housing Finance

Housing Finance International

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→ Secretary General:

MARK WEINRICH
E-mail: weinrich@housingfinance.org

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MARK WEINRICH

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ANDREW HEYWOOD

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

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International Union for Housing Finance

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

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Turbulent times

The financial services industry can be seen as one whose leaders have been sometimes unwilling to be the first to deliver bad news. Confidence amongst investors is paramount and it is not popular to be seen to be undermining such confidence while it is still possible to argue that the gathering black clouds on the horizon may be about to pass harmlessly overhead. No-one whose job involves expansion and increased profitability likes to appear to be negative. In many cases earning levels are directly tied to increased activity and to financial returns on that activity, although lessons have been learned from the GFC. As a number of commentators have noted in this journal over the years, it often appears more profitable to ignore financial risk than to make provisions to manage it- that is until suddenly it isn't possible to ignore it anymore. I well remember talking with the CEO of a UK lender in 2006. To my suggestion that the housing market could be reaching its peak he replied that "people always need houses." The concept of effective demand and the evidence of house price data apparently escaped him; the GFC, when it came, did not.

The accumulating crises across the globe do seem, collectively, to put markets into a situation of significant turbulence. Among the challenges the world now faces are:

- A trade war between the US and China and evidence of economic fragility in China,
- A serious political crisis in Hong Kong with wider implications,
- An escalating cycle of tension in the Middle East, culminating in a drone attack disabling 50% of Saudi Arabia's oil refining capacity.
- The rise of populist governments in countries as disparate as Brazil and Italy, with consequent uncertainty about their political and economic strategies,
- An environmental crisis whose impact can be seen from the Bahamas to Bangladesh but whose causes are still too often ignored.

And still there is BREXIT. Whether Boris Johnson will "die in a ditch" in his attempts to leave the EU by 31st October "come hell or high water", and whether there is a deal or not, the outlook for the EU and UK economies remains uncertain, with chaos in the short term an increasing possibility.

With evidence of stagnation or a downturn in a number housing markets including Australia and the UK emerging in recent issues of HFI, it is clear that there is a strong need for housing finance professionals to step back from the daily round take a long hard look at where the risks and opportunities really are over the next few years and to take decisions. There is a real need for a reservoir of clear forward-facing strategic thinking at a high level as well as a shared resource of experience and analysis from a wide range of markets. Housing Finance International aims to meet that need and the current issue is no exception.

Nicholas Boamah is no stranger to the pages of HFI. In this issue, he and co-authors examine the impact of household characteristics and housing conditions on the housing finance market in Ghana. Perhaps we should not be unduly surprised that those most in most need of a commodity are often least able to exhibit effective demand for it; Boamah et al show that due to issues such as low incomes, informal construction and poor housing condition, the housing finance market can only play a limited role in facilitating adequate and affordable housing in Ghana.

With the next IUHF Congress to take place in Cape Town in November, our second article by Vuyisani Moss is timely. Mr Moss points out that South Africa currently has a housing backlog of 2.1 million units, up from 1.4 million in 1994. With a poor international credit rating, weak public finances and an economy under strain, meeting the need for affordable and accessible housing is a major challenge. Mortgage finance is in decline and there has been a move towards use of unsecured credit. Access to housing finance is very limited for those on low incomes. It is in this context that Mr Moss sets out the rationale for a Housing Settlements Development Bank that would improve access to finance for development and for consumers.

Ethnicity and diversity in the housing field are most often studied in relation to households in social housing, where the focus of studies tends to be on social interaction, tenant relations and access to housing. Studies of the private sector are much less frequent and studies on the homeownership market are rare, particularly

when the emphasis is on market performance rather than social issues. It is in this context that the article by Guntis Solks and colleagues, *Ethnic diversity and real estate market dynamics: the case of Riga, Latvia* is particularly interesting. The authors examine the ethnic breakdown of neighbourhoods within Riga as it has evolved over time and draw fascinating conclusions about the impact of ethnic diversity on local housing markets.

Italy has tended to figure in the pages of HFI as one of a number of countries rather than in articles where its housing and mortgage markets are the principal focus. We are therefore particularly pleased to feature an article in this issue by Angelo Peppetti and Francesco Masala, which analyses Italy's housing and mortgage markets and assesses the prospects for development and growth. Given the interesting political situation in Italy at present and against a difficult national economic backdrop, the analysis of housing finance in Italy is particularly relevant.

We have featured numerous articles on Australia in recent issues, but these have tended to focus on policy interventions and/or the housing and mortgage market cycles. In the context of the spectacular boom and downturn in the Sydney housing market and the impact of the burgeoning Australian buy-to-let market, such a focus has been appropriate, but it is refreshing to turn to a practical consumer orientated development geared to individual participants in the Western Australian housing market. In his article, J- Han Ho introduces the newly developed REIWA/ Curtin University Buy-Rent Index, which aims to provide consumers who have the ability to choose to buy a home or to rent one, with insight into whether it makes more financial sense to rent or to buy at that time. Predictions of this type are notoriously difficult, and it will be interesting to re-visit this project once it has developed a significant track record over time.

All in all, this issue of HFI offers a range of strategic insights which will be of real assistance to professionals and policy makers grappling with turbulent times.

Andrew HEYWOOD
September 2019

Contributors' biographies

Martin Owusu Ansah is a lecturer at the Kwame Nkrumah University of Science and Technology School of Business, Ghana and a fellow at Rhodes University in South Africa. His research spans a multidisciplinary areas of cross – cultural surveys, application of models as well as organizational development in Marketing and Management.

Janis Balodis holds a Masters degree in Local Comparative Development from the University of Trento, Italy, and a Bachelor degree in Geography specializing in Economic Geography at the University of Latvia.

Nicholas Addai Boamah is a lecturer in the Department of Accounting and Finance of the Kwame Nkrumah University of Science and Technology, Kumasi, Ghana. His research focus is on financial markets integration, asset pricing, housing finance markets, banking supervision and regulation and land markets.

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.

EMAIL: a.heywood53@btinternet.com

J-Han Ho has a PhD from Curtin University and was the Group Chief Investment Officer for an Australian Securities Exchange listed company with real estate projects on three continents. He is currently an academic at Curtin University and his areas of interest are in investments, development, housing, finance and economics.

Matiss Jakunovs holds a Bachelor degree in business management. He is an independent consultant and entrepreneur, specialising in research and analysis of macroeconomics, housing and mortgage markets, policy and regulation.

Francesco Masala is the Chief Economist of the Italian Banking Association (ABI). He represents the view of the ABI on economic, regulatory and other issues of interest to the banking industry acting as a member of several working groups, at domestic and international level. He is author of publications and articles on banking and finance. He holds a Bachelor and Master's degree in Business and Economics and a Master's degree in Economics & Management of Insurance Companies.

Vuyisani Moss is a Director at the National Department of Human Settlements in South Africa and is affiliated to the Nelson Mandela University's Department of Building and Human Settlements. He is a development economist by training and holds a Masters degree in Policy and Development Economics (cum laude) from the University of Fort Hare and a diploma in International Housing Finance from Wharton School in 2008. He obtained his PhD in Housing Finance in 2012 at Wits University. His expertise are in macro-economic policy, development finance and housing markets with over 19 years of operational research and academic experience both local and international.

Ádám Németh holds a Ph. D. degree in Human Geography, and he is a postdoctoral researcher at the University of Sopron, Alexandre Lamfalussy Faculty of Economics, and his research is supported by the National Research, Development and Innovation Office – NKFIH, PD 115951.

Emmanuel Opoku holds a BSc. Degree in Business Administration (Banking and Finance option) from the Kwame Nkrumah University of Science and Technology, Kumasi. Currently, he is a Teaching and Research Assistant at the KNUST School of Business. His research interest is in corporate finance, banking and real estate.

Angelo Peppetti works for the Credit Department of the Italian Banking Association (ABI). He represents the ABI on issues relating to the mortgage market and consumer credit. He is the author of publications and articles and has participated in TV broadcasts on the above subjects. He is a member of the Executive, Valuation and Economic Affairs Committees of the European Mortgage Federation and of the Mortgage Working Group of the European Banking Federation.

Alex J. Pollock is a distinguished senior fellow at the R Street Institute in Washington DC, USA. He was president and CEO of the Federal Home Loan Bank of Chicago 1991-2004, president of the IUHF 1999-2001, and is the author of *Finance and Philosophy* (2018).

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

EMAIL: zaigham2r@yahoo.com

Guntis Šolks holds a Ph. D. degree in Geography and his research interests are related to urban geography, focusing on re-urbanisation processes, urban regeneration and real estate markets.

EMAIL: guntis.solks@inbox.lv

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.

Asia-Pacific Region

↪ By Zaigham Mahmood Rizvi

Australia

Housing finance ticks up in February

Australia's housing finance approvals posted a modest gain in February 2019, as the total number of owner- occupier loans rose 0.8% over the month, slightly better than the consensus forecasts of a 0.5% gain but more in line with Westpac's forecast of a 1% gain. That follows a sharp slide since mid-2018 with monthly falls averaging 1.5% over the previous six months. Approvals are down 12.5% year-on-year. The combined total value of housing finance approvals across both owner occupier and investor segments (and excluding refinancing) rose 2.7% for the month but was still down 18.6% year-on-year.

Overall, the February update was a little firmer than expected.

(source: <https://www.fxstreet.com/news/australia-housing-finance-ticks-up-in-february-westpac-201904090439>)

Rebound in housing finance 'unlikely' as slump continues

The trend in housing finance volumes remains "very weak", with "little reason" to expect a "positive turn" in the near term, according to an analysis of new ABS data. The latest Lending to Household and Businesses data from the Australian Bureau of Statistics [ABS] has reported that, in seasonally adjusted terms, the value of lending to households for dwellings declined by 2.1% in January, following on from a 5.9% drop in December 2018.

When assessed year-on-year, the total value of housing finance commitments is down by 20.6%, spurred by a 28.6% reduction in the value of investor dwelling commitments and a 17.1% fall in the value of owner-occupied commitments. According to ANZ Research, despite slowing month-on-month, a reversal in the downward trend in housing finance is unlikely in light of current lending standards. ANZ Research added: "At this stage, there is little reason to expect a rebound in finance, as tighter

lending standards remain in place. "However, the Housing Industry Association's chief economist, Tim Reardon, expects the credit squeeze to "ease" towards the middle of 2019 but warned that if tighter credit policies persist, the pipeline of building activity would be "exhausted rapidly". "The home building industry has driven economic growth in Australia since the end of the resources boom," Mr. Reardon said.

(source: <https://www.theadviser.com.au/breaking-news/38900-rebound-in-housing-finance-unlikely-as-slump-continues>)

Housing financing figures revealed in latest ABS data

The Australian Bureau of Statistics [ABS] data for February 2019 showed that financing for housing has increased for property investors but declined for owner-occupiers, reported Sasha Karen in Smart Property Investment on April 6, 2019. The decline in owner-occupier finance commitments, excluding refinancing, fell by 1.4% and is the 17th consecutive month of decline and a six-year low.

Housing finance commitments for the construction and purchase of new homes also took a hit, declining 14.1% for the year to February 2018, but analysis by the Housing Industry Association's chief economist, Tim Reardon, revealed that this situation is starting to be reversed.

(source: https://www.google.com/search?newwindow=1&e_i=RuXLXL2DA8WTlwSYbrQDA&q=What+is+ABS+in+australia&oq=What+is+ABS+in+australia&gs_l=psy-ab.3..0i22i30.9810.14196..14909...0.0.0.319.4000.2-4j9.....0...1..gws.wiz.....0i71j0i67j0i0i20i263.GoiCgUvU1ok)

Bangladesh

Affordable housing mitigating increasing home loan demands in Bangladesh

Urbanization in Bangladesh witnessed a faster pace between 2000 and 2010 than in all other South Asian countries. During this timeframe, the share of its population living in officially classified urban settlements increased by

1.69% a year, according to the World Bank (2015). The acceleration in housing demand is mainly ascribed to this faster pace of urbanization. In Bangladesh, real estate emerged as a crucial sector of the economy, having a multiplier effect on economic activities. Housing is the source of massive employment generation after agriculture and garments and stimulates demand for allied industries, steel, cement, tiles and sanitary ware, cable and electric wire, paint, glass and aluminum, brick, building materials, and consumer durables. The contribution from this sector has been very significant and over the last two decades it has contributed on an average 8.24% on the overall GDP of the country.

After a prolonged downturn of the real estate sector for the last few years, the market rebounded in 2017. The housing market went on a downturn in 2012 because of intermittent political instability, a bearish stock market and the halting of gas connections to new buildings. Also, property price corrections in the past few years have lured in many prospective home buyers. Realtors are expecting the property market to flourish. According to the Real Estate & Housing Association of Bangladesh [REHAB], the sector grew 5%-7% in 2017, bucking the downturn of the last several years. However, the sector is still struggling with high prices for steel and cement.

Every year more than 120,000 household units are required to house the added population in Dhaka. In this situation, the supply of housing in the city is only around 25,000 units for the private sector. The private sector contributors include the formal private sector (Real Estate Development Companies) and the informal private sector (Individual Initiatives). Among these 25,000 units, 15,000 units per year (appx.) are developed by real estate developers and the rest are developed by individual developers.

Home loans in the banking industry of Bangladesh remained on a pattern of steady growth over the last 10 years. Notwithstanding the high growth rate, the mortgage debt to GDP ratio for Bangladesh is quite low (a meagre

3.5%), whereas other Southeast Asian countries demonstrate higher levels of housing loan-Thailand (19%), Malaysia (37%) and Singapore (54%). The low penetration of housing loans is ascribed to lack of improvement in housing conditions for the lower and middle-income households. According to a survey report by BIBM, 85% of all rural and 70% of all urban-dwellers units fall under inadequate/deficient categories, which indicates they are out of the bank/FIs reach for loan financing purposes.

The following graphs show the growth in home loans by both commercial banks and non-bank financial institutions.

(source: <https://idlc.com/mbr/article.php?id=139>)

Hong Kong SAR

Hong Kong to build artificial island to solve housing shortage

Hong Kong plans to build one of the world's largest artificial islands with an eye-watering \$79 billion price tag, city officials announced on Tuesday. The Government's HK\$624 billion proposal to reclaim 2,471 acres of land around the territory's largest island, Lantau, has been touted as a solution to the pressing housing shortage in the city, which is notorious as one of the least affordable markets on the planet. Authorities said they hope to start work on reclaiming land in 2025, with an eye on allowing residents to move to the island in 2032.

The artificial island – the city's most expensive infrastructure project to date – would be four times the cost of building Hong Kong International Airport, and far outstrip Dubai's famous palm-tree shaped Palm Jumeirah, which reportedly cost \$12 billion to build. It would be nearly three times the size of New York's Central Park and provide up to 260,000 flats, over 70% of which would be used for public housing, the government has said.

(Source: <https://realty.economicstimes.indiatimes.com/news/residential/hong-kong-to-build-artificial-island-to-solve-housing-shortage/68510037>)

India

GST Council approves transition plan for new tax rates for real estate sector

NEW DELHI: On Tuesday, March 19, the all-powerful GST Council approved a transition plan for the implementation of a new tax structure for housing units, Revenue Secretary A B Pandey said. The GST Council is an apex member

Outstanding Home Loan of PCBs PCBs witnessed 25% growth year-on-year over the last 10 years

	VALUE
2005	0
2006	35.1
2007	43.7
2008	50.8
2009	74.9
2010	99.0
2011	147.6
2012	191.8
2013	229.8
2014	231.8
2015	262.3
2016	309.2

Outstanding Home Loan of NBFIs NBFIs witnessed 21% growth year-on-year over the last 10 years

	VALUE
2005	1.6
2006	1.6
2007	3
2008	0.02
2009	7.2
2010	9.2
2011	11.3
2012	13.8
2013	16.7
2014	23.2
2015	30.8
2016	42.9

committee to modify, reconcile or to procure any law or act or regulation related to the Goods and Services Tax [GST] in India. The council is headed by the Indian Finance Minister, assisted with the Finance Minister of all the states of India. The meeting deliberated on the transition provision and related issues for the implementation of lower GST rates for the real estate sector.

The Council had, at its last meeting on February 24, slashed tax rates for under-construction flats in the affordable sector to 1%. The GST rate on other sectors was reduced to 5%, effective April 1, 2019.

(Source: <https://www.thehindubusinessline.com/news/real-estate/gst-council-approves-transition-plan-for-new-tax-rates-for-real-estate-sector/article26577524.ece>)

HDFC Capital Advisors pushing established grade A developers towards affordable and mid-income housing projects

HDFC Capital Advisors, the wholly owned subsidiary of India's largest mortgage lender, the Housing Development Finance Corporation [HDFC] is aiming to push established Grade-A developers towards affordable and mid-income housing projects.

HDFC Capital Advisors has invested Rs 500 crore in realty developer Runwal Group's 115-acre township project in Dombivli near Mumbai. It is making this investment through its affordable and mid-income housing investment platform HDFC Capital Affordable Real Estate [H-CARE], which has the Abu Dhabi Investment Authority, the sovereign wealth fund of the Gulf emirate, and India's sovereign

fund, the National Investment & Infrastructure Fund, as principal investors.

Runwal Group's arm Runwal Residency is developing this mixed-use project on a land parcel it has bought from Gammon India. The project with a total 13 million sq. ft of development possibility, will be completed in a phased manner in eight to 10 years. The company is currently in the process of getting the approvals for the project.

Last year, HDFC Capital formed a Rs 2,500-crore platform to invest in affordable housing projects.

(source: <https://realty.economicstimes.indiatimes.com/news/industry/hdfc-capital-advisors-invests-in-runwal-groups-project-in-thane/68515868>)

Indonesia

Indonesia is going for vertical housing to provide mass housing

Despite various incentives and programmes being offered to boost development of low-income mass housing, the Indonesian housing sector is still unable to keep pace with the growing population and demand. Indonesia needs around 400,000 new homes every year in addition to the massive housing backlog of 13.5 million units. Without a significant breakthrough, many fear that Indonesian millennials will not be able to afford to buy in urban centres. This is a significant issue as Indonesia seeks to harness the economic might of its young and productive population. Property ownership is a key component of securing the sustainability of middle-class growth and long-term economic viability.

Infrastructure development including housing, has been one of the key priorities of the state. That is why, the Indonesian Government has been keen to introduce various policies and programmes to spur the growth of the mass housing sector.

The President of Indonesia had launched the 'One Million Homes' programme. Under this initiative, the Indonesian Government is determined to build one million units of accommodations every year until its term ends in 2019. Of this number, the Directorate General of Housing Provision of the Ministry of Public Works and Public Housing constructed 111,796 units for low-income residents, which were comprised of rental flats making up 7,860 units, special homes of 6,048 units, and home improvement assistance for 97,888 units. Other ministries/institutions constructed 16,923 units, local government 120,180 units, housing developers 265,747 units, and other financing schemes accounted for 21,830 units in addition to CSR activities for 20 units and 35,586 units by the public.

(source: http://www.gbgindonesia.com/en/property/article/2017/indonesia_s_mass_housing_sector_the_rise_of_vertical_housing_11739.php)

Constructing robust mortgage markets in Indonesia: Project Development Objective [PDO]

The Government of Indonesia [GoI] has worked on a project to introduce a new mortgage subsidy policy. The project was designed to help the Government to introduce a new mortgage subsidy policy, re-engineer the existing Housing Finance Liquidity Facility [Fasilitas Likuiditas Pembiayaan Perumahan or FLPP] and launch a new contractual saving scheme to improve access to housing finance for the underserved and low- and informal-income households.

Indonesia has a substantial housing deficit, especially among lower-income and informal residents. More than 16 million households currently live in inadequate housing. Although the regulatory framework is prudent, low affordability, nascent market information, and incipient long-term funding instruments restrict sector growth. Approximately 80% of Indonesians cannot access mortgage finance because of their inability to provide credit history or make a down-payment and because of unaffordable loan terms.

The FLPP is the main instrument used by the GoI – through the Ministry of Housing – to channel the housing finance subsidy policy. FLPP is a highly subsidized structure that relies exclusively on the Government budget. FLPP transfers the resources received by the Government to the implementing banks, thereby providing long-term funding together with partial mortgage

insurance. However, FLPP's current structure impedes many banks from participating, benefits only a small part of the population (formal workers on middle incomes), and has a 30 to 40% applicant rejection ratio.

Appropriate policies that address funding instruments, affordability issues, and the targeting of subsidies can enable sector growth in housing finance in the short and medium terms and expand access to mortgage finance.

(source: <https://www.firstinitiative.org/node/752>)

Japan

Energy-efficient housing - Japan Housing Finance to issue ¥10B in green bonds

Japan Housing Finance Agency is issuing ¥10 billion in green bonds, the first green bond in Japan aimed at mortgage loans for energy-efficient houses. The green bonds have a tenor of 20 years. Proceeds from the offering will be used for newly constructed Flat 35S-compliant houses, which are energy efficient.

Nomura Securities Co. Ltd. is underwriting the offering. (US\$1 was equivalent to ¥110.60 as on March 20, 2019)

(Source: https://www.spglobal.com/marketintelligence/en/news-insights/trending/fn9jVD_zlPw67yxNBuifg2)

Japan's housing market started cooling down in the beginning of 2019

House prices in Tokyo rose by a meagre 0.22% y-o-y in Q3 2018.

The average price of existing condominiums in Tokyo rose by a miniscule 0.22% during the year to Q3 2018, from y-o-y rises of 3.89% in Q2 2018, 4.59% in Q1 2018, 3.2% in Q4 2017, 2.56% in Q3, 3.54% in Q2, and 2.93% in Q1. During the latest quarter, existing condo prices dropped 1.76%. In fact, the average price of new condos in Tokyo fell sharply by 6.55% y-o-y in Q3 2018 and by 14.47% from the previous quarter.

(source: <https://www.globalpropertyguide.com/news-japans-housing-market-cooling-again-3647>)

Malaysia

Developers caught in rut as demand for affordable housing higher than supply

Malaysian property developers face the conundrum of more expensive houses remaining

unsold even as demand exceeds the supply of affordable housing. The Straits Times reported that only a quarter of homes launched nationwide between 2016 and March 2018 cost under RM250,000, and for the first time in a decade the overall House Price Index fell on a quarterly basis last year. Home prices on average have hit RM773,000 in KL and RM497,000 in Selangor by the third quarter of 2018, making them over 100 and 80 per cent respectively higher than compared to 2008. The Index dipped 193.1 to 192.1 between the second quarter and third quarter of 2018. Although last year's overall prices are still expected to be higher than in 2017 at 187.6, home prices are however expected to drop further in 2019. By the third quarter of 2018, the number of unsold units stood at over 30,000, with 'unaffordable' homes now making up 65.4% of the figure. These exclude some 10,801 serviced apartments and small office home office units built on costly commercial land that remain unsold. Due to this, developers are now sitting on RM27.4 billion worth of completed but unsold homes throughout the country. (1 US\$= RM 4.41, on May 3, 2019)

(Source: <https://www.malaymail.com/news/malaysia/2019/03/09/developers-caught-in-rut-as-demand-for-affordable-housing-higher-than-supply/1730718>)

Government, Central Bank [BNM] working to ease housing loan terms & conditions

The Government and Bank Negara Malaysia [BNM] are working to ease the terms and conditions for housing loans without affecting the stability of the financial system. Finance Minister Lim Guan Eng said the ministry would take action if it were to receive any report from developers on housing loan applications being rejected without strong justifications. "We will take action against banks if we receive reports that house loan applications are rejected without any concrete justification," he said in his speech at the launch of the Home Ownership Campaign [HOC]-Malaysia Property Expo [MAPEX] here today. He added that the ministry would forward the reports to BNM to be investigated and for the central bank to assist those affected in obtaining housing loans. "We want to encourage banks to give housing loans. Don't hinder the government's initiative to encourage home ownership," he said.

Meanwhile, in conjunction with the HOC, Lim said buyers of residential properties priced between RM300,000 and RM2.5 million would be able to enjoy stamp duty exemptions on the instrument of transfer for properties, with 100% per cent stamp duty exemption being applicable for the first RM1 million of the purchase price.

“Through the HOC, developers are encouraged to give discounts of at least 10% off the price, and there are those who will give more,” he said.

Meanwhile, the Real Estate and Housing Developers Association [Rehda] President Datuk Soam Heng Choon said as of last month, the HOC has registered RM9.2 billion worth of houses. “We are optimistic of surpassing our sales target of RM3 billion set for the campaign,” he said.

On housing loan approvals, Soam said that Rehda had received reports from developer members of the association on the difficulties that they face in getting their loans approved. “Most of the loan rejections occur with regards to the lower-end houses. The middle and higher groups do not have much problem,” he added.

(source: <https://www.iproperty.com.my/news/government-bnm-working-to-ease-housing-loan-terms-conditions/>)

Maldives Islands

Affordable Housing for all in Maldives: projects initiated by UN-Habitat

The partners in the projects of Affordable Housing Maldives are UNDP and the Government of the Maldives. Although Maldives is on track in achieving most of the Millennium Development Goals and has shown progressive improvement in the performance against social indicators, critical challenges in relieving social vulnerabilities remain. One of the key aspects of social vulnerability lies with housing and problems associated with housing particularly in the capital ‘Male’. Such problems include the increasing scarcity of land, high costs of construction and reclamation, the need to accommodate more users with population change, and to respond to the needs of households to be located in areas that are better serviced, secure and have better economic prospects. This project will contribute to achieving the overall country program outcome of ensuring increased capacity of government agencies/partners and vulnerable groups to mitigate economic and social vulnerabilities. To this end, the main objective of this project is to build capacity in government for the implementation of its rights-based “Affordable Housing for All” Policy, particularly focusing on poverty reduction through targeted interventions for the poor and vulnerable.

The activities under these projects have been following:

Housing- output 1: The development of an analytical framework to evaluate housing supply and demand, focusing on the failure to reach the vulnerable, and the application of the

framework to identify effective strategies and interventions for the production of affordable housing for all.

Land-output 2: The development of an analytical framework for evaluating land holding, development, transfer and allocation and the application of the framework. This will facilitate in identifying gaps and overlaps and shortcomings in the existing legislative and regulatory regimes for land with a view to making a more transparent, coherent and consistent system that supports the needs of the affordable housing for all.

Capacity Building of Ministry of Housing, Transport and Environment-output 3: Develop a programme for on-the-job training supplemented by specialised training and capacity building to enable the Ministry to manage and implement its roles and functions in the Affordable Housing for All Policy.

(source: http://www.fukuoka.unhabitat.org/projects/maldives/detail03_en.html)

Pakistan

One-day workshop on “Affordable Housing” by academics in Karachi

A one-day national workshop on “Affordable Housing” was conducted on March 9, 2019 by the Centre for the Affordable Housing and Sustainable Built Environment (CAHSBE) which is under the Department of Civil Engineering, NED University in Karachi, Pakistan. The workshop was held in the light of the Prime Minister of Pakistan’s Naya Pakistan Housing Programme, which aims to build 5 million affordable housing units. The Governor of Sindh, Mr. Imran Ismail was the chief guest at the workshop. The Governor, in his speech, expressed the full commitment of the Government to make their plan for affordable houses available for all, a thumping success.

The main speakers at the workshop were Mr. Zaigham Rizvi, Chair of the Prime Minister’s Task Committee on Affordable Housing, Dr. Sarosh H. Lodi, Vice Chancellor, NED University of Engineering & Technology, Karachi, and Dr. Shuaib Ahmad, JPC Chair Prof., NED University of Engineering & Technology. Speakers talked about policy and applications, construction materials, flexibility of design and constructability, and resettling & implementation of technology.

Housing research centres are being developed and encouraged at the universities under the 5 million Housing Program of the PM. Already five such research centres have been established

at different universities and the target is to set up such research centres in 15-20 universities. These research centres will have a focus on innovations in low-cost reliable construction materials and construction technologies. The outcome of such research will then be available to the manufacturing sector as well as to the developer/construction industry. That will facilitate taking such innovative products from pilot scale to commercial scale, once the industry identifies value in that.

The first such research centre is CAHSBE. The Centre is to move towards creating a capable and viable local construction sector, which is able to respond to the demands for sustainable infrastructure and housing development, through a rational and mutually agreeable strategic process. This centre would help develop strategies that involve all stakeholders in delivering capital-intensive infrastructure as well as energy-efficient and low-cost housing facilities in a sustainable way.

International Pakistan Housing Conference: Institutional Preparedness to Implement a New Housing Strategy, by the World Bank Group and Naya Pakistan Housing Programme, in Islamabad

The World Bank Group, in collaboration with the Housing Task Force and other partners, organized an international Pakistan Housing Conference: Institutional Preparedness to Implement a New Housing Strategy on Thursday March 28, 2019 in Islamabad to bring together policy makers, international experts, and private sector participants to share experience and discuss approaches and innovations needed to develop Pakistan’s housing sector. The Prime Minister, Mr. Imran Khan, graced the occasion and inaugurated the conference.

The World Bank Group commended the efforts of the Government of Pakistan to deliver on its ambitious target of constructing 5 million housing units in the next five years and the emphasis on providing low-cost housing for the population. The World Bank is already supporting the Government of Pakistan to provide financing to the banking sector through the newly established mortgage refinance entity i.e., the Pakistan Mortgage Refinance Company. In addition to the \$145 million financing, the Bank also intends to provide technical assistance to the Housing Program to help resolve key policy issues impacting the development of the housing sector. The World Bank has already disbursed \$58 million for house financing in Pakistan and the federal cabinet has approved the transfer of the fund to the Pakistan Mortgage Refinance Company [PMRC].

Prime Minister Imran Khan performs the launch of the first project of the Naya Pakistan Housing Program during the second week of April.

A few project sites have been selected to initiate the program; in Islamabad, the Federal Capital and 4-5 in Quetta and Gwadar, in the province of Baluchistan. Similarly, 10 project sites have been selected to initiate housing projects in the province of Punjab. The PM Imran Khan, while launching the first such project in Islamabad said the five million Housing Program was a flagship program of the Government and would boost the economy by creating job opportunities for the youth and businesses in allied sectors of the construction industry. One such project was also inaugurated by the PM in Okara, Punjab.

Spread over an area of 60 acres and having a capacity to handle one million twenty-foot equivalent units annually, SICT will be the country's largest logistics park to cater to the requirements of Gwadar port.

"As activity starts at a port, a container terminal is required for efficient port operations," Barakzai said. "There is no container terminal around Gwadar, unlike Karachi port and Port Qasim, which have several container terminals." Shahdadt Inland Container Terminal is the flagship project of Mega Movers Pakistan, which was announced in 2015 and is presently under construction. "We are working in close coordination and strategic partnership with China Overseas Port Holdings Company."

Singapore

Singapore Democratic Party outlines its housing policy

Non-Open Market [NOM] flats that do not include land costs in their price should be introduced into the public housing system, the opposition Singapore Democratic Party [SDP] said yesterday when it unveiled its housing policy at the SDP office in Ang Mo Kio. The party said its aim was to make public housing more affordable and accessible to Singaporeans. The policy paper was presented by the party's Vice-Chairman John Tan and Treasurer Bryan Lim. The SDP has proposed that the price of new Housing Board [HDB] flats include administrative, material and labour costs, but not the cost of land. The party calculated that, as a result, prices of flats could be substantially lower, ranging from \$70,000 for two-room flats to \$240,000 for five-room flats. It added that Singaporeans who purchase these flats could expect to take

nine to 15 years to pay off their housing loans, based on an interest rate of 3%, using no more than 20% of their gross income.

"This further reduces the financial burden of home buyers," the SDP said in a press release. The lowered housing expenditure could free up capital for homeowners to save for their retirement, the party added.

"As the name implies, however, flats bought under this scheme will not be allowed to be resold in the open market," Mr Lim said. Instead, owners will have to sell the flats back to HDB under the scheme proposed by the party. Current homeowners can choose to convert their existing flats to a NOM flat.

(source: <https://www.straitstimes.com/singapore/housing/singapore-democratic-party-outlines-its-housing-policy>)

Singaporeans spend more time on property searches than on bedtime stories with their children: poll

Rachel Mui reports in Business Times that, Singaporeans on average spend three times longer on property searches than on reading bedtime stories to their children, or speaking to their parents, data from a new HSBC report showed.

(source: <https://www.businesstimes.com.sg/real-estate/singaporeans-spend-more-time-on-property-searches-than-on-bedtime-stories-with-their>)

Singapore's private property is second-most expensive in the world: reports CBRE

Singapore was again the second-most expensive city in the world to buy private property last year. It emerged behind Hong Kong, which remained in first place, in the Global Living report by real estate firm CBRE which compared investment residential properties across 35 global cities. In terms of rentals, however, Singapore was the 10th most expensive. And with property prices inching up just 1.1% last year, the Republic was 27th in growth of house prices. Values in the report are based on prime residential areas as these are "preferred by expatriates", said CBRE South-east Asia's head of research Desmond Sim. "In Singapore's case, the prime market refers to the core central region, or districts 9, 10 and 11," he said.

The three most expensive places to buy private property, all of which are in Asia, remained unchanged from 2017 to 2018. Singapore's average property price is US\$874,372 (S\$1,183,375), with an average price of US\$1,063 (S\$1,439) per square foot. For prime property prices, Singapore ranked ninth

in the world with prices pegged at an average of US\$1,243,640 (S\$1,686,002).

"As a financial hub, Singapore is known for its skilled talent, ease of doing business, top-notch infrastructure, as well as economic and political stability," said CBRE South-east Asia's head of research Desmond Sim. The city has thus been an "attractive location" for multinational companies to establish their regional headquarters, in turn influencing the cost of property ownership in the city, he added. However, property prices here remain "relatively affordable" compared to those in Hong Kong, he said.

(source: <https://www.todayonline.com/singapore/singapore-worlds-second-most-expensive-housing-market-cbre-report>)

Sri Lanka

Sri Lanka – Asia's Next Property Hotspot

In Sri Lanka, real estate has far outperformed any other asset class since 2014. Real estate has proven over time to be a sound asset class for capital preservation and wealth creation. Its tangible, physical nature gives investors a solid assurance over paper assets while rental allows for passive income. Financing can be secured to facilitate ownership. Land can be developed while refurbishments to completed homes will yield better capital returns ranging from 20%-200%.

An indication of the sterling growth is evident in the rise of property values in recent years. Leading property website LankaPropertyWeb.com's House Price Index shows that average apartment prices in Colombo (for a 3-bed) have appreciated 6.2% in 2017 and land prices even higher based on asking-price values. An apartment will see rental yields of 6-8% typically. In comparison to real estate, other investment options have been slow or unexciting.

(source: <https://www.lankapropertyweb.com/property-news/sri-lanka-asias-next-property-hotspot/>)

SL's housing market is gearing to meet economic, environmental and social challenges with a new concept and approach i.e., BOX-IT Sri Lanka's Landmark Group, a real estate development company bent on challenging traditional approaches to the island's housing and property market says it is now gearing up to meet the economic, environmental and social challenges facing the industry. Understanding the social, environmental and economic concerns of the present Sri Lankan real estate horizon, Landmark Group has introduced their latest concept of BOX-IT housing. Building a

conventional home is very time-consuming and labour intensive. The company decided to introduce the concept through BOX-IT to Sri Lanka to keep on track with the evolving trends. The BOX-IT clients can build everything from a single storey home or office to a 2-storey multi-bed roomed home, using Recyclable Shipping Containers. It takes roughly a month to fully conclude the building of a BOX-IT.

The concept of BOX-IT utilizes old 20-foot and 40-foot shipping containers to build houses which converts them into fully functioning, environmentally sustainable modern living and working spaces condensed down to 18-20 sq. meters. These shipping containers are used globally with thousands of them removed from circulation annually. On the other hand, Box-IT houses are designed so that wastage of the ecological footprint is avoided, and more recycling happens day-to-day without hassle.

It is thought that the concept provides clients greater freedom in creating living and workspaces of their preference. The team uses the latest construction and design technologies to create innovative spaces that are built to exacting standards in order to ensure safety, structural integrity and aesthetic appeal.

Landmark Group has extended the BOX IT solution to include prefabricated swimming pools that are created using recycled shipping containers, with either temporary or permanent fixtures. Moreover, Landmark's various subsidiaries specialise in different aspects related to the industry. Together with all these services and up-to-date technology we believe the concept of BOX-IT will provide the perfect solution for many Sri Lankans. BOX IT provides options to some of the prominent problems in Sri Lanka. Movable small modular houses for disaster relief housing, communities that want to be off grid or live in more remote properties, or to provide the perfect abode for an aging population. In addition, millennials have transformed into a generation of passionate travelers.

About the benefits of BOX-IT concept over the traditional house construction concept, it is claimed that, BOX IT is convenient in terms of portability and accessibility. With BOX-IT the client can make their own private space within the same premises, without any hassle. The product is more affordable, transportable, and more environment friendly. The standard height of a BOX IT is approximately 8 feet 6 inches,

which will help accumulate space and dissipate heat throughout the structure. Another great advantage of a shipping container home is that it can be built off site and then delivered to your land ready to move in. Shipping container homes can be built incredibly fast. BOX IT solutions save time as delivery can be done in 4 to 6 weeks from order confirmation. They also bring numerous cost benefits that allow customers to get the desired results.

However, users are typically subjected to local zoning and construction regulations, which depend on location. While traditionally constructed houses face these same issues, they are much more common and thus more easily approved in many cases.

Thailand

↳ K.I. Woo

Developers want loan-to-value changes

The Bank of Thailand is being urged to revise the new loan-to-value [LTV] ratios proposed for buyers purchasing additional residences. The developers told the Bangkok Post that because current market sentiments are weak the new LTV ratios would prevent many families from purchasing new homes.

Atip Bijanonda, President of the Housing Business Association, said this year's property market is expected to only grow about 0-5% from 2018, mainly because of the new LTV limits. "The LTV limits will definitely have a strong impact on the market this year, as they already affected first quarter housing sales," he said. He said the Central Bank should review its new regulations' effect on overall economic growth.

Developers, he said should also help applicants prepare for mortgage applications under the new regulations, including cleaning up financial statements. Vichai Viratkapan, acting Director-General of the Real Estate Information Center [REIC], said the new LTV limits will have a greater impact on new housing sales than increased interest rates and overall economic growth. He suggested establishing a housing fund for homebuyers that are not approved for mortgages from financial institutions.

Property consultant Colliers International Thailand said new condos launched in Bangkok

in the first quarter totaled 8,443 units, down 60% and 40% from the fourth and first quarters of last year.

Some 2,400 units were low-priced condos under the government's Baan Pracha Rat housing loan project.

"The sharp drop suggests that the new LTV limits are taking hold," said Phattarachai Taweewong, associate director of the Colliers research department.

Thai government implements economic stimulus measures

To ensure the Thai economy maintains steady economic growth the Thai Cabinet has proposed stimulus measures that will cost about Bt20 billion (\$US62.5 billion). GH Bank and the Government Savings Bank will offer special mortgages to serve strong home loan demand to offset commercial banks recent tightening of housing loan criteria to comply with the central bank's new lending restrictions.

GH Bank slashing low-cost housing interest rates

GH Bank is planning to slash home mortgage rates for its Bt 1 million (\$US312) per unit low-cost government housing scheme to below 3% and lengthen the maximum housing loan term to 50 years from 40 years. The changes will reduce monthly payments to below the program's minimum monthly payment requirement of Bt3,800 (\$US118), said president Chatchai Sirilai.

To fund the program, the Bank will launch a Bt100 million (\$US3.125 million) savings lottery that will have an average cost of between 1.7-1.8% per year. Chatchai said 30% of the 59,000 applicants for the scheme's first mortgage phase cannot afford the minimum payment of Bt3,800 (US118) a month. To make the affordable housing scheme more affordable, GH Bank has proposed extending the repayment period to 50 years from 40 if the request for an additional government subsidy fails.

Low-income earners, particularly those who must take care of parents, remain a priority for the second phase, he said.

GH Bank is to consider offering special mortgages to those who are starting families, looking to buy homes priced more than Bt1 million (\$US31m250), said Mr. Somkid.

Europe: a shifting political landscape

↳ By Mark Weinrich

After weeks of negotiations, European Union [EU] leaders announced at the beginning of July their choices for the new top jobs of the EU: Christine Lagarde, Managing Director of the IMF, is set to head the European Central Bank, while Germany's defence minister, Ursula von der Leyen, has been put forward to lead the European Commission, the EU's executive. Both are indeed surprise choices as neither had previously been named among the front-runners. While Lagarde only has to be reviewed by the European Central Bank [ECB], the European Parliament and the European Council, the EU Commission President nominee Ursula von der Leyen had to be formally elected by the European Parliament, for a five-year term.

Her confirmation by the European parliament on July 16 was not a sure thing. She needed at least 374 out of 733 votes; she got 383 – a wafer-thin victory. The margin is the most limited backing ever received by a Commission President since Parliament was given the power to reject nominees under the 2008 Lisbon treaty.

Von der Leyen laid out her agenda in a speech at the European Parliament on the day of her election. She pledged to address many issues, as she attempted to win support in her speech to the European Parliament before

it voted on her nomination as President of the European Commission. Among many other issues, she proposed to make the EU climate-neutral by 2050, to unlock €1 trillion of green investment over the next decade as part of a "Green Deal for Europe," to introduce a European unemployment benefit reinsurance scheme, to develop a framework for minimum wages that "pay for a decent living", to make use of all the flexibility allowed in the rules of the Stability and Growth Pact, and to grant the United Kingdom a further Brexit extension beyond 31 October if required. One of Ursula von der Leyen's most significant concessions to the European Parliament was a pledge to respond with a proposal for "a legislative act" if Parliament votes in favour of a specific reform idea, a step that dents the Commission's near-monopoly on EU policy initiatives. Of particular interest for the finance industry is the promise by Ursula von der Leyen to complete the capital markets union and banking union, including a European deposit insurance scheme.

In her role as IMF Managing Director, Christine Lagarde, has stressed several times the importance of completing the banking union by reaching an agreement on the European Deposit Insurance Scheme. As president of the ECB she could throw her weight behind Ursula von der Leyen's demand that the euro-

zone's banking union be completed. However, it will be Christine Lagarde's main job to set the monetary policy for the eurozone in a time of economic uncertainty. Christine Lagarde will likely maintain Draghi's course for the foreseeable future. Under her aegis, the IMF regularly urged central bankers to flood the markets with money, so that it is foreseeable that Christine Lagarde is likely to insist on quantitative easing should inflation remain low. As Christine Lagarde has a background in law and no formal training in economics, she will probably have to rely on chief economist Philip Lane to shape policy – he is known to be also in favour of an expansionary monetary policy.

Market moves showed also that investors staked bets that the incoming head of the ECB will be a fan of low interest rates: Euro zone bond yields tumbled on the news, and defensive stocks rallied after Christine Lagarde's nomination. The outlook for the development of mortgage interest rates and house prices is hence not surprising: interest rates are likely to remain extremely low and house prices are set to increase further. The latter, however, further amplifies the risk of housing bubbles in most European markets.

Both Christine Lagarde and Ursula von der Leyen will take office in November 2019.

Latin America and the Caribbean: recent developments in the Brazilian and Argentinian housing finance markets

↪ By Claudia Magalhães Eloy

Weak growth in the largest economies of the region – Brazil and Mexico (0.8% and 0.7%, respectively, after downgraded estimates in both cases¹) – increasing difficulties faced by Argentina and Nicaragua (negative growth of 1.8% and 5%), not to mention the total collapse in Venezuela: Latin America is expected to grow by only 0.5% in 2019 (South America even less, by 0.2%) while the Caribbean, by 2.1%². A steep drop in net capital inflows (from a high of USD 50 billion in Jan 2018 to virtually zero in Jan 2019) and widespread fiscal deficits and high public debt, around 60% on average with some countries reaching above 80%³ are among the multitude of current issues.

According to Fitch⁴, negative sovereign rating pressures in LA&C have increased since the beginning of the year:

“While the factors driving downgrades and negative outlook revisions differ in each case, weak and uneven growth, persistent fiscal challenges, increasing debt burdens (or greater risks posed by contingent liabilities in the case of Mexico), restricted market access for some, and political risk have been notable factors negatively affecting sovereign credits in 2019.”

This is not very promising news for local housing markets. Moreover, external factors pose greater challenges for a region that, to make matters worse, is currently facing a complex global economic scenario, with slower growth expected in both the developed countries and the emerging economies, along with increased volatility in

international financial markets; drops in commodity prices (copper and oil) and deceleration of Chinese growth (China is the main commercial partner of both Brazil and Peru). All that in addition to structurally weaker international trade, exacerbated by trade tensions between China and the United States. Global growth projections have also been revised slightly downwards for this year and are at risk of further revision.

Very high inflation rates have damned the housing finance market in Argentina at a highly delicate moment. With an inflation rate of 47.6% in 2018, rising to 54.4% over the 12 months to July 2019 and high interest rates, notably after the results of the election primaries in early August, the government has just announced a temporary freeze in mortgage installments indexed at the UVA⁵ for 4 months until December 2019, posing threats to the cash flow of mortgage backed securities. At the time of its implementation, in 2016, UVA indexed fixed interest rate mortgages⁶ were highly touted due to their potential to expand housing finance in the country⁷: initial installments under the indexed mortgages were considerably lower than a market rental.

Yet, rises in the exchange and inflation rates, not matched by incomes (salaries rose by 36.7% against an inflation rate of 55.8% over the 12 months to last April) have changed this equation leading to the freeze of installments. As an example, for a credit of \$ 1 million at a 240-month term, the installment was \$7,915 in March 2016

which escalated to \$20,887 in June 2019, with an outstanding balance of \$2,4 million⁸. According to CEPA⁹, installments have risen about 147% in nominal terms from April 2016 to April 2019, but since such mortgages are recent, delinquency rates are still below 1%. As Ivan Kerr, the national housing secretary has recently declared¹⁰:

“We know that many families have gone from the joy of achieving the homeownership dream to concerns about the uncertainty generated by the current situation. But we want to bring peace of mind to families, we have already signed agreements with all the banks so that they adhere to the measure”¹¹

Mortgagors complaining in front of the Argentinian Congress.



Source: Infobae¹²

This course of action, which will affect around 90 thousand loan contracts encompasses a budget allowance to cover the differential produced by the frozen installments against evolving balances until next December. Meanwhile, the

¹ Central Bank of each country.

² CEPAL, Chile, July 2019.

³ IBRD, World Bank: Effects of the business cycles on social indicators in Latin America and the Caribbean; 2019

⁴ <https://www.fitchratings.com/site/latam>.

⁵ Unidad de Valor Adquisitivo, which corresponded to the construction cost of a square meter, adjustable by the CER, a consumer price index. In April 2016 1 UVA was equivalent to 14.06, in September last year to 25.9 and 38.2 in July 2019

⁶ Interest rate coupons varied from 3.5% to 7% yearly, depending on bank and client relationship to the bank.

⁷ <https://www.infobae.com/economia/2018/09/08/conviene-o-no-conviene-como-queda-la-situacion-de-los-creditos-uva-luego-de-la-devaluacion/>.

⁸ In a traditional, non-indexed credit, the initial installment would have been \$12,435 up to \$20,426 last June, but with an outstanding balance of \$965,000. Source: <https://www.infobae.com/economia/2019/07/06/a-mas-de-tres-anos-de-la-aparicion-de-los-creditos-hipotecarios-uva-cual-es-la-situacion-de-los-deudores/>.

[infobae.com/economia/2019/07/06/a-mas-de-tres-anos-de-la-aparicion-de-los-creditos-hipotecarios-uva-cual-es-la-situacion-de-los-deudores/](https://www.infobae.com/economia/2019/07/06/a-mas-de-tres-anos-de-la-aparicion-de-los-creditos-hipotecarios-uva-cual-es-la-situacion-de-los-deudores/).

⁹ Centro de Economía Política Argentina [CEPA]

¹⁰ <https://www.lanacion.com.ar/economia/creditos-uva-los-bancos-firmaron-convenio-congelamiento-nid2282739>

¹¹ According to La Nación (29/08/2019), banks that have adhered to the freezing measure were Banco Provincia, con lo cual se completó la lista que incluye también al Banco Nación, Ciudad, Hipotecario, BBVA, Credicoop, Galicia, Itaú, Macro, Patagonia, Santander, Supervielle, HSBC, ICBC, Banco de la Provincia de Córdoba, Banco de Tierra del Fuego, Banco de Tucumán, Banco de San Juan, Banco de Entre Ríos, Banco de Santa Fe, Banco de Santiago del Estero y Banco Metrópolis.

¹² <https://www.infobae.com/economia/2019/07/06/a-mas-de-tres-anos-de-la-aparicion-de-los-creditos-hipotecarios-uva-cual-es-la-situacion-de-los-deudores/>

government is working on a plan to index installments using a salary index (CVS)¹³ and setting up a compensation fund to deal with future mismatches, as well as on an inflation insurance scheme for new mortgages. Moreover, higher interest rates coupled with higher UVA values have made credit much more unaffordable for the majority of families wishing to access the market at this point.

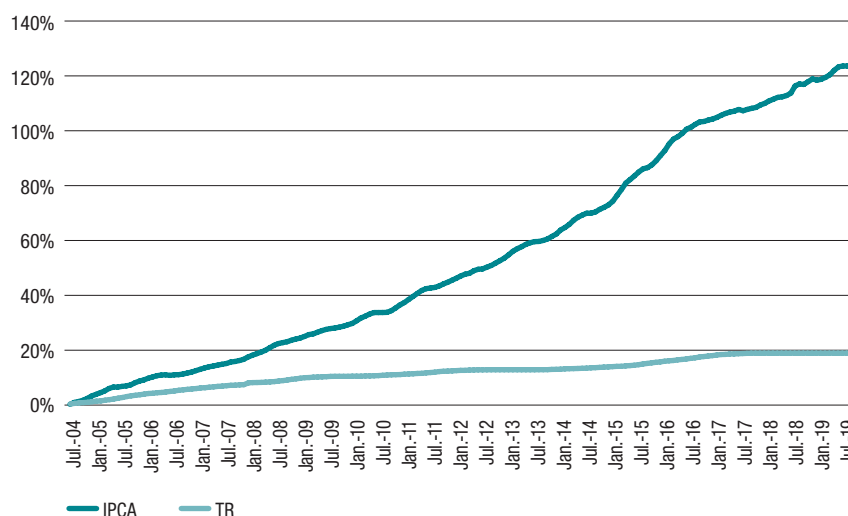
Brazil's new government has just announced that housing finance can again be indexed at inflation (IPCA¹⁴). CAIXA, the state-owned housing bank that holds 69% share of the housing credit market was the first one to implement this new modality, announcing lower interest rates, ranging from 3.25% to 4.95%¹⁵ coupled with IPCA (currently estimated at 3.6%), as opposed to rates that start at 8.3%¹⁶.

Indexed housing finance contracts prevailed in the country during the 70s and 80s. As inflation escalated, mismatch in the frequency of adjustments¹⁷ and soon afterwards (mid-80s) mismatch in indexes (installments were readjusted according to an income index while balances remained indexed to inflation, according to contractual terms) created increasing distortions. The difference was absorbed by a compensation Fund (FCVS – Fundo de Compensação da Variação Salarial). Yet, parameters established for the sustainability of FCVS soon proved erroneous as inflation reached 84.3% for the month of March 1990. FCVS totaled losses equivalent to current BRL 200 billion that have been equated by the government since the late 90s through the securitization of this debt.

In 1991 a special index was created for the Brazilian National Housing Finance System called the Reference Rate [TR] applied both to the remuneration of deposits (funding side of the savings and FGTS accounts) and to the loans. Referenced to the country's reference rate [Selic], the TR has been zeroed lately and over the last 15 years it has been much less variable than the IPCA (while the latter has varied 124.4%, the former, just 19.2%), as the following graph demonstrates.

Yet, since the TR is not a price index, it is not accepted by investors. Therefore, real estate assets must move from TR to an adjustable rate or to an inflation indexed fixed rate in order to

FIGURE 1 Evolution of IPCA and TR



Source: www.ochbrasil.blog with Central Bank data.

form pools for attractive market covered bonds (named LIG) or residential mortgage backed securities (named CRI). The urge to move to a more market-oriented system, better connected to capital markets, is thus behind the new regulation to foster IPCA indexed housing loans in Brazil. Other banks that operate within the Brazilian market are cautious and claim to be still studying this novelty before implementing it. Experts¹⁸ have been advising that, although lending criteria historically tend to be very sound and conservative in the country (after a 4.5-year economic crisis, delinquency in the housing finance system is just 1.5%), the standards currently applied should be reviewed for the new indexed loans.

Indeed, although regulation in Brazil leaves little room for the design of unconventional contracts, the introduction of loans indexed at IPCA (or, for that matter, any inflation referenced index) should require that banks apply more strict credit standards. Also, at least for the next couple of years, those loans should be exclusively targeted at mid to high-income earners.

A recent note by S&P Global Ratings¹⁹ agrees with the prospects that those IPCA indexed loans will foster LIG and CRI issuances in the country but strongly recommends the need to monitor inherent risks given the high volatility of the local economy: "it is hard to predict how inflation will behave throughout the entire term

of a housing loan, especially in a country with such a political dynamic as fluid as Brazil's"²⁰. Consequently, S&P evaluation shall include a rise in the expected Foreclosure Frequency [FF] of those contracts. This issue may exert pressure for a change in the regulation in favor of a full recourse framework, thus increasing the risk burden on borrowers. S&P also recommends lowering DTI and LTV levels²¹ in those contracts. They state that "prudent loan originators and investors will take risks into account as they calibrate their investment appetite for LIG (Brazilian Covered Bonds)".

This, in turn, will reflect in LIG remuneration rates (in order to be attractive for investors) and, consequently, on loan interest rates and affordability levels – the country's main deposit funding sources (SBPE and FGTS) remain remunerated at below-market rates, allowing access to moderate to low-income segments of the population.

Since deposits are still the main (almost exclusive) source of funding for housing credit and their remuneration is indexed at TR, the change to IPCA on the asset side may precipitate an Interest Rate mismatch risk if capital market funding does not step in through the development of LIG and CRI proportionately.

Nonetheless, the government and CAIXA are keen on the indexed loans, having announced

¹³ Coefficient

¹⁴ IPCA (Índice de Preços ao Consumidor Amplo) is an official consumer price index measured by IBGE, the national institute of geography and statistics.

¹⁵ Depending on the client-bank relationship as well as the client credit record. For public servants under special conditions and installment consignment, interest rates could go further down to 2.95%+IPCA.

¹⁶ Those are indexed by the TR which is currently zero.

¹⁷ Balances were adjusted quarterly, whereas installments, annually.

¹⁸ Articles by Teotônio Rezende and by Claudia Magalhães Eloy, Henrique Bottura Paiva and José Pereira Gonçalves can be found at www.ochbrasil.blog

¹⁹ <https://www.abecip.org.br/imprensa/noticias/s-p-ve-mais-credito-imobiliario-com-correcao-pelo-ipca-mas-maior-risco-para-bancos-e-compradores>

²⁰ Translation by this author.

²¹ So far, CAIXA maintains a maximum 80% LTV also for IPCA indexed loans.

that they will expand affordability for the moderate to low-income segments. Their optimism is based on the current economic indicators:

- Inflation is expected to remain below target (4.25%) until 2022.
- We have declining and historic low levels of the reference rate (Selic is now 6%²²).
- The decline of the reference rate (Selic) causes investors look for alternative investments, new asset classes.

On the downside, with very high unemployment rates (12.8 million unemployed²³), the labor market and incomes still exhibit very slow recuperation. This is of extreme importance to the demand side of our mortgage equation. Also, both the regional and world scenarios point to risks mostly for an economy that is still in a very fragile condition such as in the case of Brazil. At this juncture no one foresees that Brazil will endure the high inflation rates and all the difficulties that Argentina is currently facing, much less, once again

go through the hyperinflation and crisis of the 80s. However, we all know that housing loans take us into a future that is impossible to predict. Only time will tell if this is indeed the right moment for Brazil to adequately navigate through this transition.

It would be wise to note that just last year, in this very publication, precisely in the Spring issue, we mentioned that under the implementation of a free-market reform agenda Argentina was considered to be the region's pick of the bunch!

²² Expected to reach 5.25% in 2020 but rise to 7% in 2021 and 2022 (according to Focus, Central Bank).

²³ Plus 7.4 million under occupied and 11.5 million informal workers (data by IBGE, Brazil).

Surprised again

↳ By Alex J. Pollock

“Why We’re Always Surprised” is the subtitle of my book, *Finance and Philosophy*. The reason we are so often surprised by financial developments, I argue in the book, is that “The financial future is marked by fundamental uncertainty. This means we not only do not know the financial future, but *cannot* know it, and that this limitation of knowledge is ineluctable for *everybody*.” That certainly includes me!

At the end of last year (in December 2018), interest rates had been rising, and it seemed obvious that they would likely rise to a normal level, at last adjusting out of the abnormally low levels to which central banks had pushed them in reaction to the financial crisis. The crisis began in 2007 with the collapse of the subprime lending sector in the U.S. and of the Northern Rock bank in the U.K. and ran to 2012, which saw the trough of U.S. house prices and settlement of defaulted Greek sovereign debt at 25 cents on the dollar.

Six years had gone by since then, it seemed that it was high time for normalization. This view was shared during 2018 by the Chairman of the Federal Reserve Board and its Open Market Committee. It also seemed that the long period of imposing negative real interest rates on savers, thus transferring wealth from savers to leveraged speculators and other borrowers, needed to end.

What would “normal” be? I thought a normal rate for the 10-year U.S. Treasury note would be about 4% and correspondingly for a 30-year U.S. fixed-rate mortgage loan about 6%, assuming inflation ran at about 2%. I still think those would be normal rates. But obviously, it is not where we are going at this point.

For the final 2018 issue of *Housing Finance International*, I wrote, “The most important thing about U.S. housing finance is that long-term interest rates are rising.” Surprise! Long-term interest rates have fallen dramatically. The U.S. does not have the negative interest rates, once considered impossible by many economists, which have become so prevalent in Europe, remarkably spreading in

some cases to deposits and even mortgage loans. But the U.S. does have negative rates in inflation-adjusted terms. The 10-year U.S. Treasury note is as I write yielding about 1.5%. The year-over-year consumer price index is up 1.8%, and “core inflation” running at 2.2%, so the investor gets a negative real yield once again, savers are again having their assets effectively expropriated, and we can once again wonder how long this can continue.

What do the new, super-low interest rates mean for U.S. housing finance?

The higher U.S. mortgage loan rates, which reached almost 5% for the typical U.S. 30-year fixed-rate loan in late 2018, “would have serious downward implications for the elevated level of U.S. house prices, which already stress buyers’ affordability,” I wrote then. Had those levels been maintained, they definitely would have put downward pressure on prices. But as of now, seven years after the 2012 bottom in house prices, the U.S. long-term mortgage borrowing rate has dropped again to about 3.8%. This has set off another American mortgage refinancing cycle and is helping house prices to continue upwards.

In the U.S. system, getting a new fixed rate mortgage to refinance the old one is an expensive transaction for the borrower, with fees and costs which must be weighed against the future savings on interest payments. The fees depend on state laws and regulations; they range among the various states from about \$1,900 on the low end to almost \$6,900 on the high end, according to recent estimates. On the lender side, the post-crisis increases in regulatory burden had raised the lenders’ cost to originate a mortgage loan to as much as \$9,000 per loan – the increased volume from “refis” (as we say) may have reduced this average cost to the lender to about \$7,500. It is expensive to move all the paper the American housing finance system requires in order for the borrower to obtain a lower interest rate.

Meanwhile, with the new low interest rates and high house prices, “cash out refis” are again becoming more popular. In these trans-

actions, not only do borrowers increase their debt by borrowing more than they owe on the old mortgage loan, but they reset their amortization of the principal further out to a new 30-year schedule. In both ways, they reduce the build-up of equity in their house, making it more likely that they will still have mortgage debt to pay during their retirement.

In general, there are no mortgage prepayment fees in the U.S. The old, higher rate loans are simply settled at par. This continues to make prices of mortgage securities in the U.S. system very sensitive to changes in expected prepayment rates. If investors have bought mortgage loans at a premium to par, which they often do, upon prepayment they have lost and must write off any unamortized premiums they paid.

The most notable American investor in mortgage securities is the central bank, the Federal Reserve. As of August 21, 2019, it had on its books \$115 billion (with a B) of unamortized premium, net of unamortized discounts. Not all of this may be for its \$1.5 trillion mortgage portfolio; still, a refi boom might be expensive for the Fed.

Speaking of the Federal Reserve, its then-Chairman, Ben Bernanke, wrote in 2010 about his bond buying or “quantitative easing” programs: “Lower mortgage rates will make housing more affordable and allow more homeowners to refinance.” The latter effect of promoting refis is always true, but not the former claim of improved affordability. It ceases to be true when low mortgage rates have induced great increases in house prices, as they have. The high prices obviously make houses less affordable, and obviously mean that more debt is required to buy the same house, often with higher leverage – notably higher debt service-to-income ratios.

U.S. house prices are now significantly above where they were at the peak of the housing bubble in 2006. They have risen since 2012 far more rapidly than average incomes. The Fed’s strategy to induce asset price inflation has succeeded in reducing affordability.

According to the Federal Housing Finance Board's House Price Index, U.S. house prices increased another 5% year-over-year for the second quarter of 2019. "House prices rose in all 50 states...and all 100 of the largest metropolitan areas," it reports. Its house price index has now gone up for 32 consecutive quarters.

The S&P Case-Shiller National House Price Index has just reported a somewhat lower rate of increase, with house prices on average up 3.1% for the year ending in June. There is art as well as science in these indexes – the FHFA's index

notably does not include the very high ("jumbo," in American terms) end of the market. According to Case-Shiller, in some particularly expensive cities, house price appreciation has distinctly moderated, with year-over-year increases of 1.1% for New York, 0.7% for San Francisco, and negative 1.3% for Seattle.

The AEI Housing Center of the American Enterprise Institute has house price indexes that very usefully divide the market into four price tiers. It finds that at the high end of the market, the rate of increase in prices is now falling,

while the most rapid increases are in the lowest priced houses – just where affordability and high leverage are the biggest issues, and where the U.S. government's subprime lender, the Federal Housing Administration, is most active.

On a longer-term view, Case-Shiller reports that national U.S. house prices are 57% over their 2012 trough, and 14% over their bubble peak. When U.S. interest rates rise again, whether to normal levels or something else, these prices are vulnerable. How much might they fall? That may be another surprise.

The state of the housing finance market in Ghana: the role of household characteristics and housing conditions

↪ By Nicholas Addai Boamah, Martin Owusu Ansah, Emmanuel Opoku

1. Introduction

This study explores the nexus between household characteristics and housing conditions and its implications for housing finance market development in Ghana. Household characteristics, housing conditions, and housing financing modes significantly impact on socio-economic policy implementation (McCord et. al. 2016). Thus, housing has implications for the welfare of households. This raises the need for the delivery of adequate, decent and affordable housing to households. This, however, cannot be attained if a sound housing finance market does not exist. A properly functioning housing finance market is essential for improving housing affordability and the home ownership rate in a country (Camilleri, 2011; Torluccio and Dorakh, 2011).

Efficient and sustainable housing finance markets are essential for the realization of the socio-economic goals of nations (Chanond, 2009; Pozo, 2009). For instance, an efficient housing finance mechanism facilitates households' wealth formation by enabling households to extract equity from their housing wealth, promotes the facelifting of the existing housing stock, and impacts on the monetary policy pass-through process (Benjamin et al., 2004, Boamah, 2011). Manda et al. (2011) argue that market-based housing delivery may be ineffective in the absence of efficient housing finance mechanisms. Important requirements for the development of a sound mortgage market are credit risk management and mortgage affordability which are driven in part by the character of borrowers and collateralization. For instance, credit worthiness of potential borrowers, household income levels and effective demand, credit risk analysis techniques, household living environment, urban planning and job security are essential for the attainment of a sustainable housing finance regime (Nyasulu and Cloete, 2007; Warnock and Warnock, 2008; Butler et al., 2009).

Adequate shelter is a major challenge particularly for the low and middle-income households in most developing countries (Ametefe et al.; 2011). Housing inadequacy remains a major concern for households in developing countries. For instance, rapid population growth over the years in addition to slow rate of housing delivery (Afrane et al., 2016) and the deterioration of the existing housing stock has constrained access to quality housing by the low and middle-income households in Ghana. This is mostly due to the limited permeation of the housing finance market despite a significant housing deficit and the deterioration of the existing housing stock (Datta and Jones, 2012). The housing finance market in Ghana remains underdeveloped and contributes minimally to housing delivery in the country. A significant proportion of housing development in Ghana is financed by individual households through remittances from family members abroad, households' savings, and 'sweat equity'. As a result, housing development is incremental and it takes 10 to 15 years for a housing unit to be completed (Debrah et al., 2002; Karley, 2002; Boamah, 2009, 2010). This approach to housing development in Ghana has endured till the present partly because of inadequate housing finance mechanisms in the country. This study explores the state of formal housing finance in Ghana. It examines the impact of households' characteristics and housing conditions on the development of housing finance markets in Ghana. The study employed survey

data from the Offinso South Municipality [OSM] and pictorial evidence from Kotei and Ayeduase suburbs of Kumasi to evaluate the housing conditions and household characteristics in Ghana.

2. Methodology

The study relied on pictorial evidence from the Kotei and Ayeduasi suburbs of Kumasi (the second largest city of Ghana). In addition, Boamah (2014) survey data were employed to explore the link between household characteristics and housing conditions using Equation (1). The data have information on housing conditions, whether respondents were indigenous, level of education of the household head, household size, household income, materials of construction, access to sewerage facilities, the planning status of the sampled houses and the room occupancy rate. There is a total of 150 observations in the dataset. Equation (1) suggests that household characteristics – the level of education of household head, room occupancy rate, extent of informality, and neighborhood characteristics impact on housing quality. These variables were selected since earlier studies such as Konadu-Agyemang (2001), Kofie and Nabila (2004), Nsiah-Gyabaah (2004), Stone (2006), Adarkwa and Oppong (2007) and Bramley (2012) have observed them to impact on housing adequacy and households' health.

FIGURE 1 Equation (1)

$$QH = \alpha + \beta_1 CONGSR + \beta_1 FEDUC + \beta_1 INDIGH + \beta_1 APPLBP + \beta_1 NEIGBH + \varepsilon$$

QH = Quality of housing ; α = intercept ; β = coefficient ;
CONGSR = congestion in sleeping rooms ; *FEDUC* = formal education ;
INDIGH = indigenous households ; *APPLBP* = applied for building permit ;
NEIGBH = new or old neighbourhood ; ε = error term.

The study subsequently analyzed the implications of the housing conditions for housing finance market development in Ghana. Housing conditions have implications for the quality of loan collateral with significant implications for housing finance market development. Arguably, factors that drive housing quality would have implications for loan collateral and effective demand for housing loans. The mortgage market is evaluated to determine whether the housing conditions in the country provide a sound fundamental for mortgage market development in Ghana. This is done via a literature survey and reliance on secondary data from official sources.

3. Presentation of results

3.1. Housing Conditions in the study areas

Table 1 presents data on the quality of residential dwellings in the Offinso South Municipality (OSM). The quality of dwellings is assessed based on the materials for floor, roofing and outer wall construction. Table 1 (Panel A) shows that 70.8%, 28.3% and 0.8% of the outer walls of residential units in the OSM are respectively built with cement blocks, mud or mud brick and burnt bricks. Mud brick houses are generally low in quality, are less durable and pose safety challenges to the occupants of the dwelling units particularly as the property ages.

TABLE 1 Quality of residential dwellings

PANEL A: OUTER WALLING MATERIALS		
	PERCENT	CUMULATIVE PERCENT
Burnt bricks	0.8	0.8
Cement blocks	70.8	71.7
Mud, Mud brick	28.3	100
TOTAL	100	

PANEL B: FLOORING MATERIALS		
Concrete	70.8	70.8
Mud or Earth	20.8	91.7
Terrazzo/Tiles	8.3	100
TOTAL	100	

PANEL C: ROOFING MATERIALS		
Concrete	2.5	2.5
Corrugated metal sheet	96.7	99.2
Grass/Thatch	0.8	100
TOTAL	100	

Panel B of Table 1 indicates that approximately 21% of the floors of dwelling units in the municipality are constructed of low-quality materials, whereas, Panel C (Table 1) infers that properties in the municipality are roofed with relatively good quality material in general. The evidence in Table 1 points to a generally low-quality housing stock in the OSM.

Figure 2 presents a snapshot of housing units and neighbourhood characteristics of Kotei and Ayeduase, Kumasi. The evidence in Kumasi is consistent with the OSM presented in Tables. The figure shows a wide range of properties in terms of quality and property but may be of

low collateral value to mortgage lenders due to inaccessible neighbourhoods, poor drainage facilities, inferior construction materials and inadequate property care.

We explore the degree of informality in the housing development by examining whether or not developers acquire development permits for their projects. This has implications for collateralization and housing finance markets development. Lenders would generally not lend for properties without permit approvals as such properties undermine their security interest in the collateralised property. The evidence of informality is presented in Table 2.

FIGURE 2 Housing units at Ayeduase and Kotei, Kumasi

Plate 1



Plate 2



Plate 3



Plate 4



Plate 5



Plate 6



TABLE 2 Formal building permit applications and approvals

PANEL A: BUILDING PERMIT APPLICATIONS			PANEL B: BUILDING PERMIT APPROVALS		
	PERCENT	CUMULATIVE PERCENT		PERCENT	CUMULATIVE PERCENT
Applied for permit	34.5	34.5	Received permit	27.1	27.1
Did not apply for permit	65.5	100	Did not receive permit	72.9	100
TOTAL	100		TOTAL	100	

Panel A (Table 2) indicates that only 35% of respondents applied for building permits for their properties. Panel B of the Table indicates that only 27.1% of the respondents who applied for permits received planning approvals for their proposed developments. The evidence suggests that approximately 75% of the surveyed properties in the municipality do not have approved development permits. This shows that informal and disarticulated developments are common in the municipality.

3.2. What drives the poor state of housing?

We explore the relation between households' characteristics and housing quality using Equation (1). We employ the material for outer wall construction as the proxy for housing quality. The results for estimating (1) are presented in Table 3. The Table shows significant negative relation between the congestion in sleeping rooms and the quality of the outer walling material and the educational level of the household head and the material for outer wall construction.

The results indicate that as the number of households with more than two persons per room increases the quality of the outer walling material decreases. Additionally, the quality of the outer walling material decreases with the increasing number of households that are headed by a non-formally educated person.

Table 3 also shows statistically significant positive association between indigenous households and the outer walling material,

suggesting that indigenes of the municipality dwell in housing units with quality outer walling material. This may be the result of the property-owning culture of the indigenous households. A popular adage amongst the indigenes is that "ye bisa ne fie na enye ne sika" ("we ask of his house and not his money upon the death of a person"). They thus take pride in the acquisition of landed property. The Table further shows that there exists a statistically distinguishable negative relation between the quality of the outer walling material and the planning status of the dwelling. The evidence shows that households living in unapproved houses dwell in housing units with low quality outer walling material. This may be due to the level of informality in the municipality. The high degree of unapproved properties may be due to the challenges in the planning system of the country. Boamah et al. (2012) for instance argue that the planning system in the country is ineffective, is associated with perceived corruption and high transaction costs, and as a result voluntary compliance by households is minimal. They argue that the planning authorities in the country lack the capacity to enforce their planning regulations and in addition, it would be politically imprudent for the authorities to enforce the planning regulations authorizing the demolishing of unapproved properties, given the scale of violations. Table 1 shows that as the number of households dwelling in the newer neighborhoods increases the quality of the outer walling material rises. This may be the outcome of the property neglect in the older neighborhoods of the OSM observed by Boamah (2012).

3.3. Households' income and characteristics

Table 4 also shows a significant and strong association between household annual income and indigenes, the level of education of the household head, household size, the room occupancy rate and the planning status of the houses. Table 5 further shows that low-income households are most likely to be indigenes of the municipality, headed by a less formally educated person, have bigger household size, live in congested sleeping rooms and dwell in unauthorized housing units. It therefore appears that low household incomes play a significant role in the acute housing situation in the OSM.

4. Implications for housing finance market development

The preceding evidence suggests a high level of informal housing development, low quality housing and living environment and generally low household income levels. The evidence also indicates that various household characteristics such as formal education of the household head, housing adequacy, nature of neighbourhood, ethnicity, household income and informal housing development influence housing quality. The quality of the dwelling unit and neighbourhood has implications for housing finance market development. That is, factors influencing housing quality would significantly drive mortgage affordability by households. Low-income households and households living in poorly planned neighbourhoods and low-quality properties may not satisfy the character and collateralization requirements of lenders; these factors may thus constrain housing finance market development. Boamah (2010) argues that limited household income may lead to ineffective demand for housing and housing consumption, although, the demand for housing may generally be high in a country. Ineffective housing demand cannot drive housing finance market development. Similarly, Wolswijk (2005) notes that higher real disposable income is essential for housing affordability, effective demand for housing funds and the strength of the housing finance markets. Rathnasingha and Khatibi (2012) suggest that housing and housing services delivery depends largely on the existence of a well-functioning and affordable housing finance regime and that challenges in satisfying lenders' mortgage qualification requirements constraints access to housing loans by low-income households. The underdeveloped state of the Ghanaian mortgage market may thus be driven in part

TABLE 3 Materials for outer wall construction and household characteristics

PANEL A: MODEL SUMMARY					
R	R SQUARE	ADJUSTED R SQUARE	STD. ERROR OF THE ESTIMATE	DURBIN WATSON	
0.536	0.288	0.281	1.14153	1.906	

PANEL B: ANOVA					
	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Regression	290.027	5	58.005	44.51	0.000
Residual	718.002	551	1.303		
TOTAL	1008.029	556			

PANEL C: COEFFICIENTS					
	UNSTANDARDIZED COEFFICIENTS		STANDARDIZED COEFFICIENTS	T	SIG.
	B	Std. Error	Beta		
α	2.202	0.266		8.290	0.000
CSR	-0.675	0.106	-0.251	-6.341	0.000
FE	-0.122	0.051	-0.098	-2.411	0.016
IH	0.539	0.107	0.193	5.013	0.000
ABP	-0.442	0.109	-0.157	-4.068	0.000
NGH	0.598	0.113	0.199	5.288	0.000

TABLE 4 Households' annual income and housing situation

		HOUSEHOLD ANNUAL INCOME (%)				PEARSON CHI-SQUARE
		≤ 2300	2301 - 5500	5501+	TOTAL	
Indigene	YES	34.7	49	16.3	100	6.1 0.048**
	NO	13	40	47	100	
	TOTAL	31.5	48.1	20.4	100	
Formal Education	NONE	36.4	36.4	27.3	100	14.1 0.028**
	BASIC	52.9	29.4	17.6	100	
	SECONDARY	19.1	69.2	11.7	100	
	TERTIARY	7.7	53.8	38.5	100	
	TOTAL	31.5	48.1	20.4	100	
Approved Building	17.9	50	32.1	100	100	7.4 0.024**
	46.2	46.2	7.7	100	100	
	31.5	48.1	20.4	100	100	
Person per room	≤ 2	14.3	46.4	39.3	100	15.7 0.0001**
	> 2	42.5	48.3	9.2	100	
	TOTAL	31.5	48.1	20.4	100	

Source: Authors Construct, 2019; ** significance level, Exchange rate: US\$1 = GH¢1.91 in 2012

by poor housing conditions and inadequate effective demand for housing finance.

Adequate collateralization and thus the protection of lenders' security interest in the collateralized property are essential requirements for housing finance market development. Abdulai and Ndekugri (2007) and Abdulai and Hammond (2010) suggest that the quality of collateral depends on the quality of the collateralized property, the living environment, property rights and the extent of informality in the housing development process. For instance, properties without planning consent by the planning authorities have inadequate collateral value since such properties may violate the approved development of the site and could be demolished by the planning authority. Additionally, properties in inaccessible neighbourhoods, communities that lack essential services such as drainage facilities, untidy living environments, and residential areas with poor liquid waste disposal mechanisms have limited collateral value owning although, the properties may be of high quality (see e.g. Plates 1 to 3 of Figure 1). Gallardo (1998) and Struyk (2010) argue that the regulatory regime, the loan underwriting process, availability of borrower information, and the quality of the underlying asset are essential for credit risk management in the housing finance market. Thus, the characteristics of households and housing quality impact on the development of vibrant housing finance markets.

Low quality flooring materials are prone to termites and rodent infection and expose occupants to health challenges and also undermine the acceptability of such properties as mortgage collateral. Similarly, mud houses generally are structurally defective and unstable (Oppong and Adarkwa, 2008; Adjei and Kyei, 2013). Structurally defective housing has zero collateral value. The 28% of households dwelling in mud houses may thus have ineffective demand for housing finance and may not satisfy the qualification requirements of lenders. Although the evidence indicates that a significant proportion of households (72%) occupy housing units that are constructed of quality and durable outer walling material most of such households may also not qualify for mortgages. The problem is that the maintenance culture of property owners in Ghana (see e.g. Obeng-Odoom and Amedzro, 2011; Boamah, 2012) is poor thereby rendering a large volume of properties less relevant for collateralization. Properties are generally only maintained during funerals particularly those of the elderly (Boamah, 2012)¹. A significant number of the houses in Ghana are becoming run down due to neglect. For instance, Figure 1 (Plates 4 to 6) provide evidence of properties that have been constructed of inferior building materials and the poor maintenance culture of Ghanaians.

The poor property care culture is a disincentive for mortgage market development as it undermines the value of the collateralized property

and lenders' security interest through time and increases lenders' risk exposure. Lenders may thus respond with higher interest rates as a compensation for higher risk exposure and also, tighten the qualification requirements with the aim of minimizing default risk. As Struyk (2010) observes, the enforcement of stringent requirements in the loan origination and servicing processes will mitigate credit risk. It is thus unsurprising that mortgage rates in Ghana are high and also, middle-income households largely do not qualify for housing loans in Ghana. The property maintenance culture has largely constrained housing finance market development in the country.

The low-income levels in Ghana cannot engender any significant demand for housing finance and housing consumption in the country. This has rendered most of the demand for housing finance emanating from the rapidly growing number of households in the country ineffective. Most potential mortgagors have, therefore, been priced out of the housing finance market. The low-income levels in the country have therefore marred the outlook for the Ghanaian mortgage market. A significant number of the potential mortgagors lack the ability to meet mortgage debt payments from their existing incomes. The low-income levels in the country imply that most potential mortgagors in Ghana cannot meet the capacity requirement of mortgage lenders.

Wolswijk (2005) notes that a higher real disposable income per person increases the affordability of houses, and thus, can have a positive effect on mortgage-financing. With higher real disposable income, households will take advantage of the increased affordability and demand more mortgages. Higher income levels imply that households can gain access to the housing credit market and thus boost the demand for housing and housing finance. Unfortunately, income levels in the country are generally low. Additionally, housing costs are rising more than household incomes.

5. Conclusions

The study explored the state of housing finance markets in Ghana. It examined the relation between household income and housing conditions and the implications for housing finance market development in the country. The evidence shows that the Ghanaian housing finance market remains underdeveloped and that formal housing finance plays a limited role

¹ Funerals are integral part of Ghanaian culture with significant patronage in general. As a result, families mobilize all available resources and improve their housing units in order to give a befitting burial to the deceased members of the families, particularly the elderly.

in housing financing despite rigorous efforts at developing the country's mortgage market since the 1990s. The evidence implies that although housing demand is high in the country, it does not translate into high effective demand for housing finance due partly to poor housing conditions, the high degree of informal housing development, significant volumes of properties without formal planning approval, and low household incomes. The household characteristics and housing condition data show that mortgage lenders are exposed to high credit risk and inadequate collateralization which requires strong underwriting and servicing requirements which consequently price out significant number of households including middle-income households from the Ghanaian housing finance market.

Policy makers should aim at addressing the challenges causing households' inability to qualify for housing credit in the country. The poor housing conditions and disarticulated living environment, problems in the permit approval processes and low household incomes should be addressed. Reducing the degree of informality in the housing sector would enhance housing quality in the country. The planning authorities in the country should therefore innovatively encourage voluntary compliance with the building regulations, purge the system of perceived corruption, and reduce the transaction cost. Efforts at improving voluntary compliance with the planning regulations, the quality of the dwelling units, and halting the degradation of the existing housing stock in the country would improve the collateral value of properties, enhance lenders' security interest in the collateralised property, and minimise default risk exposure of lenders. This will qualify most middle-income households for mortgage loans, create effective demand for housing loans, and enhance the country's mortgage market.

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Creating a development bank to finance affordable housing in South Africa is a timely catalyst to address demand and supply challenges

↳ By Vuyisani Moss

1. Introduction

The size of the property sector in South Africa is overwhelming. The South African property sector was valued at R5.8 trillion¹ in 2016. In the same year the South African Reserve Bank estimated the total value of all fixed capital stock, i.e. property, machinery and transport to be R7.6 trillion. This means that property constitutes 78% of all fixed capital stock in the country. The largest property sub-sector is residential which is worth about R3.9 trillion. The residential sub-sector has R44 billion expenditure with a contribution of R68 billion to GDP and R23 billion contribution to taxes. In spite of this massive investment, South Africa's current housing backlog was in December 2018 estimated at 2.1 million housing units, more than the estimated deficit of 1.5 million homes in 1994, before the liquidation of apartheid government. Informal settlements have grown substantially from an estimated figure of 300 in 1994 to 2225 according to the 2016 report by the South African Institute of Race Relations. Of SA's nine provinces, the Gauteng Province, which combines Johannesburg and Pretoria has the highest housing backlog of over 600,000 housing units. The 2013 Financial and Fiscal Commission [FFC] research report estimated that it would cost government approximately R800 billion to eradicate the housing backlog by 2020 at a rate of 178,000 units a year.

To deliver on this, the FFC affirmed that the state would need to spend R120 billion a year to meet the demand for housing. This was quite an astounding finding as the Department of

Human Settlements has had a total budget of R101.8 billion over the MTEF² period, increasing at an average annual rate of 2.2%, from R33.5 billion per annum in 2017/18 to R35.8 billion in 2020/21. The below inflationary growth rate in the budget is due to fiscal reductions as approved by Cabinet of R3.1 billion in 2018/19, R3.8 billion in 2019/20 and R4 billion in 2020/21.

Despite these reductions, the Department of Human Settlements is expected to deliver 1.5 million housing opportunities by 2019/20, as determined by the government's 2014-2019 Medium Term Strategic Framework [MTSF]³. This illustrates that the acute and growing housing backlog will not be met during the current MTSF cycle. This suggests finding a means to re-engineer creative and innovative solutions to meet the housing demand through an institutional strategic cooperation of public and private sector endeavours. Notwithstanding the fact that a total of 3.3 million houses have been built by the government since 1994 and 4.7 million housing opportunities have been created. This is an incredible achievement by any international standard.

2. South Africa's fiscal outlook impacts on human settlements

The weakening fiscal outlook means that funding allocation for Human Settlements delivery will remain inadequate as the allocation is merely growing at an average annual rate of 2.2%. This is because South Africa's government finances have deteriorated since 2009,

as dissaving and overspending as expenditure continues to exceed revenue as substantiated by the 2018/19 revenue collection figures. The South African Revenue Services [SARS] has for the 2018/19 financial year collected an amount of R1.287 trillion against the 2019 budget estimate of R1.302 trillion resulting in a deficit of R14.6 billion (-1.1%).

The main sources of revenue that contributed to the R1.287 trillion were collected from Personal Income Tax [PIT], which contributed R493.8 billion (38.3%), Value-Added Tax [VAT] contributing R324.6 billion (25.2%), Company Income Tax [CIT], which contributed R214.7 billion (16.7%) and Customs duties which contributed R55.2 billion (4.3%). The sluggish economic growth rate and slow pace of job creation remains a debilitating challenge as reflected in figure 1 below. South Africa's waning economy impacts many sectors unfavourably. The IMF has lowered SA's projected GDP growth rate for 2019 from 1.4% to 1.2% and SARB has also revised its GDP for 2020 from 1.7% to 1.5%. Beyond 2020, the IMF estimates that SA's growth would stabilise at around 1.75%. The recovery trajectory appears remote nevertheless as the economy declines by 3.2% in first quarter of 2019. The modest recovery estimates by both the IMF and SARB are far below the 5% growth required in terms of the National Development Plan [NDP] to reduce poverty, unemployment and inequality in South Africa by 2030.

South Africa's sovereign credit rating by Moody's is BAA3⁴ with a stable outlook which is an investment grade status. According to

¹ 1 USD = 14.6802 ZAR as of 04-06-2019 at 15H35 CAT

² Medium Term Expenditure Framework [MTEF] is the government's expenditure plans over the next three financial years. The 2018 MTEF period is from 2018/19 to 2020/21.

³ The MTSF is government's strategic plan for the electoral term as it reflects the commitments made in the election manifesto of the governing party.

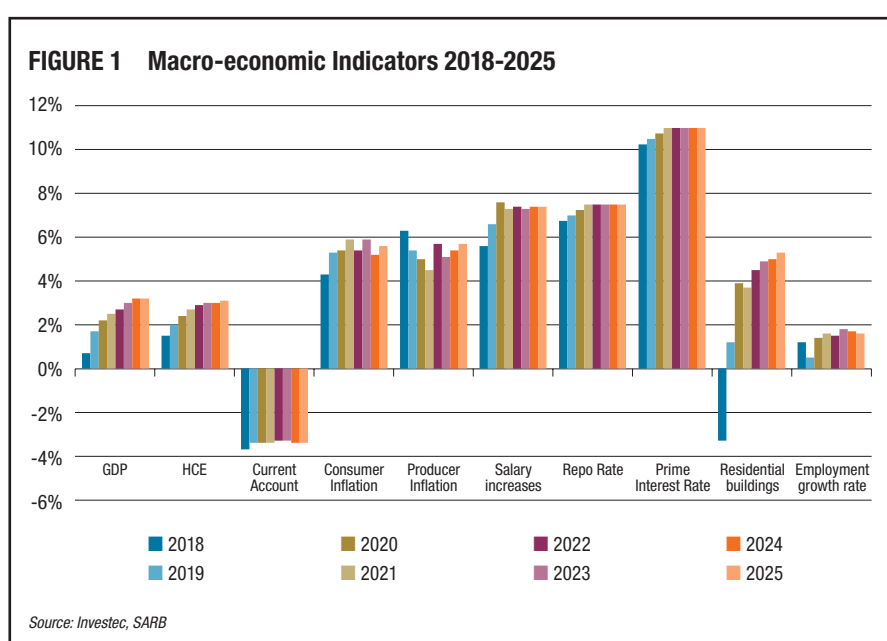
⁴ AAA- is the highest possible rating assigned to the bonds of an issuer by credit rating agencies. C- is the lowest rated class of bonds and are typically in default with little prospect of recovery.

Moody's Investors Service, South Africa is en route to spend R1 out of every R7.5 in government revenue on sovereign debt interest repayments by 2020, Baa3 is the lowest rung of investment grade. Other countries rated Baa3 include Russia, Romania, the Bahamas and Hungary. Moody's is the sole major ratings agency to not have downgraded SA's sovereign credit rating to sub-investment grade.

South Africa's unemployment remains a great source of concern. Latest figures from Statistics South Africa show that the unemployment rate has increased from 27.1% in the fourth quarter of 2018 to 27.6% in the first quarter of 2019. Meaning, there are 16.3 million employed people and 6.2 million unemployed people between the ages of 15 and 64 years. The household consumption expenditure remains subdued as the cost of living continues to increase while the private sector credit extension is considerably weak- constrained by an inherent interest rates environment. This impacts on property market activity adversely and it is illustrated by the shrinkage in the residential building index highlighted in Figure 1. The projections from 2018-2025 indicate that the consumer price index and the producer price inflation are anticipated to remain steady while salary increases are to remain growing modestly just fractionally above inflation. From the expenditure side, the Household Consumption Expenditure [HCE] remains subdued. The residential building plans activity also remained under pressure but on the recovery. The two Provinces which have the largest amount of building plans per total square meterage were Western Cape and Gauteng as measured by the Statistics South Africa 2018 report.

As a response mechanism to the acute housing shortage the state had considered that leveraging of private sector participation is a mainstay to address the market imbalances and fragile housing finance performance. The affordable housing market outlook in particular faces an enormous challenge with regard to supply and demand side challenges as the market remains stagnant.

Setting-up a development bank which is wholly mandated to the greater human settlements delivery value chain is a timely catalyst towards addressing both the demand and supply side constraints in the sector. This is quite particularly evident in the functioning of the affordable housing market as it has been disabled by the lack of innovation in relation to product range and diversification. Inadequate supply of product offerings and lack of appetite to revolutionize the housing market remains a critical barrier. On the demand side, the high levels of consumer



indebtedness are a noteworthy constraint in this market. This is a key deterrent to institutional investors who may be considering granting credit and extending mortgage finance to low and moderate-income households. Furthermore, the introduction of Basel III in 2010 to enhance regulatory measures in the banking sector presented a challenge to the property market as it impacts on capital calculations across risk types, shrinks balance sheets and diminishes the banks' ability to leverage. It safeguards banks from taking up additional risk by increasing the liquidity ratio and equity requirements from 2.5% (Basil II) to 7%.

3. Key blockages for mortgage advances

It is worth noting that SA's big four banks still dominate the market when measured by total assets. According to the 2018 SARB report, Standard Bank and FirstRand are the largest, with R1.3 trillion and R1.1 trillion in assets respectively. They are followed by Absa with R983 billion, Nedbank with R892 billion followed by Investec and Capitec with R415 billion and R87 billion respectively. The big four banks also dominate the mortgage market. Standard Bank remains the biggest mortgage lender with a 34% stake, followed by FNB at 25%, Absa at 23% and Nedbank's share is believed to be less than 17%. Despite all this, the table below shows that the number and value of mortgage loans written by the big four banks and other lenders were on a downward trend from 2008 to 2013. This was unsurprising as the US subprime mortgage credit crisis had hit the global markets especially those with direct exposure to the US economy. There

was a mild recovery between 2014 and 2015 which was mainly on the back of an interest rate reduction cycle. The fragile momentum quickly diminished as mortgage advances continued plummeting. For instance, in 2017 only 13,733 new housing units costing R300 000 to R600 000 were registered at the deeds registry, and 27,149 existing units were resold in this price range. The contraction in mortgage advances led to elevated growth and robustness in unsecured lending activity as it gives creditors handsome returns. The greatest extension of unsecured credit facilities is to those earning up to R15 000 a month. This is due to the fact that the mainstream banks appear to be withdrawing steadily from their conventional asset-based financial products and moving to credit unsecured credit. The feature of the product is that it is repayable within the shortest term and deliver handsome yields due to high interest attached to the transaction. Furthermore, the National Credit Regulator [NCR] prescription permits credit providers to charge a maximum interest rate, currently at 27.5% per annum. As reflected in table B below, the growth in unsecured lending is still rapid and confirms the belief that unsecured credit is fast becoming an alternative to securing large amounts over a shorter period as mortgage finance is becoming harder to access. The biggest demand for unsecured lending comes from low and moderate-income households. Historically, unsecured loans were considered as an expensive credit instrument often used as a last resort by consumers who were unable to access credit. We are now likely to witness a great number of consumers using unsecured borrowing for mortgages. This is attributable to the fact that the affordability of property

and accessibility of mortgage finance remains a challenge to the affordable housing market and credit providers are offering unsecured loans of up to R230 000. Thus, the importance of mechanisms to address lender's rising risk aversion levels plus perceived negative market sentiments cannot over be emphasised. These interventions are fundamental to moderate the probable bubbly demand for micro-loans.

In South Africa financial institutions mainly receive home loan applications from two sources: (a) direct customer application and from'

(b) Intermediaries/ Brokers.

The information and data provided by financial institutions to the Office of Disclosure shows that there is a high rate of rejections by financial institutions. As reflected in figure 2 below, a total of 1 345 966 home loan applications were received during the period under review. From that, approximately 636,097 were approved and 624,956 were declined, majority of which were cases where prospective borrowers were earning below R15000.00 per month.

The subdued approval rate is further corroborated by CAHF's 2018 research report which

indicates that South Africa's mortgage book has not grown in real terms since 2008. The report shows that mortgage advances declined from 14.5% of households in 2007 to 9.7% in 2016. The CAHF's report anecdotally suggests that the entry level units in major metropolitan areas appear to cost more than R400 000 yet the average monthly income in South Africa's metropolitan areas is R11 012 as shown in table 2 below. The average building cost of a new house is approximately R7000.00 per m². According to the data generated by Lightstone Property, the median value for a property in Gauteng is R620,000 which typically requires a salary of R20,600. The Eastern Cape lowest median value of a property is R380,000 requiring a salary of R12,600, while Western Cape is R680,000 requiring a household income of R22,600.

Evidently, the property price trends in relation to incomes and mortgage advances paint a depressing picture of South Africa's housing market despite having institutions created to serve the market, especially the gap market. It is against this background that this article advances an argument of supporting the establishment of a state-owned development bank. This is implementable by rationalising and consolidating the three Development Finance Institutions [DFIs] whose developmental impact and economies of scale have not delivered meaningfully as expected by the government as a shareholder. There are numerous reasons why mortgage loan applications are declined in South Africa. Figure 6 below indicates the major reasons as reported by the Office of Disclosure.

4. Pricing of the loan instrument

Affordability plays a significant role and is at the heart of a household's efforts to improve their housing situation. Undoubtedly the risk-based pricing model drives up the cost of capital and impacts adversely on aspirant homeowners in the affordable housing market.

The pricing of loans by lenders specifically for housing are largely determined by two factors:

- (i) the cost of funding; and,
- (ii) the risk of lending in the different market segments. Lenders exercise stringent criterion and risk aversion to grant mortgages to households earning less than R15 000 as statistically demonstrated below.

This is precisely because pricing for risk delivers handsome profit returns to the lender because of additional interest rate charges. The rationale from a credit provider perspective is primarily to cushion its loan exposure against a borrower

TABLE 1 Value of FSC Loans originated

YEAR	MORTGAGE	FULLY GUARANTEED	UNSECURED	RESIDENTIAL DEV.
2004	7,262,000,000	1,013,000,000	338,000,000	131,000,000
2005	6,045,000,000	1,083,000,000	552,000,000	573,000,000
2006	6,319,000,000	1,181,000,000	216,000,000	997,000,000
2007	5,775,000,000	795,000,000	1,221,000,000	1,254,000,000
2008	2,946,000,000	764,000,000	1,341,000,000	1,354,000,000
2009	4,329,000,000	1,348,000,000	1,737,000,000	806,000,000
2010	6,042,000,000	1,351,000,000	2,930,000,000	710,000,000
2011	7,325,000,000	1,927,000,000	2,851,000,000	1,185,000,000
2012	7,328,000,000	1,943,000,000	3,143,000,000	1,018,000,000
2013	7,758,000,000	1,509,000,000	2,381,000,000	1,347,000,000
2014	10,343,100,000	1,774,400,000	4,306,200,000	1,459,300,000
2015	10,074,000,000	1,250,000,000	5,338,000,000	1,339,000,000
2016	7,579,000,000	1,272,000,000	5,284,000,000	1,827,000,000
2017	6,465,000,000	1,010,000,000	3,997,000,000	129,000,000
2018*	4,181,000,000	602,000,000	2,061,000,000	670,000,000
Total value	99,771,100,000	18,822,400,000	37,696,200,000	14,799,300,000

*Up until Q3:18

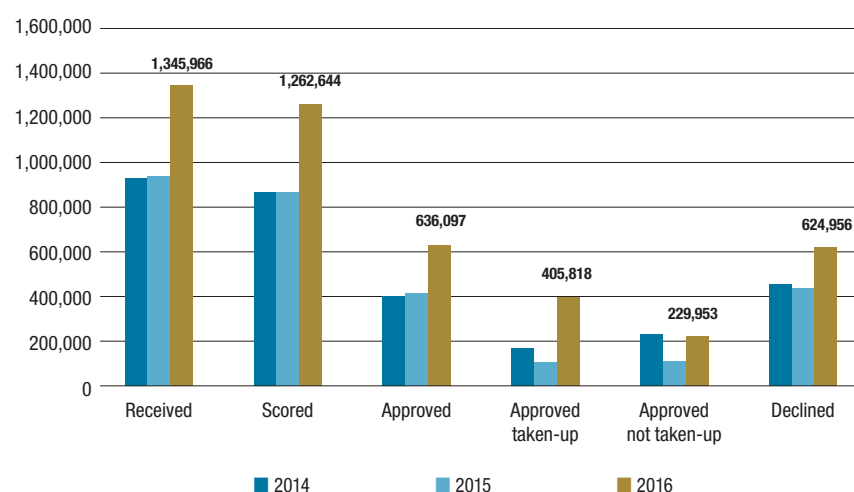
Source: BASA

TABLE 2 South Africa's metropolitan areas: average earnings

NAME OF METRO	AVERAGE MONTHLY INCOME	LOAN AMOUNT
Buffalo City	R8 714	R222 000
City of Cape Town	R13 164	R336 000
City of Johannesburg	R14 777	R377 000
City of Tshwane	R15 566	R97 000
Ekurhuleni	R10 694	R273 000
eThekweni	R9 759	R249 000
Mangaung	R8 368	R213 000
Nelson Mandela Bay	R9 582	R244 000

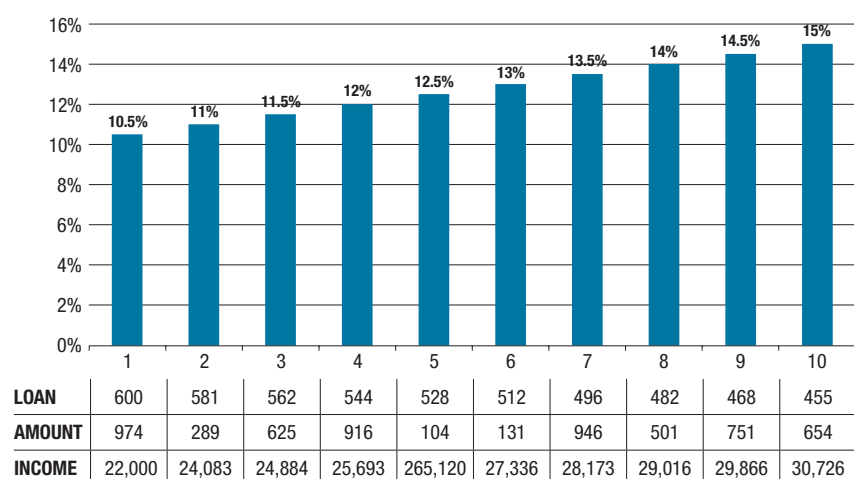
Source: BASA

FIGURE 2 All applications for home loans received in 2014, 2015 and 2016



Source: ABSA

FIGURE 3 Interest Rates Impact on Income and Mortgage Loan Size



Source: ABSA

perceived susceptibility to a higher risk of default. For instance, figure 3 above illustrates how steady increases in interest rates have eroded consumers' purchasing power both in terms of residual income and loan size.

This is over and above factors such as building cost, land price increases and ratio of bond repayments to household income which have all contributed significantly to consumers' declining affordability ratio. The graph demonstrates an amortization formula assuming a borrower allocates 30% of his/her income to loan repayment to qualify for a loan approximately R600,000 priced at 11% requires a gross income of R24,083.

However, at 15% prime, the same loan value of R600 000 at 11% is now valued at R455,000

and requires a gross income of R30,726. This translates to a whopping R6,643 difference just on pricing of prime +4% with a significantly reduced loan size. This also means due to interest on credit, the cost of the credit multiple is approximately at 3.5 times of the loan amount.

5. House price growth performance index

The mortgage finance affordability challenge is also attributable to key essential drivers, namely; the house price index, disposable income and mortgage interest rates. This is mapped out by Lightstone Property data sets measuring National and Provincial House Price inflation in 2017. Figure 5 below represents house price growth measuring the period from

2000 to 2015 comparing small home prices to larger houses.

The statistics by Lightstone Property show that the affordable housing market prices perform far better than the average and affluent markets. The report demonstrates that property prices valued below R700 000 and measured above 40m² grow by more than 6.0% per annum. The house price index shows that properties which were priced at R199,000 in 2000 were in 2015 valued at R867,000, illustrating the rate at which the asset appreciates creates accessibility constraints for the low and moderate income households especially the first time buyers.

A mortgage loan is a long-term serviceable debt commitment which requires aspirant homeowners to have a positive credit score to secure finance. The borrower's credit worthiness is determined through a borrower's credit report kept and maintained by major credit bureaus and which enables lenders to assess the applicant's capability to service a loan and risk of default propensity. This is certainly not assisted by the credit provider's lack of appetite to grant credit and concentration on risk aversion when financing low and moderate-income households.

6. Rationale to merge the housing development finance

In South Africa as it is the case in developed countries viz. US, Canada, UK etc. a generally accepted parameter for affordable housing is that the cost of housing should not exceed 30% of the gross income of the household. On the supply side, non-availability of land, lack of finance at reasonable price, poor infrastructure and inadequate legal and regulatory framework are the principal barriers from the supply side. The current financing mechanism prevailing in the country mostly targets middle and high-income households. Commercial banks and traditional means of housing finance typically do not serve the low-income housing market.

The twin problems of affordability and accessibility that hamper the progress of housing in our country need to be addressed on a sustainable basis and the state needs to take on the role of facilitator to create the enabling environment to encourage greater private sector participation. As a consequence, the government felt it was quite opportune to establish the Human Settlements Development Bank [HSDB] by consolidating the three Development Finance Institutions [DFIs], see table A below. The three human settlements DFIs under amalgamation

are the National Housing Finance Corporation [NHFC]; the National Urban Reconstruction and Housing Agency [NURCHA] and the Rural Housing Loan Fund [RHLF].

The rationale to consolidate was established from the findings of the 2014 research report on operational due diligence of the three DFIs which found that these institutions performances were characterised by the following:

- (i) Low developmental impact;
- (ii) Incapacity to attract effective private sector participation;
- (iii) Lack of innovation and product diversification;
- (iv) Duplication of services;
- (v) Decentralisation and feeble coordination;
- (vi) Mandate encroachment; and
- (vii) Low risk appetite.

This was subsequent to the 2008 sector-wide review report by the National Treasury which recommended the amalgamation of the housing sector DFIs into a single institution.

In 2010 following National Treasury recommendations, the National Department of Human Settlements initiated its specific institutional investigation on:

- (a) mandate,
- (b) operating model
- (c) functions
- (d) developmental impact and;
- (e) governance of its DFIs to enhance, complement and validate the findings of National Treasury.

In 2015 while delivering her Budget Vote, the Minister of Human Settlements stated that a need had been identified for a Human Settlements Development Finance Institution [HSDFI] that is responsive, effective and efficient. Part of the mandate of the new institution would therefore be to leverage resources and increase the availability of both development and end user finance for households.

The Bank endeavours to operate as a financier, underwriter, guarantor and service provider of implementing agencies to facilitate delivery of

sustainable human settlements. With South Africa experiencing fiscal challenges, the new Bank will develop primary and secondary mortgage markets, raise long-term funds from both domestic capital markets and foreign markets to provide accessible and affordable human settlements developments.

The envisaged Human Settlements Development Bank [HSDB] aims to address:

- End-user finance for a range of housing circumstances;
- Bridging and developer finance;
- Mobilising private sector partnerships;
- Enhancing the leverage of human settlement grants and subsidies;
- Supporting transformation in the human settlements sector.

7. What will the new development bank do differently?

As a wholesale lender, the new human settlements development bank's operating model will be innovatively crafted and underpinned by venturing into markets that no other financier in South Africa has attempted to enter.

7.1. Extend financial linked services and products to informal markets

The bank has to expand financial linked services and products to informally employed households by developing credit linked instruments with flexible repayment schedules and flexible interest rates. The growth in informal markets compels government to intervene imaginatively as unadventurous financial institutions continue with their conventional approaches to doing business. Lenders require prospective borrowers to be formally employed with regular income while the current market trends point to a growing informal market and an increase in households with infrequent incomes.

The private sector views the informal sector to be that of a challenging opportunity due to perceived additional credit risks and has no appetite to develop strategies to mitigate such risks. The commercial global dynamics and business operations have reformed in line with prevailing market shifts. For instance, Medina, et.al (2017) observed that in Sub-Saharan Africa the average share of informal markets reached virtually 38% of GDP in 2014. This is surpassed only by Latin America at 40%, South Asia has 34% of GDP while Europe and the

FIGURE 4 House Price Growth Measuring Period From 2000-2015

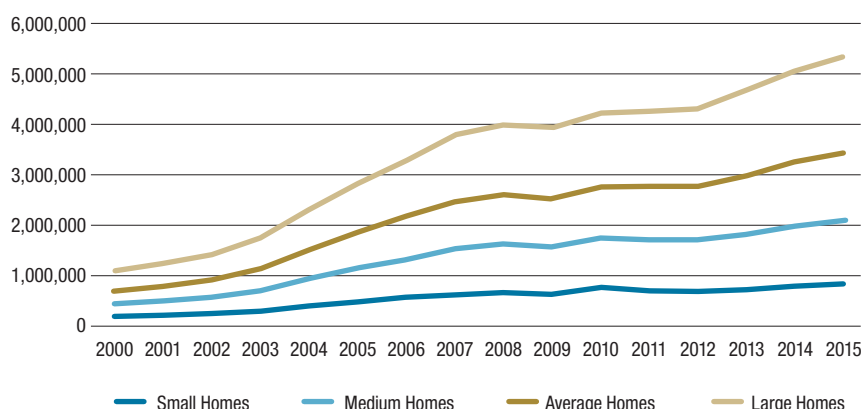


TABLE 3 The Three DFIs to be Merged Into a Bank: An Overview

NAME	MANDATE	TARGET MARKET
National Housing Finance Corporation	Wholesale funding to RFI ⁵ s to deliver affordable housing to low and middle-income households	Low and moderate-income households- R3500 to R15 000 per month
National Urban Reconstruction and Housing Agency	Bridging finance to small, medium and established contractors to deliver low cost housing	Low and middle-income households- R0.00-R15000 per month
Rural Housing Loan Fund	Incremental loans-microfinance to low income rural households	Low and middle income households- R750 – R15000 per month

Source: NHFC, NURCHA & RHLF

⁵ Retail Finance Institutions or Intermediaries funded by the NHFC through its wholesale financing model.

OEDC account for 23% and 17% respectively of GDP of informal sector. The narrative validates the notion that the informal sector is as thriving as the formal market due to its rapid growth trends and the conventional financial system has to respond to these market dynamics.

7.2. Introduce tax incentives to induce developer and contractor participation

The government has to create an enabling and an operationally conducting environment aimed at attracting developers to deliver appropriately priced housing stock. In particular to cater for certain type of developments, vis-à-vis mixed-income, mixed-use, cooperatives and infrastructure development. The new development bank should leverage the subsidy instruments to address beneficiary affordability constraints by increasing the value of subsidies it would distribute on behalf of government thereby facilitating the introduction of tax incentives. The intent is to induce developer and contractor participation as some had visibly withdrawn due to low yields and diminishing profit margins in the sector. State intervention should be to provide tax credits and concessions in relation to land prices on land parcels owned by government to those developers participating actively in the affordable housing market. Their purpose is to encourage those businesses to engage in behaviour that is socially responsible and benefits the community. This is anchored on creating viable Public-Private Partnerships [PPP] between government and private sector.

7.3. Facilitate the implementation of a savings-linked scheme initiative

The bank considers facilitating the implementation of a savings-linked scheme product through established strategic partners. The objective is to encourage households to save towards their housing developmental needs. This is also to inculcate a savings culture and design loan instruments that are linked to the borrower's ability to repay. For prospective homeowners and aspirant borrowers, the bank can facilitate this by mobilising savings and deposits from the prospective clients through voluntary contributions over a determined period of time which would enable access to the banks' products and services. There is a felt need for the institutions involved in the financing of the housing sector to consider developing segment specific credit products to enable more people to afford a house through this savings-induced product. The willing consumers may be induced to generate a savings balance by way of monthly or periodic deposits to enable creation of a proven repayment profile for a future home loan related product. Once the

customer reaches a certain threshold balance, the bank can consider approving a housing loan as the balance could act as collateral security. The amount deposited every month would act as the base to assess the repayment capacity of the prospective borrower.

7.4. Become a gap filler and market maker

The HSDB has to confine itself to the provision of wholesale finance at attractive interest rates in order to act as 'market architect' and thus deepen market penetration by private sector lenders. This could include affordable fixed interest rates within capital markets and the ability to create long-term fixed rate loans is beneficial for borrowers as their repayment commitments are fixed over time. In South Africa the private sector on its own cannot manage such liquidity and interest rate risks due to their risk disinclined market conduct.

7.5. Drive the real estate market transformation

The South African real estate sector is characterised by lack of transformation and disproportion both in terms of market participants and ownership structure patterns. It is without doubt that the market requires fundamental shifts. The Bank is thus entrusted to advance reforms in the property market as it is mandated to drive the real estate market transformation. The 2016 Property Sector Charter Council [PSCC] research report indicated that the registered South African residential property market comprised of 6.1 million properties worth R3.9 trillion. The property market had a contribution of R68 billion to GDP and contributes R23 billion to taxes and formally employs approximately 148 000 people. On the composition of the market, the Estate Agency Affairs Board [EAAB] had as at end of December 2017 registered about 14 000 Estate Agencies with 41 910 Estate Agents. The real estate market has approximately 81% of white estate agents and only 19% of black estate agents. Black is defined as per Broad Based Black Economic Empowerment [BBBEE] codes made up of African, Coloured and Indian nationalities.

7.6. Promote strong corporate governance and accounting standard

The bank intends to uphold strong corporate governance and accounting standard principles which will enhance its ability to raise funds from the capital markets. Following Moody's decision not to update ratings for South Africa in March 2019, South Africa's credit rating remains the same at investment grade (Baa3). In March 2018, Moody's left SA's key credit ratings at investment grade (Baa3) and upgraded

the sovereign's outlook from negative to stable. Obtaining a good sovereign credit rating is usually essential for developing countries in order to access funding in international bond markets. The benefits of positive sovereign credit rating are that the institution is able to borrow money from financial markets priced affordably and it subsequently finances its consumers and intermediaries at reasonable rates. The timing to establish the HSDB could never have been as opportune as the timing for the BRICS New Development Bank based in Johannesburg which was set-up in 2016 with initial authorized capital of US\$ 100 billion. The bank has already lent R32 billion to SA organisations in 2019. The BRICS mandate is to support infrastructure projects and sustainable development initiatives.

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Ethnic diversity and real estate market dynamics: the case of Riga, Latvia

↪ By Guntis Solks, Adam Nemeth, Janis Balodis and Matiss Jakunovs

1. Introduction

Riga is an important political, economic, and cultural center of the Baltic region with a multicultural and diverse society. Riga has a dominant role in Latvia's real estate sector, because 60% of real estate transactions happen in Riga. The aim of this research is to explore the link between ethnic diversity and the dynamics of the real estate sector in different neighbourhoods in Riga.

2. Data and research methods

The authors have used a set of different research methods to achieve the aim of the research, including studies of literature, case studies, mathematical approaches and analytical methods.

The studies of literature included a review of various scientific researches about ethnic diversity, ethnic segregation and their direct or indirect impact on the real estate market, materials about the urban development of Riga, reports about the situation in the real estate market in Riga and reports on the economic situation in Latvia. Data for this research were acquired from different sources – statistical data about population and economic dynamics, as well as exact data about the ethnic composition of neighbourhoods in Riga (latest census results from 2011) from the databases of the Central Statistical Bureau of Latvia.

Case studies are related to exploring development trends and construction activities in different neighbourhoods in Riga, based on research of the geography of the real estate market and its price dynamics.

However, in the social sciences, there is no generally accepted method of defining the population's diversity; most researchers dealing with ethnic issues simply describe the number and ratio of ethnic groups. Diversity indices propose a radically different solution by adapting more complex mathematical methods

whereby the notion can be explained more easily than previously.

A diversity index is always the output of a one-way mathematical operation which entails loss of information. Derived from groups of known number and size, it produces a single number with no unit of measurement, which makes it impossible to re-establish the original proportions, however, that is exactly the aim of a researcher. These indices are basically good for compressing information on the number and population shares of ethnic groups in a given setting into single numbers in order to use them later as independent variables. The dependent variable itself depends on the research context.

The basic types of diversity indices can be grouped by the form of diversity they measure (fragmentation or polarization), and whether they apply a weight or not (Desmet et al. 2009). Through probability theory the classic Fragmentation Index shows the likelihood of the situation when two, arbitrarily meeting inhabitants belong to different ethnic groups. 0.00 means a completely homogeneous population (no ethnic diversity) when everyone belongs to the same ethnic group, and 1.00 refers to a completely fragmented population when each member of the community belongs to a different ethnic group. This method has been already used in the context of the Baltic countries as well (e.g. Németh 2013, 2014; Németh & Mezs 2019, Németh & Dövényi 2019). The most frequent abbreviations found in international literature are ELF, FRAC and HHI.

$$FI = 1 - \sum_{i=1}^n s_i^2$$

where s_i : the ratio of groups is related to the total population count (1.00); n : the number of groups.

3. Ethnic diversity, segregation and real estate

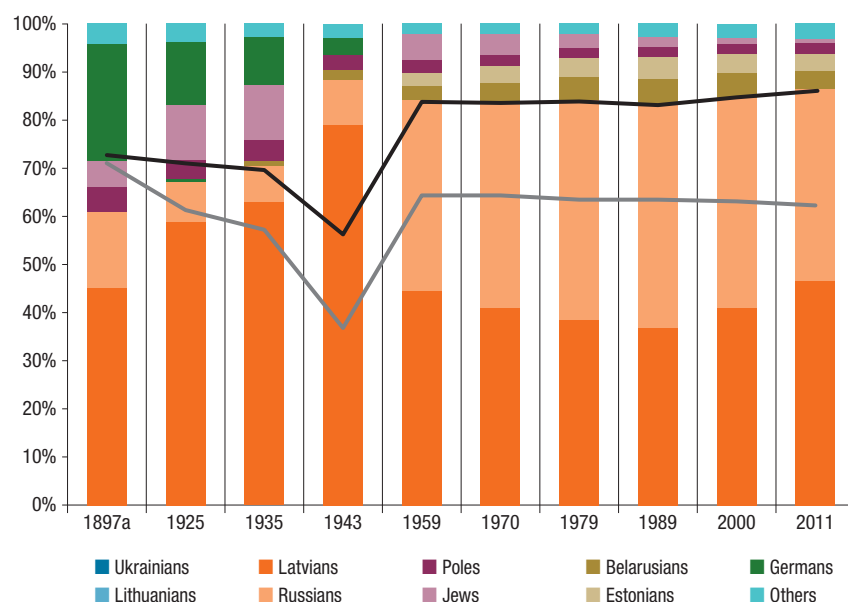
Ethnic diversity and segregation in cities as phenomena have been widely researched and

documented, while comparative studies of their influence on real estate markets is less explored. Teixeira (2009) explored the role of particular ethnicity in the real estate market in a multicultural city, while there are some researches, what point out the role of ethnic diversity on gentrification of particular areas in the city (Boterman & van Gent 2014; Hackworth & Rekers 2005) describing urban transformation processes both from social and spatial aspects. Arbaci (2007) has explored different principles of social stratification, as well as the scale and nature of patterns of ethnic and socio-spatial segregation in a European context. Ethnic segregation and its impact on real estate in a European context is also examined by Phillips (2010), focusing on the way in which minority ethnic housing segregation and integration are represented in political discourse across the European Union and how they impact housing policy, inclusion and social rights; as well as Musterd and van Kempen (2009), who describe levels and dynamics of ethnic segregation.

The case of ethnic segregation in the post-communist countries has been researched in cities of the Czech Republic by Temelova, Novak, Ourednicek and Puldova (2011), focusing on socio-spatial differentiation in Czech cities and neighbourhoods during the post-socialist transition, describing new ethnic diversification as new immigrants arrive.

The case of Riga regarding cultural diversity, ethnic segregation patterns and their implication for the real estate industry differs from other cases that have been explored due to different historical and economic factors, that have contributed to a different pattern of development in Riga. However, there can be seen to be some similarities with the case of the Czech Republic, where large-scale housing estates were constructed during communist rule and immigration has since been contributing to the change of the ethnic structures of the neighborhoods (Temelova, Novak, Ourednicek & Puldova 2011).

The population of Riga in 2019 is 632,614, down from its record high 909,135 in 1990.

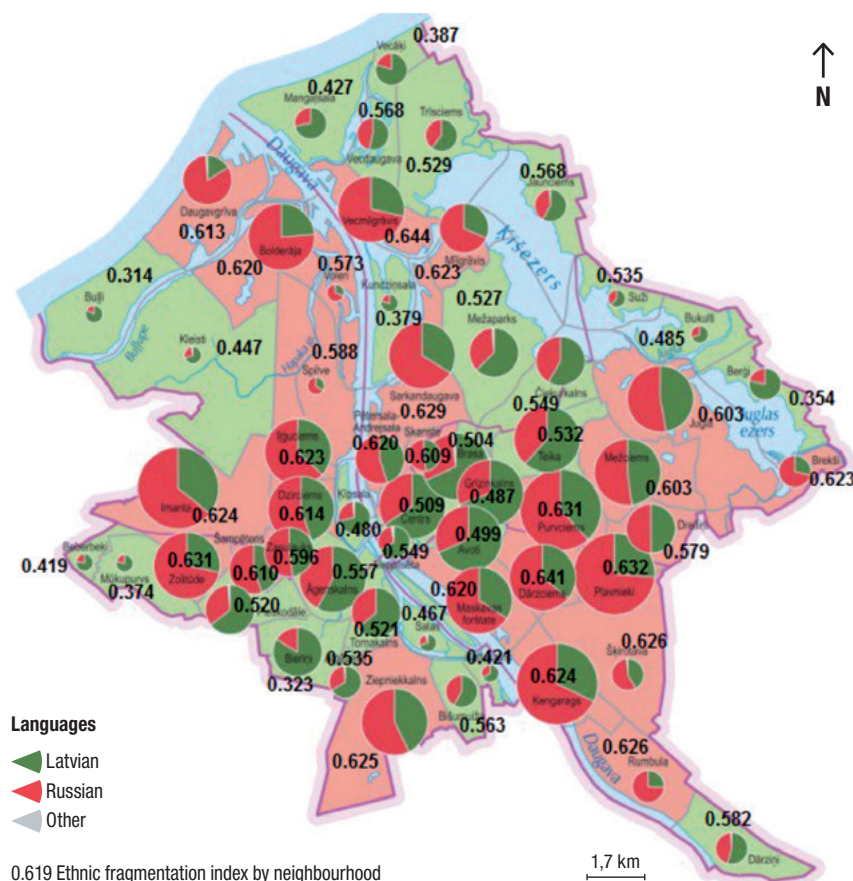
FIGURE 1 Changes of ethnic structure of Riga (1897-2011)


Source: Németh 2014

Figure 1 shows the ethnic diversity of Riga from 1897 to 2011 based on census data. Prior to 1897 Germans formed the majority of the population, while other ethnicities had a significant share as well. In 2019 Latvians make up a slight majority with 44.42 %, while Russians make up 37.03% of the population in Riga, followed by Ukrainians (3.65%), Belarusians (3.62%) and Polish (1.80%).

Significant changes in the ethnic structure of Riga happened during World War II, as the number and proportion of Germans and Jews decreased dramatically, and during the Soviet occupation period (1944-1990), as the number and proportion of Russians, Ukrainians and Belarusians increased significantly (Németh & Šolks 2012).

There are no ethnically segregated neighbourhoods in Riga, as all neighbourhoods in Riga are rather multiethnic, and only in 2 neighbourhoods does one ethnicity (Latvians) exceed 80% of the total population – Bulli and Bierini (Central Statistical Bureau of Latvia 2019).

FIGURE 2 Proportion of languages spoken and ethnic fragmentation index by neighbourhood in Riga in 2011


Source: Jāņa sēta 2013; Central Statistical Bureau of Latvia 2019

Riga is divided into 58 neighbourhoods according to their historical borders, built-up structure and functional roles. While they do not constitute administrative entities, this division is used for practical purposes – organizing particular municipal services, promoting civic society at local level and for statistical purposes. The latest census data provide detailed information about the ethnic and linguistic structure of neighbourhoods which is suitable material for further research.

Riga is a multicultural city with its ethnic fragmentation index being 0.619, which means that ethnic diversity is comparatively high in Riga, although the map (Figure 2) shows that there are 2 dominant languages in the city with some differences in among neighbourhoods. It is obvious, that more populous neighbourhoods have a higher ethnic fragmentation index, that is closer to the index for the whole of Riga, while lower ethnic diversity is registered in areas with less residents. Also, there are some specific cases, when the majority of the population (over 75%) belong to 1 linguistic group. Ethnic diversity indexes differ – if the Latvian language is dominant, the index ranges from 0.300 to 0.450, while if the Russian language is dominant, the index is around 0.600. This is due to lower population numbers in mainly Latvian speaking neighbourhoods, which impacts the index, and most ethnic minorities in Riga use the Russian language as their primary language, while they are registered as belonging to their ethnic group in the census.

4. Economic recovery and growth

The chart (Figure 3) clearly shows the peak of the average price for standard-type apartments in Riga as a result of the credit boom with a following sharp decline in 2009. In July 2019 the average price for standard-type apartments reached 818 EUR/m², which is a bit over half compared to the record high in July 2007 (1620 EUR/m²). Further price dynamics after the economic recovery show a moderate growth rate in July 2019 (Arco Real Estate 2019), that is higher than GDP growth rate over the same period (previous quarter), when price increases of 1.4% for the new homes market and 0.7% for the secondhand market were recorded, compared to national GDP growth of 0.7% (Central Statistical Bureau of Latvia 2019).

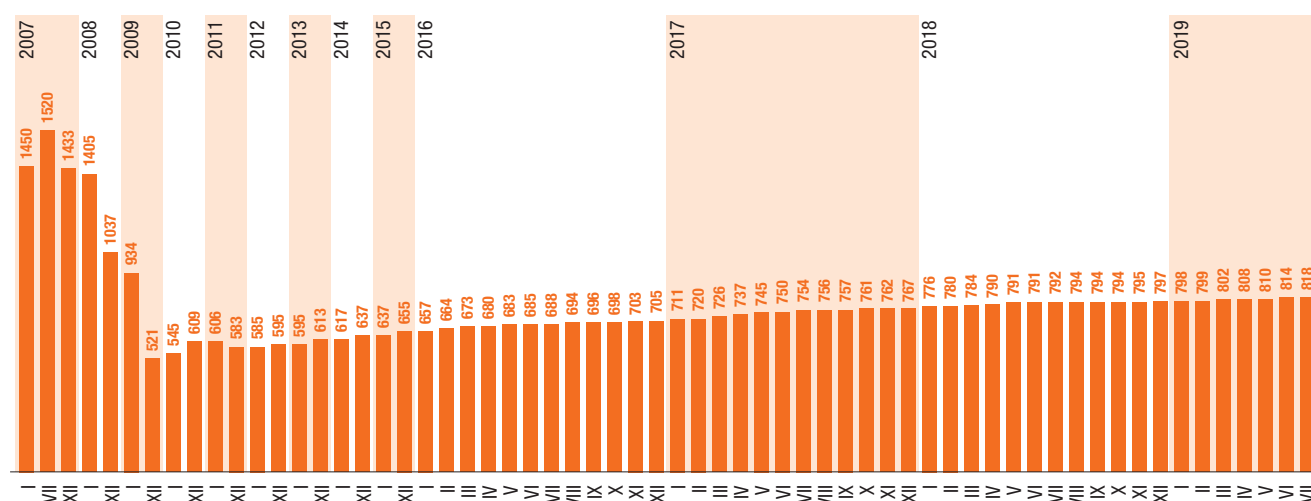
Dynamics in house prices (Figure 4) in the primary market (new construction) and the secondary market (existing housing stock) have common trends in general, while the new homes market shows greater extremes, thus it is more dynamic compared to the secondhand market. Secondary market price dynamics are more stable because of sufficient demand and supply, as most of Riga's housing stock consists of dwellings built before World War II (prior to 1940) and during the Soviet occupation period (1944-1990). The primary market, on the contrary, is very dynamic, because of different levels of supply and demand – rapid increases recorded in 2009 and 2011 are related to a special programme that allowed citizens from countries other than the EU and EEA to receive residence permits if they bought real estate in Latvia, and this programme contributed to the recovery of

construction and the real estate market in Latvia after the economic contraction in 2009, as it provided higher demand for apartments in the new homes market.

It is obvious, that current price movements of apartments show very moderate growth, and in some quarters a decrease is recorded, so at this point the situation in the housing market can be evaluated as stable, compared to significantly higher growth rates during the period of rapid economic growth before 2008, which was also driven by a credit boom. Now the banking sector is cautious in giving loans for real estate purchases, and this has served as a factor that limits the increase in prices.

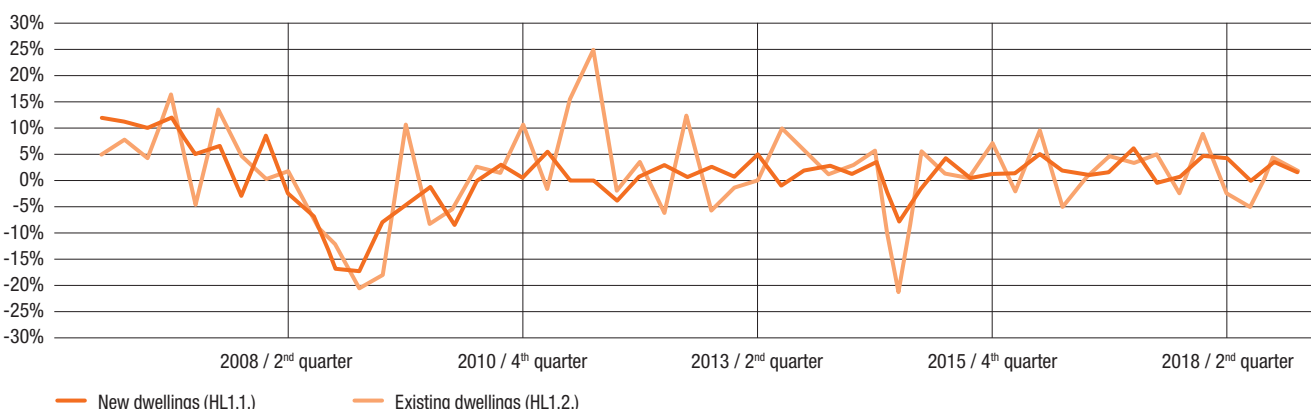
The diagram (Figure 5) shows the dynamics of the Latvian GDP per capita growth since 1995, where the figure in 2008 is recorded

FIGURE 3 Dynamics of the average price of standard-type apartments in Riga, 2007-2019

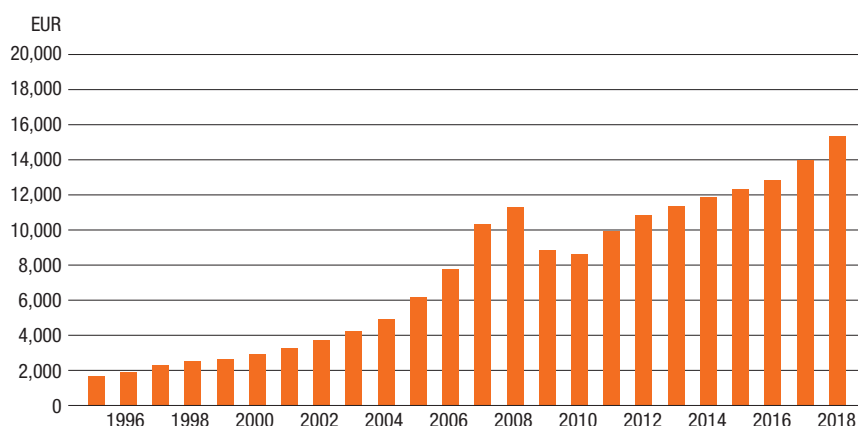


Source: Arco Real Estate 2019

FIGURE 4 Changes of the average price of apartments (2006 - 2019) over the previous period (%)



Source: Central Statistical Bureau of Latvia 2019

FIGURE 5 GDP per capita (EUR) of Latvia, 1995-2018


Source: Central Statistical Bureau of Latvia 2019

as the highest GDP per capita so far with a sharp decline in the next years due to the Global financial Crisis and following decline in the real estate and construction sector, that contributed a lot to the growth in GDP when the economy was booming. This case is particularly interesting. Latvia experienced the fastest growth in its national economy and the worst economic contraction of the European Union [EU] member states. GDP growth started in the middle of 2010, which is considered as the starting point for recovery after the economic crisis. The Ministry of Economy of Latvia declared that the country had overcome the economic recession as statistics showed a slow recovery with GDP growth of 0.3% in early 2010 in comparison with early 2009, and growth of 13.4% in the second quarter of 2010 compared to the first quarter of 2010 (Solks 2010). The pre-crisis GDP figure was exceeded in 2014 (Central Statistical Bureau of Latvia 2019), and this is considered to be the year when the economy of Latvia has fully recovered from the economic crisis and its implications.

Owing to economic growth, when compared to the previous lowest point recorded in 2010, by 2017 there had been a significant increase in GDP per capita – by 44.8% (at constant prices). In 2018, GDP at current prices increased to EUR 29.5 billion, while at constant prices of 2010 – it increased to EUR 23.9 billion. The growth rate of the economy amounted to 4.8% in comparison to the previous year, while the GDP growth rate in the first quarter in 2019 is recorded at 2.8% compared to the same period a year ago, and current estimates show that economic growth in Latvia is slowing, although in June 2019, the Ministry of Finance chose to retain their growth forecast for 2019 of 3.5% (Central Statistical Bureau of Latvia 2019), while future development trends for upcoming years

are quite uncertain, as several signs of Global economic slowdown are occurring and experts warn about the possibility of possible economic recession (Global Property Guide 2019).

5. Real estate market in Riga and ethnic diversity

The real estate market and its dynamics in Riga have some specific features depending on ethnic diversity or ethnic segregation. In order to explore these differences, data from 14 neighbourhoods in Riga were analysed in detail to determine whether ethnic diversity could be attributed to trends in the real estate market in Riga.

The real estate market in Latvia is divided into several categories according to the purpose of usage, specifications and characteristic features. There are significant differences between them, and this division allows us to have a clear view of the market situation for each category separately. First, the properties are divided into residential properties, industrial properties, office properties, agricultural land and forest properties. For this research, only the residential property market in Riga was explored in detail, as other types of real estate properties are not considered as housing.

Residential properties in Latvia, in turn, are subdivided according to their type and age – there is private housing (detached single family houses) and apartments (flats in multi-storey buildings). Both of these categories are further classified by their age – the second-hand market, that includes properties built before 2000, and the new housing market, built after 2000, according to the register of

cadaster (Vidējās darījumu cenas dzīvokļiem 2019) by State Land Service of Latvia (Valsts zemes dienests 2019). The year 2000 is being perceived as the year when rapid economic growth occurred and Latvia, and particularly Riga and its suburban areas, experienced a construction boom, that resulted in a huge number of new properties built.

TABLE 1 Average value, price change and ethnic fragmentation index for neighbourhoods in Riga

NEIGHBOURHOOD	AVERAGE VALUE PER M ² , AUG. 1, 2019 (EUR)	PRICE CHANGE SINCE JAN. 1, 2019 (%)	ETHNIC FRAGMENTATION INDEX
Teika	966	1.2	0,532
Agenskalns	905	4.4	0,557
Zolitūde	893	4.1	0,631
Purvciems	882	3.3	0,631
Plāvieki	865	3	0,632
Ziepniekkalns	858	3.1	0,625
Imanta	857	1.5	0,624
Mežciems	852	2.6	0,603
Jugla	813	2.3	0,603
Iļģuciems	792	2.4	0,623
Kengarags	767	1.6	0,624
Vecmīlgravis	652	1.6	0,644
Bolderāja	583	2	0,613

Source: Arco Real Estate 2019b; Central Statistical Bureau of Latvia 2019

First, the data from 13 neighbourhoods (Table 1) were explored to research the secondary housing market, because this is the most important real estate market sector in Riga as most transactions occur amongst this kind of properties. As it can be seen from the table, most of the neighbourhoods have experienced increases in prices, and most of them have a comparatively high ethnic fragmentation index (over 0.600), which corresponds to the index for Riga as a whole. This means, that ethnically diverse areas in Riga have the most active real estate sector with a significant proportion of transactions. The supply of apartments in these neighbourhoods has been stable since 2017 as there are 1500 apartments for sale (Arco Real Estate 2019b). Prices show moderate growth, and the lowest growth rate is registered in the neighbourhood with the highest average apartment prices, which suggests growing interest in other neighbourhoods.

Teika and Agenskalns have the highest average prices and lowest ethnic fragmentation index,

which is determined by the higher proportion of Latvians in the population, while ethnic diversity is still high, although lower than in Riga and other neighbourhoods.

The new homes market is more more active in the city center (the ethnic fragmentation index varies around 0.550, as some neighbouring areas are also considered to be city center by the real estate sector) because renovated historical buildings are sometimes classified as part of the new homes market due to their average price (1550 EUR/m², 2019) which is equated to the average price of newly built apartments. The supply of properties in the City center of Riga has been diversified as a result of urban regeneration processes (Šolks 2011), thus providing apartments that are adjusted to the demands of customers. On average, 40% of the transactions in the primary real estate sector were in respect of apartments in the city center, while the other 60% were in other parts of Riga. There was an increase of number of transactions in this sector of 31% in the first half of 2019 compared to the first half of 2018, as the number of transactions outside the city center has increased notably, as demand for economy class apartments in primary markets is increasing (Arco Real Estate 2019a).

The single-family detached housing market in Riga is not very active, as most of such activities are happening in the suburban areas of Riga and building activities in Riga occur as private initiatives to build housing for personal use. When compared to the suburban areas of Riga, only 30% of transactions are achieved in Riga. However, most of the transactions have been achieved in the neighbourhoods with a lower ethnic fragmentation index compared to the apartment market, which still exhibits comparatively high ethnic diversity – Darzini (0.582), Imanta (0.624), Agenskalns (0.557) and Bierini (0.323) (Arco Real Estate, 2018)

The real estate market sector in Riga also involves upscale neighbourhoods like Kipsala and Mezaparks with a lower ethnic fragmentation index (0.480 and 0.527 respectively) compared to the index for Riga, while it still represents comparatively high ethnic diversity. According to the offers, the average price for a single-family housing in Riga is 1400 EUR/m², and it has experienced moderate growth in 2019, while these data can change significantly as few transactions can have a huge impact on the overall statistic, as the single family housing market is not very active in Riga and the number of transactions is low.

Most of the neighbourhoods where single family detached houses dominate the housing stock,

have a lower ethnic fragmentation index ranging from 0.314 to 0.568, and the real estate market is less active as supply is low, while demand at the same time is comparatively high.

6. Conclusions

The economy of Latvia has recovered from major contraction after the economic crisis of 2008, as GDP per capita had exceeded the pre-crisis level already by 2014 and continued to grow by 4% per year. The construction sector and real estate sector have also recovered from the crisis, although average prices for apartments in 2019 are half of the record high of 2007, but still show moderate growth in 2019. Activity in the real estate market in Riga has increased, but the price rise is moderate as the banking sector is cautious in granting loans for real estate purchase, and there have also been signs and warnings that the rise in average prices could slow. According to the study and its results, it can be concluded, that real estate market in Riga is more active in ethnically more diverse neighbourhoods, as they are more populous and their housing stock is more suitable for current real estate market trends as it better suits the demand, as economy-class apartments are becoming more popular among potential buyers.

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The Italian residential mortgage market

By Angelo Peppetti and Francesco Masala

1. The Italian residential mortgage market: main features and key numbers

The Italian residential mortgage market is well-developed, still it shows room for further growth as well as a favorable risk profile.

This market amounts to around 380 billion euros (year-end 2018) in terms of the outstanding stock of loans and around 52.4 billion of euro in terms of new loans granted during 2018¹.

However, the size is quite modest if compared to other European markets. Indeed, at year-end 2018 the ratio between the outstanding residential mortgage loans and GDP stood at 21.9% in Italy, while the European average was 45.7% (see figure 1).

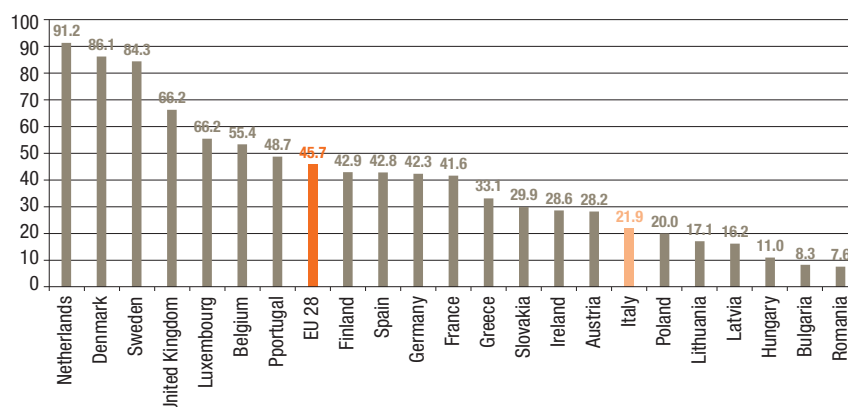
There are several reasons why the volume of residential mortgage lending relative to GDP in Italy is lower than the European average. The main reason lies in the relatively low demand for credit from Italian households, which, particularly in the past, was limited by a very high propensity to save, by the relevance of the mechanism of intergenerational transfers of money and home ownership, and by a cultural diffidence towards personal debt. In addition, the weakness of the economic cycle affected all the cited variables.

Not surprisingly, Italian households' indebtedness ratio is significantly below the European average (61% and 95% respectively in 2018; see figure 2).

Nevertheless, the gap has been narrowing in recent years. Indeed, after the slump experienced in the aftermath of the financial crisis, bank loans to households are now witnessing a recovery, supported by progress on both the supply and the demand side and reinforced by the decline in bank lending interest rates (see figure 3).

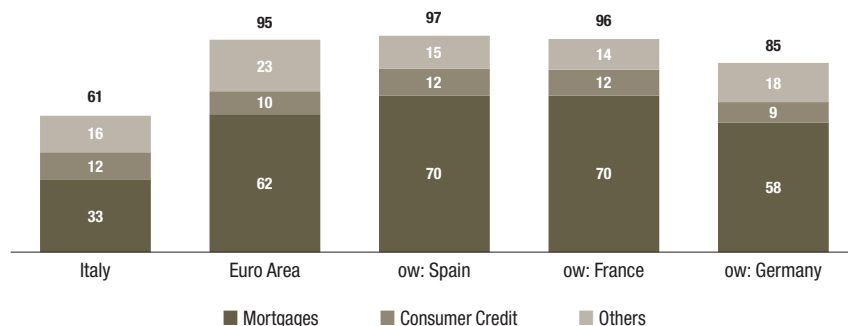
Several factors suggest that a resumption of the residential market development is more

FIGURE 1 The EU residential mortgage market: loan stock/GDP² 2017 (%)



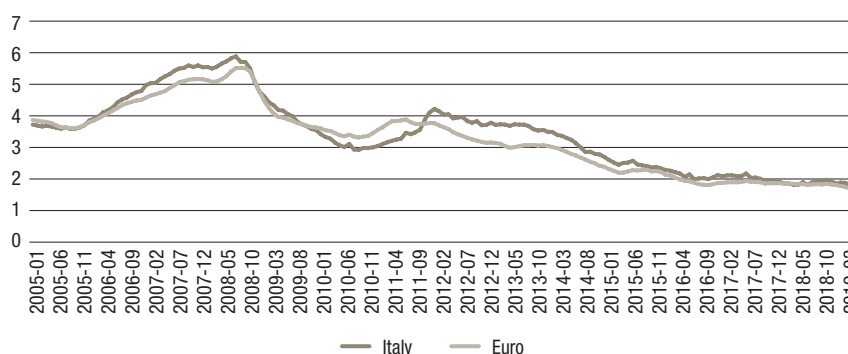
Source: EMF Hypostat 2018 (ABI data processing)

FIGURE 2 Households debt/disposable income 2018 (%)



Source: ECB, Eurostat and Istat data (ABI data processing)

FIGURE 3 Cost of borrowing for new loans to households for house purchase (%)



Source: ECB data (ABI data processing)

¹ Source: Bank of Italy

² Ratio of total outstanding loans to GDP

than a concrete possibility in Italy. Among the observable factors are the rise in sales of residential properties – also due to increased affordability – and the growing support from banks – also due to the relatively low risk profile of this market segment. Public incentives and fiscal measures might contribute as well.

2. Drivers for the growth of the Italian residential mortgage market

The number of sales of residential houses in Italy have been increasing since 2014 (see figure 4), stimulated by low prices (substantially stable in the last 4 years and now slightly decreasing) and by interest rates at historic lows. In the fourth quarter of 2018, the growth rate of residential property sales stood at +9.3%, compared to the same period of 2017, as recorded by the Real Estate Market Observatory of the Revenue Agency³.

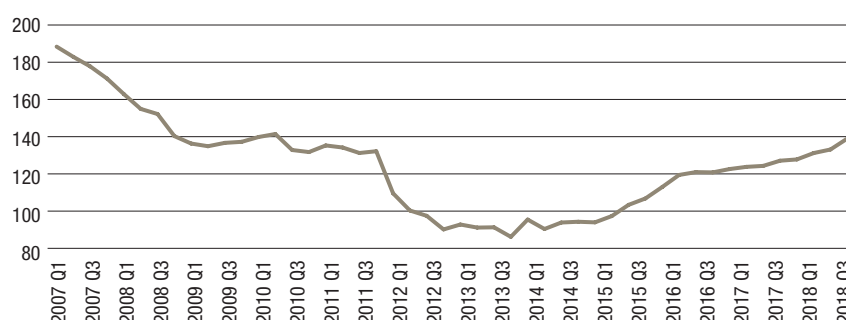
As to prices, according to preliminary estimates by ISTAT [the Italian official Statistical Institute], in the fourth quarter of 2018 the House Price Index (IPAB⁵) which measures the evolution of market prices of all residential properties purchased by households, for housing or investment purposes, decreased by 0.2% compared to the previous quarter and by 0.6% compared to the same period of 2017⁶. Therefore, the drop in house prices recorded in 2017 was confirmed in 2018, albeit in the presence of lively growth in transaction volumes. This trend is exclusively determined by the prices of existing buildings, while the prices of new buildings are growing again after a decrease in 2017.

At regional level, only in the North-East of Italy does the IPAB show an annual average growth. On the other hand, the areas where falls in prices are more marked are the Centre and the South and Islands.

As to interest rates, according to the most recent ABI data (as of March 2019) the average rate on new housing-related loans was very low and equal to 1.87%⁷.

The number of residential real estate sales funded with mortgage loans currently represents about 50% of the total. The average level of the Loan to Value [LTV] ratio is 71%.

FIGURE 4 Residential property: number of transactions⁴ in Italy (1Q 2017 - 4Q 2018; Quarterly Data, Indices: 2015 = 100)



Source: Bank of Italy and Real Estate Market Observatory of the Revenue Agency data (ABI data processing)

The average value of mortgage loans has reached 126.000⁸. As regards maturity, the analysis of the first nine months of 2018 confirmed the preference for mortgage loans with a maturity of 21 years or more (representing 55% of total mortgage loans issuance).

It is worth noting that, unlike in some other European countries, where rising house prices are posing greater risks to financial stability, the vulnerability of Italian banks stemming from the real estate market remains at historically low levels, both for households and for construction/real estate companies (see figure 5).

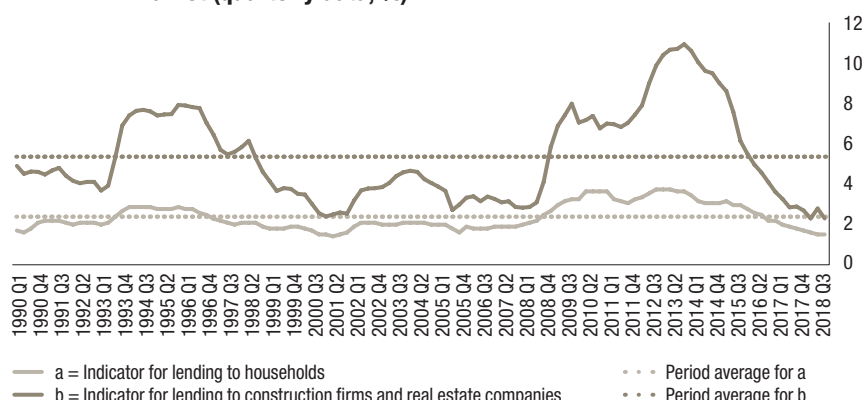
It is therefore not believed that there is a need for the introduction of macro-prudential measures aimed at dealing with vulnerabilities related to the real estate sector (such as change in risk

weightings applied to real estate exposures for the purpose of the capital requirements calculation or other macro-prudential tools sometimes activated in situations of excessive development of the real estate sector, such as the Countercyclical Capital Buffer and the Systemic Risk Buffer-). Therefore, the possibility for the banking industry to support the residential market development is not expected to be harmed.

Other relevant factors play an important role in explaining the Italian housing market landscape.

First, the presence of tax deduction related to the renovation of the house – extended in 2018 and 2019 – may have had a positive impact on purchasing decisions and, consequently, on demand for mortgage loans.

FIGURE 5 Indicators of banks' vulnerability⁹ stemming from the real estate market (quarterly data; %)



Source: Bank of Italy data (ABI processing).

³ See footnote 1.

⁴ Adjusted for seasonal and calendar effects

⁵ House Price Index (Italian IPAB) covers new dwellings and existing dwellings that are new to the household sector, independently if purchased for housing purposes (for owner-occupancy) or as an investment.

⁶ For further details, see <https://www.istat.it/it/files/2019/03/CS-abitazioni-provv-Q42018.pdf>

⁷ See https://www.abi.it/DOC_Info/Comunicati-stampa/Rapporto%20mensile%20aprile%202019.pdf

⁸ Rapporto Immobiliare 2019, ABI, Agenzia delle Entrate, page 31.

⁹ Banks' vulnerability is measured by the ratio of the flow of new non-performing loans in the last 4 quarters to the average of the banks' capital and reserves in the same period.

This tax measure consisted of the deduction from personal income tax of an amount based on costs incurred for the extraordinary maintenance and renovation of buildings. It was first introduced as a temporary tax relief, but it has been extended several times. More precisely, the tax deduction increased from an initial 36% of the (eligible) cost incurred (with a maximum limit of 48,000 euros) on 26 June 2012 when the measure was introduced, to 50% on 31 December 2019 (with a maximum limit of 96,000 euros).

Other important tax relief measures have been introduced over the years. These include, in particular, the possibility of paying VAT at a reduced rate, as well as an increase in the maximum limit for the deductibility of interest paid on mortgage loans and tax relief for the purchase of furniture.

Other non-fiscal policy measures are aimed at fostering the development of the Italian mortgage market. The main one is the “Mortgage Guarantee Fund” (so called “Fondo Prima casa”), which grants, upon application, a sovereign guarantee for the eligible loans issued by adhering banks.

More precisely, the amount of the Fund is equal to 650 million euros and it aims to supporting credit access by consumers who wish to buy their first home and/or renovate it for the purpose of improving energy efficiency (but this need not be measured). At the request of the consumer, if all the eligibility criteria are met and the bank decides to grant the mortgage loan, the public guarantee covers 50% of the total amount of financing.

The consumer applies for:

- (i) the mortgage loan – to a bank adhering to the initiative – and,
- (ii) the public guarantee, that is sent through the bank to Consap Ltd., the State Agency that manages the initiative. The applicant must declare that the immovable property securing the financing is his “first house” and it is not classified in the Real Estate public registry as a “luxury house”. Moreover, the amount of the requested mortgage loan must not exceed 250,000 euros.

It is always up to the banks to decide on the granting of the loan, based on the assessment of the creditworthiness of the borrower, and

on the possible benefit to be derived from the Fund’s guarantee.

By 30th April 2019 the Fund had registered more than 92,000 applications since the start of the initiative, against a total value of mortgage loans of 10.3 billion of euro. This measure to facilitate credit access is particularly effective for “young people” (aged under 35 years) who usually have to face mortgage instalments with a job that is remunerated with a low salary. More than 56% of the total of guarantees issued by the Fund have been addressed to “young people”.

3. The risk profile of the mortgage market and the affordability index of Italian households

According to Bank of Italy data, total net non-performing loans¹⁰ on February 2019 fell to 33.6 billion euro compared to the figure of December 2016 (86.8 billion euro). Therefore, in other words, they fell by 61% in almost 2 years. In addition, when compared to the highest level of net non-performing loans reached in November 2015 (88.8 billion), they decreased by more than 55 billion euro. More specifically, focusing on the mortgage market, the level of annual probability of default remains quite stable and equal to 1% (September 2018), far from the peak reached in March 2014 corresponding to a PD value of 1.9%.

The low level of the risk rate is due to the best practice adopted by the Italian banking industry. Banks grant loans after a thorough creditworthiness assessment of the borrowers, especially taking into account their monthly salary. In particular, banks usually refuse to grant residential mortgage loans if the monthly instalments/monthly income ratio is higher than 33%/40%. Other elements involved in the creditworthiness assessment of the borrowers carried out by the banks are the kind of job, the age compared to the maturity of mortgage loans, the credit history, other sources of income, other financial debts, marital status (married, divorced etc.).

Only after evaluating the creditworthiness of borrowers do banks consider the real estate value so that LTV is not higher than 80%. The evaluation of real estate is driven by an expert and independent evaluator on

the basis of specific guidelines developed by the Italian Banking Association [ABI] with the most important professional associations and institutional evaluation bodies. The guidelines are drawn up in accordance with the latest International Valuation Standards (EVS 2016, RICS, IVS)¹¹.

It should also be noted that in Italy there is a Public Fund – mandatory for the banking sector – which allows those who have difficulty in paying instalments for specific unforeseen events (death, serious injury or dismissal) and that are not in a situation of default, to suspend the payment of instalments for 18 months.

It works for mortgage loans of up to 250,000 euros, if the borrowers have an annual salary of up to 30,000 euros. This Fund – which pays interest rates during the period of suspension to lenders – is a unique social assistance instrument for borrowers in Europe.

In the last 9 years it has made it possible to suspend more than 41,000 mortgage loans amounting to almost 4 billion euros.

In order to assess the accessibility of mortgage loans to Italian households, the Italian Banking Association has defined a so-called “affordability index”.

The index is calculated using, in analogy with what was done by the U.S. National Association of Realtors [NAR], the financial cost associated with the amortization of a mortgage of maturity [T] and Loan to Value [LTV] necessary to cover the cost of buying a house.

The affordability index calculation is based on 3 variables – housing prices, disposable income and interest rates – and identifies, conceptually, two fundamental components:

- (i) REAL component, ratio of housing price to disposable income;
- (ii) FINANCIAL component, which reflects the trend of interest rate.

In brief, the basic assumption is that the property is affordable if the sum of the above cost plus the capital amortization rate, and therefore the instalment of the mortgage necessary to finance the purchase of the house, does not exceed a certain share of disposable income, conventionally identified as 30% of disposable income¹².

¹⁰ Net of the write-downs and provisions already made by the banks against own resources.

¹¹ See <https://www.abi.it/Pagine/Mercati/Crediti/Valutazioni-immobiliari/Linnea-guida-valutazioni-immobiliari.aspx>

¹² For further details about the methodology of construction of the index, see Italian Banking Association (2019), “Le famiglie italiane e l’acquisto della casa: l’indicatore di accessibilità (affordability index)”, May.

So, if we assume that:

$$AffordabilityIndex_{BASE} = \frac{instalment(i, T, HousePrice \cdot LTV\%)}{Disposable Income}$$

where

i = the interest rate, which reflects the functioning of credit intermediation and monetary policy impulses

T = the maturity of loans for house purchase, in the model set at 20 years

$HousePrice$ = the price of the house, which expresses the intrinsic dynamics of the housing market

LTV = the Loan to Value ratio, expressed in percentage (%) and equal to 80% in the model

$Disposable Income$ = the disposable income, which reflects the degree of development of a country and is clearly affected by its overall degree of competitiveness

by applying the following simple transformation

$$AffordabilityIndex = 30\% - AffordabilityIndex_{BASE}$$

it follows that:

- if $AffordabilityIndex > 0\%$ → the average household is able to buy a house at the average market price
- if $AffordabilityIndex \leq 0\%$ → the average household is not able to buy a house at the average market price

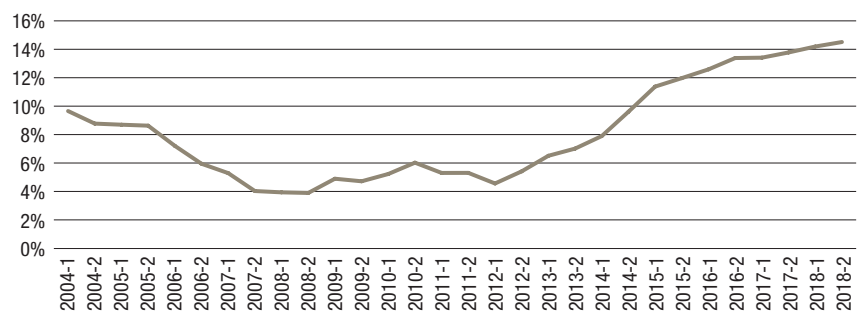
The index is calculated on a half-yearly basis.

In the context of a drop in the price of the houses compared to household disposable income and falling interest rates as described above, the affordability index shows a positive dynamic starting in 2012, which interrupts the reflexive phase of previous years, corresponding to the financial crisis which consequently affected the creditworthiness of the Italian sovereign debt in 2011, reaching its maximum value (equal to 14.6%) at the end of 2018 (see figure 6). In detail, this value is 0.8 p.p. higher than that recorded in 2016, 10 p.p. higher than the minimum point of the first half of 2012 and 5 p.p. higher than the previous historical maximum point recorded in the first half of 2004.

The above analysis can be further enriched by considering the distribution of households by income level in order to identify the percentage of households for who can afford the purchase of a house.

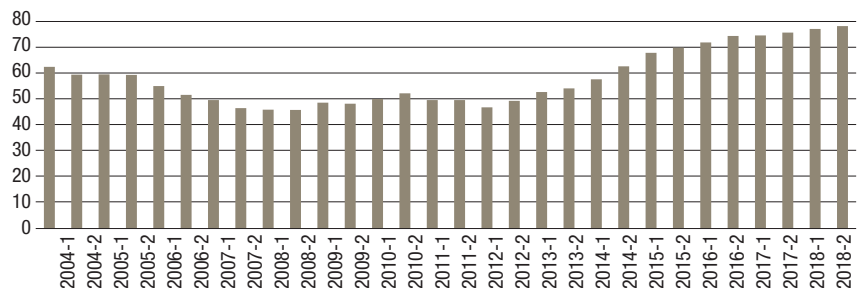
Using the Bank of Italy data on the distribution of households' income, it is possible to calculate the share of households with an

FIGURE 6 The affordability index of Italian households



Source: OMI, ISTAT and Bank of Italy data (ABI data processing)

FIGURE 7 Percentage of households for which house purchase is affordable (half yearly data)



Source: OMI, ISTAT and Bank of Italy data (ABI data processing)

income that meets the affordability criterion in the examined horizon (2004-2018), i.e. the instalment of the mortgage to be paid does not exceed 30% of the purchase price of the house.

Consistent with what has been examined so far, the percentage of households for which house purchase is affordable has been showing a positive dynamic, reaching its maximum value (equal to 78%) at the end of 2018 (see figure 7). In detail, this value is 2 p.p. higher than that recorded in 2017, 16 p.p. higher than the first half of 2004 and 31 p.p. higher than the minimum point marking the start of the growth phase in 2012.

Overall, the analysis confirms the increasing credit worthiness of the Italian households. In particular, it shows that the average family was able to buy a house at the average market price throughout the entire analysed period (2004-2018) and that this capacity has been improving since 2012 so that today for almost 80% of families house purchase is accessible.

4. Conclusion

Despite the country's struggling economy, residential activity in Italy is increasing and several factors suggest that a resumption of residential market development is likely.

The following factors contribute to explain this increase:

- the low interest rates and house prices, which have pushed up the demand for residential mortgage loans in recent years;
- the fiscal policy, which has boosted the demand for real estate restructuring;
- the provision of public funds that, through the "Mortgage Guarantee Fund", have been supporting young borrowers in particular in accessing the mortgage credit market.

The best practice adopted by the Italian banking sector have also made it possible to maintain a low level of risk in the Italian residential market. To put these factors in perspective, further development of the Italian residential mortgage market will depend on macroeconomic and regulatory intervention that could affect both the demand side (inflation rate, economic growth, fiscal policy etc.) as well as the supply side (cost of funding, supervisory regulation etc.).

What will be the next frontier? The so called "green mortgage" or, in other words, the mortgage loans aimed at increasing the energy efficiency of buildings. But we will focus on this topic in the next article!

REIWA Curtin University Buy-Rent Index – Perth, Western Australia

↪ By J-Han Ho

1. Introduction

The decision to buy or rent a home, for those able to afford it, is a complex decision that includes affordability, amenities, employment, dwelling type, income, economic conditions, location, preferences and much more. There are many intangible factors that are difficult to quantify due to differing preferences and expectations from the decision maker's life experiences and knowledge. The financial aspects of buy or rent decisions are more predictable and warrants simulations for better understanding and decision-making.

Australian household tenure types are grouped into four categories (Rowley et al., 2017):

- 1) Owners – Includes outright owners and mortgage holders;
- 2) Private renters – Households renting from private landlords;
- 3) Public renters – Households renting from public housing (government subsidised); and
- 4) All other rental tenure types – Includes housing via community, church, cooperative, employer- provided and caravan parks.

Recent Australian 2016 Census statistics from the Australian Bureau of Statistics [ABS] (2017) showed 65.5% of occupied private dwellings being owned outright or with a mortgage; and 30.9% as rental properties. Public and social housing accounted for 3.57% of total dwellings in Australia according to the ABS Census data from 2016 (ABS, 2018). This suggests that approximately 95% of Australian households could benefit from a study on the financial aspects of the buy or rent decision. Australian homeownership has been on the decline due to significant increases in house prices in capital cities; increasing the proportion of rental

TABLE 1 2016 and 2011 ABS Census results for dwelling tenure of occupied private dwellings

TENURE	Greater Perth 2016	%	Western Australia 2016	%	Australia 2016	%	Australia 2011	%
Owned outright	193,636	28.1	247,050	28.5	2,565,695	31	2,488,149	32.1
Owned with a mortgage	289,273	41.9	344,014	39.7	2,855,222	34.5	2,709,433	34.9
Rented	184,428	26.7	245,705	28.3	2,561,302	30.9	2,297,458	29.6
Other tenure type	7,319	1.1	9,181	1.1	78,994	1	70,069	0.9
Tenure type not stated	15,620	2.3	20,823	2.4	224,869	2.7	195,213	2.5

Source: Reproduced from ABS (2017 & 2013) Census 2016 and 2011 Quickstats

tenures. Table 1 shows the 2016 Census results for dwelling tenure in comparison to 2011.

Homebuyers in Australia are typically grouped into 3 classifications: First Homebuyers [FHB], Trade-up Buyers¹ [Non-FHB] and Investors. FHB in Australia may qualify for government financial subsidies and exemptions (concession); however these financial benefits vary across different State and Territory governments. For example, in Western Australia [WA] as at 28th June 2019 (DoF, 2019), the First Home Owner Grant [FHOG] has geographical caps on the total value of the home, residence requirements and eligibility criteria for applicants. Geographical caps on the total value of the home and land vary depending on the location of the home. A cap of AU\$750,000 on the value of land and building applies to homes South of the 26th parallel and AU\$1,000,000 to homes North of the 26th parallel (see Figure 1). To name a few other criteria, the applicant must be a natural person, be 18 years or over and at least one applicant must be an Australian citizen or

permanent resident at the time of application. A summary of all FHOG for the respective States and Territories in Australia can be found at: <http://www.firsthome.gov.au/>.

Tenure change in Australia is predominantly about renters going into homeownership; homeowners rarely become renters by choice. In a recent survey of 3,182 Australian private renters in 2018, Rowley and James (2018) found 19% of survey respondents were forced out of homeownership due to reasons such as relationship breakdowns (41%), financial reasons (30%) and moving to another location (19%).

Homeownership is known to provide stability of tenure, wealth accumulation, forced savings, tax incentives and improved social standing (Mulder, 2006). Turner and Luea's (2009) study on the United States found significant wealth accumulation from homeownership through an ex-post research on low to moderate income households. Households were estimated to have enjoyed an increase of 11% in net wealth annually throughout

¹ Trade-up Buyers is a classification used in Australia for homeowners who are purchasing another home for owner occupation. It is acknowledged that not all existing homeowners will trade-up.

The usage of this classification is likely to be driven by aspirational considerations.

a 15year period up to 2001. There is no doubt that many would consider the home purchase decision as an investment for wealth building. Sydney median house price (ABS, 2019) was \$365,000 in March 2002 increasing to \$1.05million at the peak in June 2017, an increase of 188% in 15 years. Sydney median house prices have since softened to \$847,000 in March 2019.

Homeownership does have drawbacks, as studies by Yates' (1996) of the private rental markets internationally found renting beneficial due to low financial barriers of entry, ability to be flexible over tenant commitments, lower debt and higher mobility. Mulder's (2006) European study has similar findings with the additional identified benefit of allowing renters a more diversified investment portfolio. Mulder goes on to add that renters could face high rental costs, lack of tenure stability and lack of control. A 2016 report on young households who are renting in Western Australia [WA] by Duncan et al. (2016) found that young WA households are driven to purchase a home primarily by the need to have a "place to call home", followed by "offering a sense of security" and thirdly, "a better option than renting"; where 78% of respondents aspire to be homeowners.

The dilemma facing the buy or rent decision makers is a persistent and recurring issue around the world. Furthermore, homeownership is possibly the largest financial decision and the most expensive asset for households. Therefore, a financial user-cost study of the buy or rent decision can help us understand implications of the tenure change decision financially. It is acknowledged that tenure change decisions are not made purely on financial reasons. However, it would be useful to simulate financial outcomes to allow for better tenure change decision making while assessing respective preferences.

2. The Financial User-Cost Approach

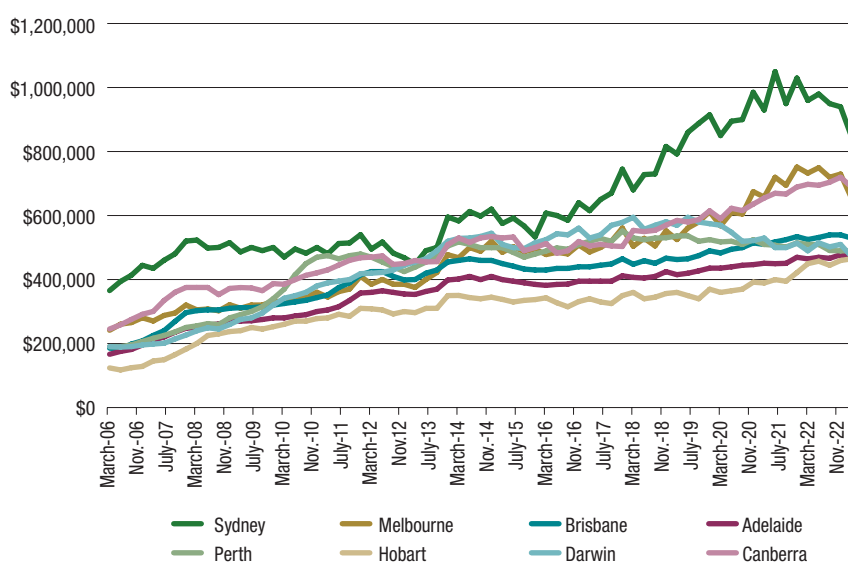
The financial user-cost approach evaluates the cost of homeownership versus the cost of renting over time in Australia. Homeownership requires a significant amount of capital for the deposit components, stamp duty, inspection fees, mortgage fees, conveyancing fees, moving costs, mortgage repayment costs and annual maintenance, insurance, rates and repairs. Rental costs usually include 4 weeks rental as a security bond, moving costs, double rents during moves² and periodic rental costs.

FIGURE 1 Map of Australia indicating the 26th Parallel in WA



Source: Google Maps, Australia. 2018, Digital Image. Reproduced from Google Maps

FIGURE 2 Median established house price 8 capital cities, Australia 2002 - 2019



Source: Reproduced from ABS (2019) 6416.0 Residential Property Price Indexes March 2019

The simulation is based on a decision maker deciding if it was advantageous to buy or rent if the capital required for the buy decision was achieved. In that context, if you have AU\$100,000 saved up, what could your net

wealth be in 10-years if you chose to buy a house versus the decision of renting and investing the residual amounts? There are a number of buy or rent calculators available online calculating differences in terminal values, estimates

² Double rental may occur during the relocation to another dwelling. Two weeks of double rental cost can be expected for relocation of personal items and end of lease cleaning and final inspection. This cost is incurred once every three years within the index to simulate tenant relocation. Australian rental tenures are short, primarily between 12 to 36 months.

In 2017, Australian Housing and Urban Research Institute (AHURI) reported the Australian average duration of rental bond in 2015-2016 was 26.5 months in Victoria and less than 24months in New South Wales and less than 18 months in Queensland.

of net present value [NPV] and periodic rental equivalence. The financial user-cost approach used in this study uses a dynamic cash flow analysis in determining a breakeven between the buy and rent decision financially that results in an annual compounding growth rate (%) for houses to achieve a NPV of \$0. The annualised default risk rate applied is the Australian 10-year government bond rate. Put simply, a simulated growth rate in house prices required to achieve a break-even between buying and renting over 10 years.

Since the development of this model, the Real Estate Institute of Western Australia [REIWA] and Curtin University have collaborated on the ongoing research and quarterly publication of the REIWA Curtin University Buy-Rent Index [RECUBRI] available publicly online since 2017. REIWA is WA's professional membership association for real estate agents and has provided housing market statistics and analyses for decades in WA. RECUBRI is estimated with the use of data from REIWA, ABS, Reserve Bank of Australia [RBA], Australian Institute of Conveyancers WA, Department of Finance WA and the Australian Federal Government. Parameters within the model are widely accepted in Australian housing and banking industries; such as 80% loan to value ratios, acquisition cost, duties, maintenance cost, moving costs, tenancy security deposits and tenure length.

3. The REIWA Curtin Buy-Rent Index [RECUBRI]

The first application of the model developed was in the RECUBRI, University-Industry collaboration, in providing the WA community with an index simulating the trajectory of annual house price growth required based on current market variables and assumptions. An Annual Compounding Growth Rate Required (ACGRR) to achieve a break-even outcome of buying vs renting a home at median prices. If the reader believes that housing markets will outperform the estimated ACGRR, then their perception of the likelihood of buying being financially advantageous increases. If a pessimistic outlook on housing is expected, renting is likely to be considered financially advantageous.

The RECUBRI assumes the decision maker is choosing between homeownership and rental tenure over a 10 year³ period. The 10 years period simulates the average Australian

homeownership length and assumes the homeowner will occupy the home over the period. If the rental tenure is chosen, there is a likelihood that the decision maker would have to relocate 3 times within the 10 years. RECUBRI estimates the break-even of all reasonable financial benefits and costs between the two tenures against the median house price and median rent.

RECUBRI applies aggregate level data, therefore it must be acknowledged that the decision maker may not necessarily be comparing the median priced house that would rent for the median rent. However, the aim is to simulate results based on central tendencies. Real estate is heterogenous, thus locational, quality and quantity variables will make such comparisons difficult. A person may prefer a cheaper dwelling when renting but choose

a more expensive dwelling when buying; or vice versa. The individual's scenario can be estimated with RECUBRI, however, this option is unavailable to the public at the moment.

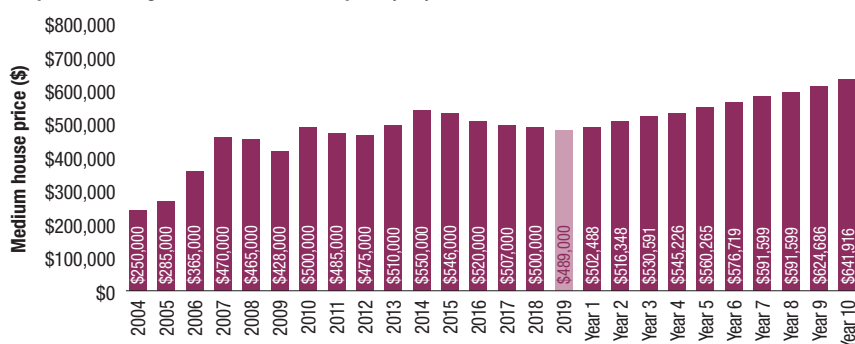
Examples from the REIWA Curtin Buy-Rent Index publications are shown in Figures 3 & 4. The Greater Perth median house price in March 2019 was AU\$489,000 and median weekly rents were AU\$360 per week. The RECUBRI estimated an ACGRR of 2.8% pa to achieve a break-even between buying and renting a house based on median prices. A purchase of a home at the AU\$489,000 would need to grow to \$641,916 over the 10-year period to break-even based on assumptions within the model.

If a prospective homebuyer considers buying versus renting close to the median price, the homebuyer would require an optimistic outlook

FIGURE 3 Historical Median House Prices, Current and Required Growth Trajectory

MARCH 2019 QUARTER

Required annual growth in median house price (in \$)

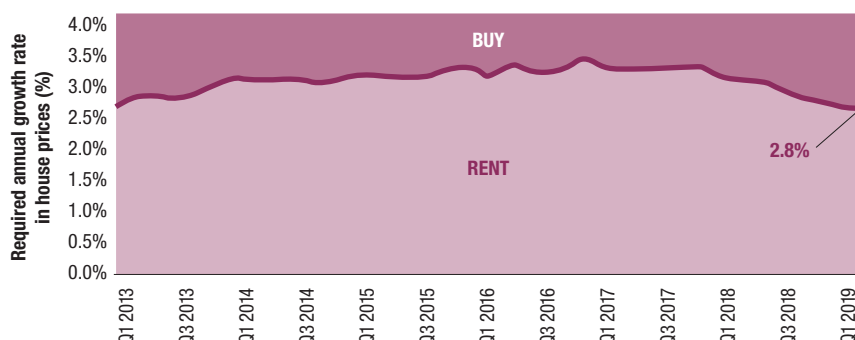


Over the last 15 years, Perth's annual house price growth rate has been 4.6 per cent.

For the "buy" decision to be considered more financially beneficial than renting, the median house price would need to increase by an average annual growth rate of at least 2.8 per cent, to over \$641,916 by the end of the next 10 years.

Source: Reproduced from REIWA (2019) The REIWA Curtin Buy-Rent Index March 2019

FIGURE 4 Required annual growth rate of the respective median house prices for break-even



Source: Reproduced from REIWA (2019) The REIWA Curtin Buy-Rent Index March 2019

³ In 2015, CoreLogic RP Data Property Pulse reported that a typical home was owned for 10.5 years before being sold.

of the economy and housing markets that the home purchased would increase in value by more than the 2.8% pa over the long-term. The RECUBRI aims to provide a general direction of how much housing value needs to grow for homeownership to be financially advantageous; it is not a crystal ball. It is important to note that results were estimated on the simulated cost of capital at the start of the decision-making process. Results could change significantly if higher financial leverages were applied, if properties were purchased at prices that were significantly different to the median and there were changes in economic and financial conditions, to name a few variables. The adage “buy low, sell high” applies in this situation where a purchase of a home with a sufficient discount in price will create a growth rate buffer for the homeowner.

Benefits to the WA community comes in the form of educating and informing the public on economic and financial determinants related to housing costs and barriers of entry into homeownership. It is important for the public to understand that government policies, banking regulations, monetary policy, economic conditions and personal circumstances can affect housing decisions. In addition, such an index would drive discussions and awareness about housing markets, provide a guide to making informed housing decisions and assist in providing simulated outcomes.

4. Conclusion

Results from RECUBRI suggests a lower ACGRR is needed for more affordable housing and vice versa. Higher priced properties will attract higher transactional cost of stamp duty and capital outlay as deposit. A higher growth rate is required to compensate for these costs over time. In most capital cities in Australia, residential dwelling rental yields are usually lower in higher priced housing, and that would favour the rent decision.

If we are to consider home purchase as a financial investment decision, then it would be prudent to purchase a home when housing market conditions are expected to have sustained growth over the long-term. Another option is to attempt the creation of value at acquisition stage by purchasing for a price below the intrinsic value from sellers who are highly motivated in the sale of their property.

Although it is unusual for homeowners to choose to rent by choice, there are times in the market where renting could be advantageous to the overall net wealth of the individual

compared to homeownership. Renters who actively and wisely invest their capital could perform better in net wealth accumulation over homeownership. A well-diversified investment portfolio will have advantages over a poorly diversified investment portfolio. The over-dependence on housing as the primary investment vehicle could increase risk.

Professor of Economics at the University of New South Wales, Richard Holden (2019) wrote an article recently focusing on low wage growth in recent years and the lack of improvement in unemployment figures for Australia. Figure 5 shows Australian unemployment increasing in 2019 and weak Australian wage growth over the years. The effect of interest rate cuts by the RBA in the current low rate environment has been ineffective in dealing with these two very important fundamentals. Furthermore, uncertainty in the world economy

has exacerbated concerns about the Australian economy. Keeping informed on endogenous and exogenous variables related to the housing markets would provide signals to the buy vs rent decision makers with the guide of the RECUBRI.

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FIGURE 5 Australian unemployment rate and Wage Price Index

UNEMPLOYMENT RATE AUSTRALIA 2014 – 2019



WAGE PRICE INDEX AUSTRALIA 1999 – 2019



Source: Reproduced from ABS (2019) 6202.0 Labour Force July 2019 and 6345.0 Wage Price Index June 2019 Australia

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International Union for Housing Finance | Rue Jacques de Lalaing 28, B 1040-Brussels - Belgium | Tel: +32 2 231 03 71 | Fax: +32 2 230 82 45