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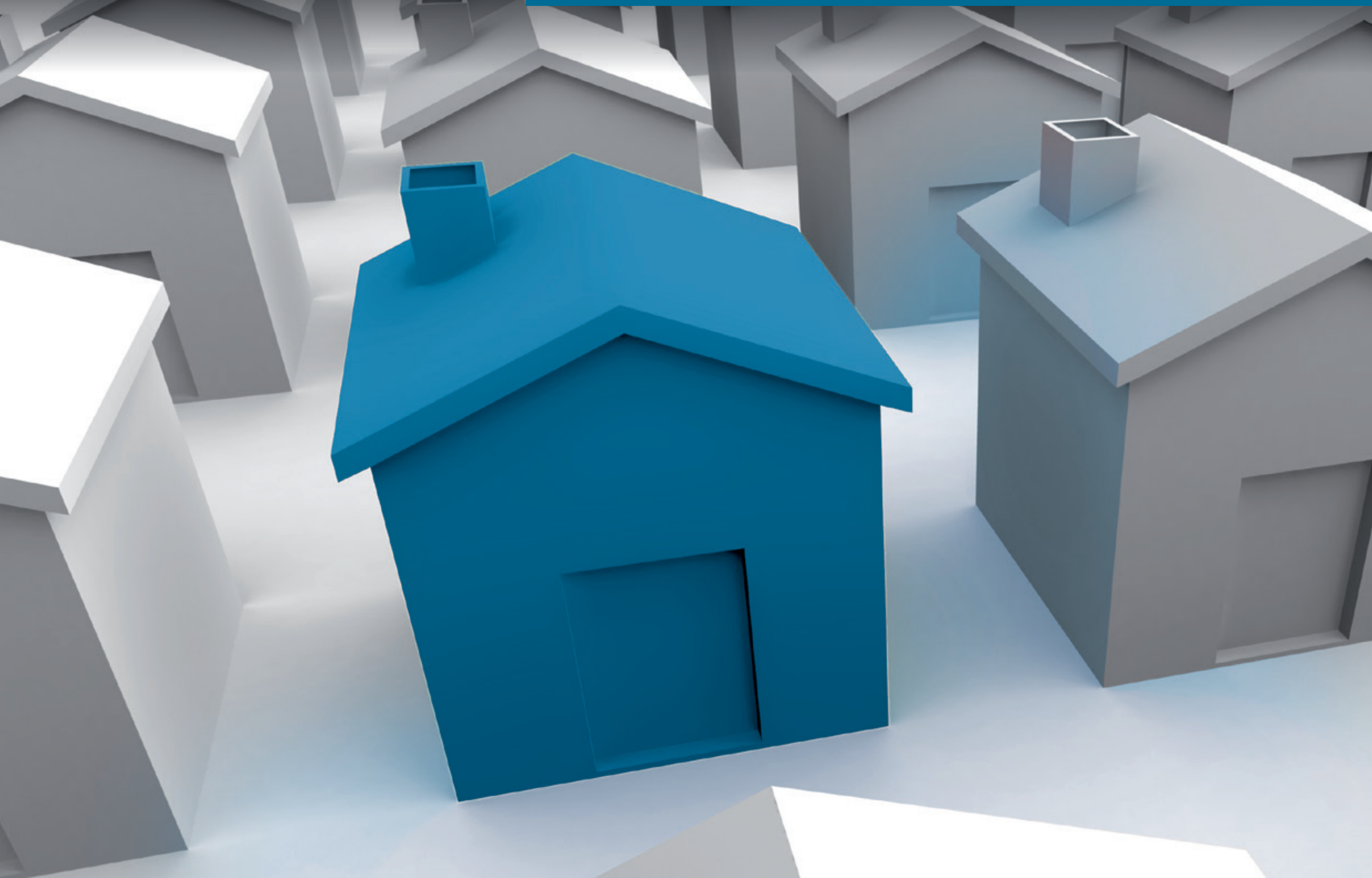
Winter 2019

HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance



- Tax incentives for households in favour of investment in rental housing in France
- Towards harmonisation of covered bonds in Europe
- Lessons from the UK housing sector and application for emerging economies
- An update on the Japanese housing market
- Digitizing housing finance to increase transparency and reduce risk
- A New approach for housing demand and supply in Nigeria: the housing continuum concept
- EFL Conference Report 2019: Making private equity work for housing affordability

International Union for Housing Finance

Housing Finance International

Housing Finance International is published four times a year by the International Union for Housing Finance (IUHF). The views expressed by authors are their own and do not necessarily represent those of the Editor or of the International Union.

ISSN: 2078-6328
Vol. XXXIV No. 2

Contents:

➔ **Subscriptions:**
Individual Regular Annual Rate €135;
Individual Three-Year Discounted Rate €360.
Institutional Regular Annual Rate €155;
Institutional Three-Year Discounted Rate €420.

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

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

Seasonal reading

Whatever else Christmas 2019 may bring, it does bring a degree of certainty to the BREXIT debate. Boris Johnson has won the General Election in the UK and barring a miracle (or nightmare depending on your viewpoint) the UK will formally leave the European Union on 31st January 2020. There will inevitably be a long series of regulatory, financial and strategic issues arising for mortgage lenders and borrowers down the track, but at least the broad direction of travel has been decided.

Attention will no doubt now begin to shift elsewhere; within the global economy one uncertainty is usually replaced by others. As our regional article on the Asia Pacific region suggests, that region could well be one source of renewed uncertainty for some time ahead. Renewed instability is predicted in the Sydney housing market in the wake of a relaxation of lending constraints. Hong Kong has been named as high on the list of housing markets at risk of a bubble, while slowing markets in Indonesia, Japan and New Zealand have been noted.

On a lighter note, one thing that is usually welcome at Christmas, is the time and opportunity for a good read, and in terms of subject matter, this issue of Housing Finance International does not disappoint. As always, our articles take a strategic view and rise above temporary local turbulence.

With the level of homeownership stagnating or falling in a number of mature economies, the private rented sector as a tool of housing policy has risen up the agenda, particularly as in many cases, governments cannot or will not invest in social housing at the levels that were common during the immediate post-War period. In their article *Tax incentives for households in favour of investment in rental housing in France*, Sylvain Guerrini & Pierre Schaefer examine a well-established long-term framework of tax reliefs for private investors in the French rental sector. Such a policy is inevitably controversial, cutting across embedded ideological positions, and raising issues about how efficient such measures really are in stimulating housing development that would not have taken place in any event and whether or not institutional investment is a better way of increasing output and, crucially, maintaining or improving standards.

Otmar Stöcker is widely acknowledged as one of the most knowledgeable commentators on covered bond markets and structures. He has previously contributed important articles to HFI on these topics. In this issue of the Journal, Mr Stöcker briefly presents the 250 year history of the "pfandbrief" (later referred to as covered bonds) before going on to analyse more recent discussions in the context of institutional developments and economic changes, including the establishment of the European Covered Bond Council and the introduction of the EU single market. The article is up to date, covering the publication of the draft directive on covered bonds in March 2018 and the subsequent adoption by the European Parliament and European Council of the package of proposals relating to harmonisation of covered bonds in October 2019 and November 2019 respectively.

The UK affordable housing sector is widely respected as well-regulated, effectively financed by public and private funding and as possessing an effective not-for profit ethos. It is, nevertheless, beset by contradictions, most notably that of directly providing genuinely affordable housing in a context of neo-liberal economic and social policy pursued by successive governments over a period of more than 30 years since the early 1980's. The result has been a failure to provide anything like sufficient numbers of affordable homes to meet well-identified needs and increasing reluctance to take the necessary measures to make such housing genuinely affordable. In a balanced article *Lessons from the UK housing sector and application for emerging economies*, Olu Olanrewaju and Michael Appleby look at the positive lessons that can be gleaned from the UK experience, including establishing sound regulation, embedding long-term financing and engaging successfully with the private sector. However, they also look at the shortcomings too, notably shortage of overall supply of affordable housing.

As Director General of the International Affairs and Research Department of the Japan Housing Finance Agency, Masahiro Kobayashi is extremely well-qualified to comment on recent developments in Japanese housing markets and his article in this issue of the Journal is the latest in a valuable series that he has contributed over the years. In this article Mr Kobayashi draws attention to a widely held belief that with lower demand and plenty of stock, "housing prices in Japan will continue to decline for the foreseeable future." He then goes on to isolate and examine significant factors shaping the market including demographic change and inward investment, notable by Chinese investors. He concludes by pointing to a shift in demand from detached houses to condominiums with price rises for the latter which may prove temporary or permanent.

In an interesting and practical article based on his presentation at the recent IUHF Congress in Cape Town, Lew Schulman draws attention to the importance for developing countries of transparency and "organised resources" in increasing construction capacity and quality while lowering the costs. He goes on to set out the benefits of his IBUILD system in tackling key issues relating to transparency of qualifications and experience in the workforce, funding and related factors relevant to construction activity.

In addition to our regional and main articles we have two shorter one-off contributions in this issue of the Journal:

- In his article *A new approach to housing demand and supply in Nigeria: the housing continuum*, Andre Asselin draws on Canadian experience to argue that if it is to tackle its desperate housing shortage, policy makers in Nigeria should look at moving towards a continuum of housing development from provision for the homeless at one end to market housing for homeownership at the other though enabling and mobilising the private sector where possible.

- Saskia Van Balen provides a helpful report on the *2019 EFL Autumn Conference: Making Private Equity Work for Housing Affordability*. In many ways the conference can be seen as following a similar line to Asselin's article described above; looking at how private investment can alleviate the costs of affordable housing to the state.

Finally, seasonal greetings to all. We hope you enjoy this issue of Housing Finance International.

Andrew HEYWOOD
December 2019

EXTERNAL EVENT AND CALL FOR PAPERS

The World Bank Group will hold its 9th Global Affordable Housing Conference in Washington, D.C. on May 27 - 29, 2020. The theme of the conference is "Partnering for Affordable Housing Solutions".

Goal 11 of the UN Sustainable Development Goals focuses on sustainable cities and communities. Achieving this goal will require different stakeholders to work in partnership. The World Bank Group is **seeking submissions of original, innovative and data-driven ideas** on how to make this goal a reality, particularly the role partnerships can play in ensuring access for all to adequate, safe and affordable housing. The authors of the final selected papers will be invited to present their ideas at the conference and their papers will be published on select platforms including Housing Finance International. All hotel and travel expenses of the winning submissions will be covered by the World Bank.

The call is open to staff of multilateral development banks (not including the World Bank Group), housing practitioners, academia, donor organizations and non-profit organizations. Abstracts (PDF) of max. 500 words, including proposed title, author(s) name(s) and contact information have to be send to housingfinance@worldbank.org latest by **January 20th 2020**.

Please go to https://www.worldbank.org/en/events/2020/05/27/9th-global-affordable-housing-conference for further information.

Contributors' biographies

Michael Appleby, a Director of Altair International, is an experienced advisor to the affordable housing sector. He has worked on a wide variety of housing strategy, policy, transformation and governance reviews. This has included an investigation into the near failure of a housing association in the UK, which directly regulatory form of the sector in England. [4.19]

André Asselin, former executive of the Canada Mortgage and Housing Corporation [CMHC], is currently an international housing policy and housing finance consultant. Recently, his clients were based in the Persian Gulf, Russia, the United States, West Africa, Pakistan and Nigeria. Mr. Asselin studied in several Canadian universities including to obtain a Masters degree in Business Administration [MBA]. Upon his departure from CMHC, he was an executive and member of CMHC's Management Committee where he worked from more than 32 years.

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.

Sylvain Guerrini, 48, is a graduate of the Lyon Institute of Urbanism. He is an engineer and urban planner. His work and teaching focus on housing policies in France. He works in a public design office which comes under the Ministry of Housing, the Center for Studies and Expertise on Risks, Environment, Mobility and Development [Cerema].

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*

Masahiro Kobayashi is the Director General of the International Affairs and Research Department of the Japan Housing Finance Agency [JHF]. He is a frequent speaker at various international conferences including the IUHF, among others, and has been actively working to promote green housing finance in Asia in recent years.

Olu Olanrewaju is a Director of Altair International and a senior executive and has a wealth of experience in both the provision of affordable housing and development activities in the UK and internationally. He now works with governments, NGOs, funding agencies and other institutions across the world on a range of housing issues. [4.19]

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*

Jean-Pierre Schaefer, 68, is a graduate engineer of Ecole Centrale Lille, holds Master's degrees in Economic Science (Lille) and Urban Planning (IUP-Paris). A former economist at the Caisse des Dépôts (France), he has a wide expertise on housing markets and urban development in France, Europe and foreign countries. He is vice-president of SOLIHA Yvelines Essonne.

Lew Schulman, Chairman of the Board iBuild Global Inc.
EMAIL: *lew.schulman@ibuild.global*

Otmar M. Stöcker, PhD, is Managing Director and Head of Department "Cover Assets" in the Association of German Pfandbrief Banks in Berlin. He is responsible for German Pfandbrief law, public finance, comparison of covered bond leg-

Contributors' biographies

islation and mortgage finance in Europe, US, Canada and Japan. He initiated and chairs the research group, called "Round Table Covered Bond Legislation". He has been working for the Association since 1989 in several senior positions.

Saskia van Balen is a 27 year old entrepreneur and legal expert living in Amsterdam. As a student, she worked for the European Federation for Living (EFL). After having obtained her Master's degree in tax law, she continued to work for EFL in various projects.

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

Australian property is starting to boom again – and creating a worry

Australia is seemingly rushing headlong into another debt-fuelled property binge.

Three interest rate cuts that have taken mortgage rates to a record low and a loosening of lending curbs have sent buyers flocking back to the housing market. At current boom-time rates of growth, Sydney home prices could recoup two years of losses and be back at record highs as soon as May.

The sudden turnaround is raising fears of a re-inflated property bubble and risks swelling an already worrisome pile of household debt. It's also further concentrating banks' reliance on mortgages for earnings growth and entrenching inequality by making it harder for first-time buyers to get a foot on the property ladder.

(Source: https://www.bloomberg.com/news/articles/2019-10-24/australia-is-flirting-with-another-debt-fueled-property-binge)

Australian house prices rose more in October 2019

Australian house prices rose more in October than in any month in the past four years, further suggesting the country's property downturn could be over. October's 1.2% rise in prices was the fourth straight monthly increase and the largest since May 2015, according to CoreLogic's Home Value Index monthly survey.

The strongest growth was in Melbourne and Sydney, where prices rose 2.3% and 1.7%, respectively, but prices were up across every capital city except Perth, where they dipped 0.4%.

Australia's four largest banks now all offer fixed mortgage rates below 3% after cuts to the official cash rate – the rate the Reserve Bank of Australia charges banks on overnight loans.

Also, the Australian Prudential Regulation Authority changed the mortgage serviceability rules in July to make it easier to borrow, no longer requiring banks to determine if borrowers could afford a sudden spike in interest rates to 7.0%. These developments have likely unleashed demand that was pent up over the period of falling prices between September 2017 and June this year.

(Source: https://www.theguardian.com/business/2019/nov/01/australian-house-prices-rise-more-than-at-any-time-in-past-four-years)

The Reserve Bank of Australia anticipating a housing shortage and another crazy price boom in markets that really don't need it

On the other hand, it is expected that Australia would be heading towards yet another property supply shortage, thus resulting in a price surge already indicated in other reports, and it could put a rocket under prices, the Reserve Bank of Australia [RBA] has warned.

"While the increase in supply has finally met the earlier increase in demand, demand will continue to grow given population growth, but supply is going to decline. So, there is quite likely to be a shortfall again in the foreseeable future," RBA deputy governor Guy Debelle told an investment conference in Sydney on Thursday. For those not living under a rock, Debelle's words should trigger a serious sense of déjà vu. Those same conditions led to prices running away for years, pricing many out of the market entirely in Sydney and Melbourne. Prices in those cities shot up 75% and 58% respectively between 2012 and 2017.

(Source: https://www.businessinsider.com.au/rba-property-shortage-price-boom-sydney-melbourne-2019-10)

In Australia, housing affordability hits 20-year high, which means little for prospective homeowners without a loan

Housing affordability in Australia has hit a 20-year high, however the turnaround means little for first-time homeowners who continue to struggle when it comes to securing a home loan.

A new report by the Housing Industry Association [HIA] revealed home affordability is at its best since 1999 due to a combination of lower home prices, wage growth and lower interest rates.

It found average earnings have increased by 113% over the 20 years to 2019, while the median home price has increased by 228% with the lower interest rates keeping the cost of servicing a loan the same.

(Source: https://www.9news.com.au/national/property-housing-affordability-in-australia-hits-20-year-high-home-loan-struggles-national-news/3af8bf8d-fd85-4ea6-8457-dc45f825e9e2)

Bangladesh

Community development in Bangladesh's rural areas through international cooperation

In a partnership with the Korea International Cooperation Agency [KOICA], 164 low income families were expected to receive new houses or repair their houses while 62 permanent latrines will be built and 32 tube wells will be installed. The wider community in these districts will also receive WaSH [Water, Sanitation and Hygiene] training.

In urban Mymensingh, Habitat for Humanity has been working with Dutch and Korean partners in separate projects to build up the local community.

Technical supports have been provided to help female-headed households improve their housing. In the same area, a KOICA-funded multi-purpose building serves as a community centre for social gatherings and livelihood training as well as provide classrooms and a public library. The building also comes with gender-specific public toilets and bath houses.

(Source: https://www.habitatforhumanity.org.uk/country/bangladesh/)

Hong Kong SAR

Seven cities are most at risk of a real-estate bubble, and Hong Kong is one of them – reports UBS

The Swiss Bank UBS published its 2019 Global Real Estate Bubble Index on September 30, 2019, identifying which cities around the world are fairly valued and which are facing the greatest risk of a real-estate bubble. According to this index, Hong Kong is at no. 3 in the bubble risk list with bubble index score 1.84 of 2019 (2018: 2.03). "Fuelled by strong investor demand, general positive sentiment and the fear of missing out on capital gains, the real price level in Hong Kong more than doubled between 2008 and 2018," UBS said. The bank's report added that, however, "weaker economic outlook has cooled residential buyer sentiment."

"The UBS Global Real Estate Bubble Index puts the housing market into long-term perspective and is designed to track the risk of property price bubbles in global cities," the firm said. On the bank's scale, any city that falls above 1.5 on the index is considered at risk of a bubble. To determine the score for each city, UBS evaluates five sub-indexes: price-to-income and price-to-rent levels, changes in Mortgage Debt-to-GDP ratios and Construction-to-GDP ratios, and the relative Price-City-to-Country indicator.

The other six cities with their indices are, Munich (2019 bubble index score: 2.01, 2018: 1.99), Toronto (2019:1.86, 2018: 1.95), Amsterdam (2019:1.84, 2018: 1.65), Frankfurt (2019:1.71, 2018: 1.43), Vancouver (2019:1.61, 2018: 1.92), and Paris (2019:1.54, 2018:1.44).

(Source: https://markets.businessinsider.com/news/stocks/7-cities-at-highest-risk-of-real-estate-bubble-ubs-2019-9-1028563829#3-hong-kong5)

India

Government to achieve *Housing for All* two years ahead of 2022 target, says Union Housing and Urban Affairs Minister of India

The government is set to achieve its target of providing *Housing for All* in 2020 itself, two years before its stated deadline of 2022, said Minister of State for Housing and Urban Affairs Hardeep Singh Puri.

"The 2022 target of a pucca home with basic facilities in the name of the lady of every household in the country will be achieved two years in advance. To achieve this target, we need deep involvement of all stakeholders," Puri said at the National Real Estate Development Council's [NAREDCO] convention in New Delhi. Mr. Hardeep Singh Puri, said that under the PMAY (Urban) 2.4 million houses have so far been handed over to beneficiaries and the number will soon reach 5 million.

"The MoHUA has held consultations with the states, during which some concerns have been expressed, but several positive suggestions too have come up," he was quoted as saying in a NAREDCO release.

As per an estimate, more than 600 million people will be living in Indian cities by 2030, the time when India also needs to meet the UN agenda of sustainable development goals. "We are confident to abide sustainable development by the 2030.

(Source: https://economictimes.indiatimes.com/news/economy/policy/housing-for-all-target-to-be-achieved-by-2020-hardeep-puri/articleshow/70755387.cms)

Indian Government creates Rs. 250 billion (Rs. 25,000 Crore) fund to revive 1,600 projects with 0.46 million (4.6 Lakh) houses

The government of India on Wednesday cleared a fund with an initial corpus of IRs. 250 billion (IRs. 25,000 crores) to revive up to 0.46 million housing units in 1,600 projects with "positive net worth", including those that have been classified by banks as non-performing assets or are facing insolvency resolution action. While announcing the move, which was approved by the Union Cabinet, finance minister Nirmala Sitharaman indicated there may be some relief for those who have defaulted on repayment of their home loan EMIs in the stalled projects across the country. The Reserve Bank of India is expected to announce the details for regularisation of accounts through a circular, providing relief to several loan defaulters who had booked houses in projects that can now be taken up for revival.

The latest package comes two months after the government had announced the establishment of a Rs. 200 billion fund for the completion of stalled affordable and middle-income housing projects but had kept Non Performing Assets [NPA] and National Company Law Tribunal [NCLT] cases out of the ambit of the "special window" for the real estate sector, which is facing an acute downturn due to a liquidity crunch as several builders are highly leveraged and are unable to sell new apartments. A slump in the construction and housing sector also impacts job generation and demand for key sectors such as steel and cement, which have also been hit by the slowdown. Sitharaman said that based on feedback from homebuyers and other stakeholders, the government decided to expand the ambit of the fund, where the Centre will chip in with Rs 100 billion and entities such as the State Bank of India, LIC and other institutions, including overseas funds, will contribute Rs 150 billion. The fund will provide loans on commercial terms after assessing the viability of each project but will ensure that the money flows into an escrow account so that it is used only for construction purposes. Sitharaman said the money will not be used to clear past dues, which will be dealt with separately.

(Source: https://timesofindia.indiatimes.com/business/india-business/rs-25000cr-fund-to-revive-1600-projects-with-4-6-lakh-houses/articleshow/71947035.cms)

In India, home loans are expectedly becoming cheaper

The Reserve Bank of India [RBI] has reduced the repo rate five times in a row this year but home loan EMIs did not reduce for consumers. To address this, the apex bank had earlier constituted an Internal Study Group [ISG] to examine various aspects of Marginal cost of fund-based Lending Rate [MCLR] system. The ISG observed that internal benchmarks such as the base rate/MCLR have not delivered effective transmission of monetary policy. Therefore, RBI mandated banks to link all new floating rate loans to an external benchmark from October 1, 2019.

Why don't EMI's reduce? Adhil Shetty, CEO, BankBazaar.com, says, "Deposit rates have not come down. Customers lend to banks via deposits. The deposits are lent back to customers at a higher rate. Since the deposit rates have barely lowered in 2019, loan rates have remained sticky as well. Banks get a small percentage of their funds from the repo window, and while the cost of funds from the RBI has fallen, the cost of funds from deposits has fallen at a much slower rate. This is why banks have not been able to pass on the repo rate cuts in full to borrowers."

(Source: https://timesofindia.indiatimes.com/business/india-business/are-home-loans-emis-becoming-cheaper/articleshow/71894956.cms)

Indonesia

Indonesian property market: house prices fell by 1.63% y-o-y in Q2 2019

Indonesia's housing market remains sluggish, despite a strong economy. Residential prices in the country's 14 largest cities fell by 1.63% during the year to Q2 2019, after y-o-y changes of 0.16% in Q1 2019, -0.19% in Q4 2018, 0.08% in Q3 2018, 0.01% in Q2 2018 and 0.4% in Q1 2018. House prices dropped 1.71% q-o-q during the latest quarter.

Residential property sales plummeted by 15.9% q-o-q in Q2 2019, following quarterly growth of

23.77% in Q1 2019 and declines of 5.78% in Q4 2018, 14.14% in Q3 2018 and 0.08% in Q2 2018, according to Bank Indonesia. Sales saw double-digit rises from 2013 to 2015.

In Q2 2019, Indonesia's economy expanded by 5.05% from a year earlier, at par with its y-o-y growth of 5.07% in Q1 2019, 5.18% in Q4 2018, 5.17% in Q3, 5.27% in Q2 and 5.06% in Q1, amidst almost steady growth in household consumption, which represents more than half of the economy. The Indonesian economy is expected to remain strong this year, with projected GDP growth of 5.2%, according to Bank Indonesia.

After facing one of the most serious periods of political and religious tension in Indonesia's history last year, political conditions have improved dramatically in recent months, with President Widodo's popularity back to its near record highs. Widodo won a second term in office during the April 2019 elections, beating former general and long-time rival Prabowo Subianto.

(Source: https://www.globalpropertyguide.com/news-indonesias-housing-market-rarely-makes-big-moves-3865)

Indonesian property market in transition after getting out of crises in the 90s

A new era for the Indonesian property market began in the 1980s, says Harizul Akbar, a real estate analyst. According to him, the development of new towns during the period between 1985 until the 2000s, such as Lippo Karawaci, Gading Serpong, Bumi Serpong Damai in Tangerang and Kota Legenda in Bekasi, east of the capital saw the ushering in of the new possibilities offered by infrastructural activities rather than commodity trading. The new towns triggered the property market in Greater Jakarta as an alternative for most of the middle and lower-middleclass. Within a relatively short period the new towns development managed to enter the market boom cycle due to soaring demand levels.

In the following decade, the property market entered transition to market recession. This was characterized by a tendency to oversupply property, mostly in the new town areas. Meanwhile, Indonesia's economic situation is on the verge of a crisis, similar to the period of 1997-1999. The global crisis that hit Indonesia in 1998 affected almost all sectors including property. However prudent banking restructuring in Indonesia has made developers and buyers more confident in the credit process through banks. Since 2003, the growth of Indonesia's property business has experienced an unprecedented surge. The peak of this growth occurred in 2005, when the property market capitalization touched Rp 91 trillion, a 10-fold increase compared to the capitalization value in 2000 of Rp 9.51 trillion.

(Source: https://www.thejakartapost.com/academia/2019/02/19/property-market-review-from-commodity-to-infrastructure-driven.html)

Construction firms find strong growth in Indonesia

Indonesia's emerging economy is in dire need of better infrastructure, while rising personal income is driving demand for residential and commercial property. These factors put the country squarely on the radar of the global construction industry. Builders in Indonesia benefit from a large and relatively low-cost workforce as well as growing domestic output of cement and other materials. At a time of weak building activity in many developed economies, rising investment and government spending make Indonesia one of the most important construction markets in the world. Construction spending growth in Indonesia will remain among the strongest in the region, according to technical and management support firm AECOM.

State-controlled companies have long played and continue to play an important role in Indonesia's construction industry, with Wijaya Karya [WIKA], Waskita Karya, Pembangunan Perumahan and Adhi Karya ranking among the largest players in the industry. All of them are listed on the stock market with the state holding a majority stake in each. State-owned enterprises are more successful in being awarded public-sector contracts than their private competitors and have displayed strong financial performance in recent years, thanks in large part to public infrastructure development. Leading private-sector players include Nusa Raya Cipta and Total Bangun Persada, which have likewise seen very impressive revenue and profit growth over recent years, while their project portfolio relies to a greater degree on commercial property. Global construction companies, many of which have their headquarters in Japan or China, have a strong foothold in Indonesia, particularly in complex infrastructure projects. Local companies are generally hard-pressed to compete with foreign companies' level of technical expertise and financial power.

(Source: http://www.gbgindonesia.com/en/property/article/2015/construction_firms_find_strong_growth_in_indonesia_11124.php)

Challenges faced by Indonesia's construction sector

The construction sector in Indonesia is fuelled by high demand for residential and infrastructure projects. Being largely labour intensive and heavily sensitive to changes in the price of raw materials for construction, has made the sector vulnerable to shocks and rising inflation. Improving levels of expertise among the private sector contractors has been a challenge in improving competition, as the state-owned companies [SOEs] continue to be the main players. This makes finding a local partner to execute Projects Public Private Partnerships [PPP] projects as well as locating qualified human resources remains an obstacle for foreign companies operating in Indonesia.

The fast rate of expansion has fuelled inflation which has also been impacted by the sharp rise in oil prices. This increased the price of construction materials such as asphalt, glass plates and cement by up to 20% some years ago. Global price rises in steel and iron bars have also hit the sector. The China ASEAN Free Trade Agreement enacted in January 2010 removed tariffs for many types of construction materials. However often the quality of products such as cement has often failed to meet national industry standards. Other factors influencing the high prices are that inter-island transportation can be more expensive than that of international. Therefore, until the infrastructure and logistical improvements start to make an impact, costs for constructions materials will continue to increase.

Japan

Japan's housing market is now slowing again

The average price of existing condominiums in Tokyo rose by a meagre 0.94% during the year to Q2 2019, a slowdown from a y-o-y growth of 3.89% in the previous year. During the latest quarter, existing condo prices fell by 2.34%. The average price of new condos in Tokyo dropped 1.65% y-o-y in Q2 2019, a sharp slowdown from growth of 9.71% a year earlier.

Existing condominium sales in Tokyo rose by 3.7% to 20,049 units in the first half of 2019 from a year earlier, according to The Land Institute of Japan, while sales of existing detached houses in Tokyo increased 7% y-o-y to 9,917 units over the same period. In contrast, dwelling starts in Japan fell slightly by 0.2% to 449,122 units in H1 2019 from a year earlier. Tokyo apartment costs are high, at around $16,322 per sq. m.

(Source: https://www.globalpropertyguide.com/news-japans-housing-market-is-now-slowing-again-3832)

Japan's housing market is a picture of stability

Big economic and social challenges lie ahead for Japan. Among them are weak economic growth, and a declining population. To meet these challenges the government of Prime Minister Shinzo Abe plans to continue the stimulus measures which have been the hallmark of ´Abenomics´ since 2012. These measures should be positive for the Japanese property market (which earns investors moderately good rental returns) but present some dangers for the wider economy as Japan´s national debt mounts.

This past year property values have been almost static. In Tokyo Metropolitan Area existing condominium units' average prices fell slightly by 0.3% to JPY514,600 (US$4,625) per square meter (sq. m.) during the year to January 2019, in contrast to a 4.6% growth in the same period last year, according to the Land Institute of Japan [LIJ]. The wider Japanese residential property price index rose by 2.4% y-o-y (1.5% inflation-adjusted) in November 2018, according to the Ministry of Land, Infrastructure, Transport and Tourism [MLIT]. Condominium prices were up by 3.7%, detached house prices rose by 0.9%, while residential land prices increased by 0.2%.

Gross rental yields - the rental return earned on the purchase price of a residential property – range from 3.4% to 5.4% in Tokyo's central districts, according to Global Property Guide research. Yields are a little higher on smaller apartments. Yields on the very smallest apartments are 5.42%, a reasonable yield.

(Source: https://www.globalpropertyguide.com/Asia/Japan/Price-History)

Malaysia

Public schemes offering affordable properties in Malaysia

Residential properties in Malaysia have experienced significant price appreciation in the past 20 years with prices in several states like Kuala Lumpur, Johor and Penang expanding at higher rates than other locations.

Despite the current slowdown in the property market and many developers offering up to 30% discounts on real estate purchases, property prices are still high for many people and some buyers are still not able to secure the right margin of financing. Public Housing Schemes may have some appeal for such potential buyers. Property prices for public housing projects are relatively more affordable, about half or one-third that of units built by private developers. There are many such government initiatives out there that could help you get the right type of property that meets your requirement.

(Source: https://www.nst.com.my/property/2019/09/522558/public-schemes-offer-affordable-properties)

Malaysia expects resilient property market despite overhang

Steady economic growth, a fresh housing policy and incentives to boost affordable dwellings will keep Malaysia's property market resilient in the final six months of this year despite a heavy supply overhang, the government said on Monday.

Measures, including extension of a state-led housing ownership campaign, are expected to sustain the sales momentum through December-end after home sales rose in both transaction volume and value in the first half of the year, the state-run National Property Information Center [NPIC] (http://napic.jpph.gov.my/portal/key-statistics) said in a statement. Further, a policy to rein in speculation would also help to ease the unsold supplies, the government agency said.

"Affordable housing and finding the right solutions to the property overhang continue to be the main agenda of the government," the agency, also known Napic, said.

According to Napic's data, there were 99,222 transactions worth 34.65 billion ringgit ($8.3 billion) in the first half of 2019, an increase of 6.1% in volume and 9.5% in value.

(Source: https://asia.nikkei.com/Business/Markets/Property/Malaysia-expects-resilient-property-market-despite-overhang)

Malaysia's house prices continue to rise, but at a slower pace

Malaysia's housing market is slowing sharply, after the introduction of higher stamp duty on high-value properties, and slower economic growth.

During 2018, the nationwide house price index rose by 3.31% (3.14% inflation-adjusted), down from 6.13% in 2017, 6.97% in 2016, and 6.47% in 2017, according to the Valuation and Property Services Department [JPPH]. Malaysia's average house price stood at MYR 416,993 (US$ 100,685) in 2018.

(Source: https://www.globalpropertyguide.com/Asia/Malaysia/Price-History)

Malaysia residential property market on the way up

The residential property market in the country is picking up this year and even recorded a higher value of transactions as at September this year compared to the whole of 2018 for the primary market, an international real estate federation revealed yesterday.

Michael Geh, the Malaysian President of FIABCI, a Paris-based worldwide business networking organization for all professionals associated with the real estate industry said the Malaysian residential property market recorded RM14.65 billion worth of transactions in the primary market between January and September this year. This far surpassed the total value of transactions of RM12.91 billion for the primary market for the whole of 2018, he said.

(Source: https://www.malaymail.com/news/malaysia/2019/10/02/residential-property-market-on-the-way-up-says-real-estate-group/1796238)

Maldives Islands

Maldives' popular holiday island destination sees healthy growth in real-estate market

Despite the growing competition in the tourism sector from the neighboring countries, the Maldives' property market experienced benefits from government's investment in its key industry. In 2016, the government of the Maldives took expansive measures to anticipate the increasing regional competition and cater to the growing demand in the tourism industry, particularly in the area of public infrastructure. Major developments already on the way are the expansion of the country's international airport and the entry of several new airlines that will improve the accessibility from key markets. Diversification of tourism offerings, such as resorts and new types of attractions, are also expected to bring in new markets into the country. A total of 11 new upscale and luxury resorts are planned for construction by 2018.

With hundreds of resort offerings in the Maldives, a residential property for sale remains rare. Development of new properties is not easy as all materials have to be brought in from abroad and many developers are not willing to take the associated risks. With limited residential properties available, the surging demand for housing has spurred several ongoing developments, including Hulhumalé, an artificial island built in three phases, with the culmination of Phase-I in 2020. The island, catering to a total population of 100,000, once all phases of development are completed, will incorporate commercial, industrial and residential components that will include mid-to-luxury housing and beach bungalows.

(Source: https://www.luxuo.com/properties/maldives-holiday-island-destination-sees-healthy-growth-in-real-estate-market.html) https://www.luxuo.com/properties/maldives-holiday-island-destination-sees-healthy-growth-in-real-estate-market.html)

New Zealand

Ardern Government backs down on key pledge to build 100k homes in 10 years

KiwiBuild was one of the Ardern government's flagship policies, and the prime minister is hopeful that today's "KiwiBuild reset", first announced in January, will change the course of the ailing $2 billion housing programme. Prime Minister Jacinda Ardern's government insists their commitment to low-cost housing remains, announcing a raft of changes to their "KiwiBuild" policy suite.

"KiwiBuild isn't working so we are changing it," Housing Minister Megan Woods said.

One year into the planned decade of house-building, just 141 houses had been constructed, well short of the first benchmark of 1,000. Targets of 5,000 by June 2020 and 10,000 by June 2021 have now been discarded.

(Source: https://www.9news.com.au/world/news-new-zealand-jacinda-ardern-backs-down-kiwibuild-housing-policy/8fbb13d-55f1-45dd-a624-776d849e29d2)

New Zealand's house price boom is over

New Zealand's housing market is cooling rapidly, with house price growth slowing to its weakest pace in seven years. During 2018, the nationwide median house price rose by just 1.5% to NZ$560,000 (US$381,847), according to the Real Estate Institute of New Zealand [REINZ], a sharp slowdown from year-on-year rises of 6.28% in 2017, 13.85% in 2016 and 11.49% in 2015.

When adjusted for inflation, house prices actually declined by 0.4% in 2018 from a year earlier. And during the latest quarter, house prices increased a meagre 0.72% (0.61% inflation-adjusted).

The reason for reversal is the ban on buying by non-resident foreigners recently introduced. Auckland accounts for about 25% of total property sales in New Zealand, which saw almost no price movement in 2018 from the previous year. Moreover, very minimal house price growth was registered in Waikato (1.2%), Southland (1.4%), and Bay of Plenty (2%).

(Source: https://www.globalpropertyguide.com/Pacific/New-Zealand/Price-History)

Pakistan

PM Imran's housing project catches Canadian investors' eyes

Following China, Turkey and the United Arab Emirates [UAE], investors from Canada have expressed confidence in ruling party (Pakistan Tehreek-e-Insaf -PTI) flagship affordable housing program, Naya Pakistan Housing Programme (NPHP).

A delegation of a Canadian construction firm, led by its chairman Suleyman Mufti Gil, called on Punjab Housing and Urban Development Minister Mian Mehmoodur Rasheed and gave him a briefing about the low-cost construction technologies and techniques being offered by the firm. Gil apprised the meeting of the global construction experience of his firm and expressed interest in the construction of houses under the NPHP. He maintained that the firm can introduce new trends of construction by using environment-friendly technologies. Earlier, investors from China, Turkey and the United Arab Emirates [UAE] have also approached the PTI leadership to express their interest in the project.

(Source: https://tribune.com.pk/story/2080394/1-pm-imrans-housing-project-catches-canadian-investors-eye/)

PM announced soft housing loans for the poor

Prime Minister Imran Khan has announced that commercial banks will provide soft housing loans to the low-income people for the construction of their houses.

"Having shelter over their heads is a major achievement for the poor person," said the prime minister while addressing the inauguration ceremony of the Naya Pakistan Housing Scheme at Arfa Kareem Randhawa Expo Centre in BUITEMS on Sunday.

PM Imran laid the foundation stone of the housing project. Balochistan Governor Justice (Retd) Amanullah Yasinzai, Chief Minister Jam Kamal Khan, federal ministers Zubaida Jalal and Tariq Bashir Cheema, provincial ministers, senior officials and a large number of students were in attendance.

PM Imran said, "The Government will provide all help and facilities to the people in the construction of their homes as it launched Pakistan Housing Project for those who could not construct their own houses."

(Source: https://tribune.com.pk/story/1955800/1-pm-imran-launches-naya-pakistan-housing-scheme-quetta/)

The stagnant property market does not look likely to recover anytime soon

Realtors and builders do not expect a housing rate slide in the middle-low income areas of urban centres, but they do foresee prices falling in posh areas where the market is driven by investors.

The volume of activity is next to zilch as investors are driven out while a mismatch of demand and supply keeps deals from materialising.

In the absence of credible data to show volume it is not possible to quote numbers, but market players projected a 30% fall since 2016 in the value of plots in high-end localities across all major cities. The dip is not as pronounced in the housing sector. In middle and low-income residential areas rates are said to be almost static at the 2016 level but the transaction level is low.

It is believed that visible progress at a reasonable pace on the Naya Pakistan Housing Program can help revitalise the sluggish housing sector. However, sudden changes in the legal framework and the introduction of the wealth tax would further shrink the market and push businesses towards bankruptcy.

(Source: https://www.dawn.com/news/1440441)

Philippines

The Philippines is in its 8th year of a house price boom, writes Global Property Guide

The Philippines' residential property market continues to perform very well, due to robust economic growth. Makati CBD property prices have risen by almost 132% from 2010 to 2018. Yet prices are not high, and yields are good, and the Philippine economy is in the 8th year of strong growth.

The average price of a luxury 3-bedroom condominium unit in Makati central business district [CBD] soared 15.55% (9.91% inflation-adjusted) during 2018 to PHP230,000 (US$4,371) per square metre (sq. m.), from y-o-y rises of 10.46% in 2017, 9.95% in 2016, 13.43% in 2015, 7.11% in 2014, 14.37% in 2013, and 10.06% in 2012, according to Colliers International. During the latest quarter, condominium prices in Makati CBD increased 5.02% (5.55% inflation-adjusted) in Q4 2018.

However, house price growth is more muted nationwide. During the year to Q3 2018, the nationwide residential real estate price index rose by 4.4% (-2.2% inflation-adjusted), according to the Bangko Sentral ng Pilipinas [BSP], the country's central bank. Quarter-on-quarter, the index dropped 0.6% (-2.8% inflation-adjusted) in Q3 2018. The residential real estate price index, published every quarter, is based on bank reports on residential real estate loans.

(Source: https://www.globalpropertyguide.com/Asia/Philippines/Price-History)

Philippines training new generation of construction workers to face natural disasters

Typhoon Haiyan left a painful mark in Philippine history. It affected millions of people, killed thousands, and displaced many families. The typhoon damaged or destroyed over 1 million houses. Almost six years since the devastation, thousands remain without permanent homes.

The problem is multifaceted, from land issues to inefficiencies in the government's implementation. Of the 205,000 houses the government promised to build for families displaced by the typhoon, only around 60% have been completed to date, with some have been found to be substandard housing. Even fewer houses have been turned over to affected families.

But Paulette Liu, President and COO of the Primary Structures Educational Foundation, Inc. School of Knowledge for Industrial Labour, Leadership, and Service, discovered another challenge when she visited the city of Bogo in Cebu province – families had rebuilt their homes with salvaged and donated construction materials, but with poor workmanship.

Many of the houses would not withstand another typhoon, she told the jury at the first Innovation Awards for housing at the 7th Asia-Pacific Housing Forum in Bangkok, earlier this month, where her foundation's skills training program won in the category of partnerships and policies that promote affordable and resilient housing solutions.

(Source: https://www.devex.com/news/in-the-philippines-training-a-new-generation-of-construction-workers-95693)

Filipinos continue to struggle to own a home – a mass housing mess

Mass housing should be for all, but many Filipinos, particularly those belonging to lower-middle income families, still feel left out of the equation. Building a house for every Filipino family is the Philippines's "One Dream." Many politicians have attempted to reach this dream call and several of them could be considered successful. These include the housing program in Quezon City dubbed "Bistekville," which has been undertaken by the local government unit [LGU with Phinma Property Holdings Corp. since 2011. This was the city's response to the housing needs of more than 200,000 families living in areas considered danger zones, 80 percent of which were informal settlers, according to nongovernment organization Habitat for Humanity. Bistekville housing units can be availed of by Quezon City residents who are considered informal settler families, or ISFs. These families are those living along rivers, creeks and estuaries, those under transmission lines, those affected by infrastructure projects and those evicted through court order. They must also be able to pay monthly amortizations and should be members of Pag-Ibig Fund.

(Source: https://businessmirror.com.ph/2019/01/31/the-mass-housing-mess-why-filipinos-continue-to-struggle-with-owning-a-home/)

Republic of Korea

South Korea's housing market remains sluggish

High housing costs are a political issue, so the government is targeting the "overheated speculative zone", comprised of the capital Seoul (all 25 districts) and two other areas – Gwacheon and Sejong City, where they've re-introduced increased capital gains tax [CGT] on property investors, originally introduced in 2005-2014. Investors who own two houses pay an extra 10% in capital gains tax upon the sale of a property. Three-house owners can expect an extra 20% tax, in addition to baseline CGT of between 6-40%, depending on the size of the gain and the holding period.

(Source: https://www.globalpropertyguide.com/news-south-koreas-housing-market-remains-sluggish-3853)

South Korea House Price Index

The Housing Index in South Korea increased to 99.70 Index points in October from 99.60 Index points in September of 2019. The Housing Index in South Korea averaged 66.28 Index points from 1986 until 2019, reaching an all-time high of 100 Index points in December of 2018 and a record low of 33.60 Index points in February of 1987. source: Kookmin bank, South Korea

In South Korea, the Housing Index refers to average house prices across the country. The survey includes 2,955 detached/row houses and 13,074 apartments in all provinces in Korea. The number of houses by province/type has been given a weight to generate a composite house price index. The South Korea House Price Index provides – actual values, historical data, forecast, chart, statistics, economic calendar and news. The South Korea House Price Index – actual data, historical chart and calendar of releases – was last updated on November of 2019.

(Source: https://tradingeconomics.com/south-korea/housing-index)

Singapore

Singapore property market faces risks from unsold units and an uncertain economy

Singapore's property market faces "potential downside risks" from a large supply of unsold units in the medium term and an uncertain economy, said the Monetary Authority of Singapore [MAS] on Thursday, Nov 28. In its annual Financial Stability Review, the central bank urged prospective buyers, especially households that are highly-leveraged, to be mindful of risks and remain prudent. Property firms that have built up high levels of leverage and hold large unsold inventory should also exercise prudence, it added.

"Ongoing uncertainties in the economic outlook and a softening labour market could negatively affect households' incomes and their demand for property," MAS wrote.

(Source Read more at https://www.channelnewsasia.com/news/business/mas-financial-stability-review-property-risks-unsold-homes-12133586)

Singapore housing market 'remarkably stable', reports UBS

Singapore's housing market remains in the fair-valued zone after government regulations reined in the growth of property prices, according to the latest UBS Global Real Estate Bubble Index. "The brief housing boom between mid-2017 and mid-2018 is over. Prices have stagnated since and the number of transactions fell," the report read.

The Lion City scored 0.45 to rank 20th out of the 24 cities studied and was noted for being the most improved housing market in terms of affordability. Housing affordability deteriorated the most in Hong Kong, although it fell to the third spot amongst cities with the greatest housing bubble risk globally.

UBS attributed Singapore's market slowdown primarily to three factors: government regulation, declining population, and an expected economic downturn in the near-term.

(Source: https://sbr.com.sg/residential-property/news/singapore-housing-market-%E2%80%98remarkably-stable-ubs)

Sri Lanka

Mortgages in Sri Lanka: demand for houses in Sri Lanka is increasing and so is the demand for mortgage loans

Sri Lanka has a population of 21.35 million with the urban share being 3.87 million. It is expected that this urban share will grow by 3-4% annually. With increased urbanization and high population density in certain districts, the country is facing higher demand for houses and therefore for housing finance. Sri Lanka's housing finance sector is currently only 6.8% of its GDP. The mortgage lending market has shown growth rates of 10-20% in the past few years and while the country has a system of directed credit with a highly segmented market, it is shifting toward an integrated, market driven housing finance system.

The housing finance market is segmented between private commercial banks and state-owned banks while other financial institutions contribute in a small measure. Private commercial banks have a sway over the mortgage market share. What is significant about the country is that microfinance institutions too offer mortgage finance.

Housing finance in the country is often offered as long-term, fixed-rate mortgages. Some private banks are also offering adjustable rate loans. The State Mortgage & Investment Bank [SMIB] and the National Savings Bank [NSB] offer 10-year fixed rate loans, while HDFC Bank of Sri Lanka offers fixed rate loans of 10-year duration. As a rule of thumb, for low- to middle-income borrowers, banks offer a maximum of 40% debt service to income ratio, and 60% for higher income borrowers.

Government involvement

The government is involved mostly to the extent of facilitating a customer to obtain a loan unlike in some countries where they act as a direct provider of housing finance. Thus, the private sector has emerged as the major funding provider for housing finance development for middle- to high-income groups, while the government and microfinance institutions cater to the lower income groups.

Sri Lanka has been seeing increased demand for housing loans. Some estimates show that the housing finance market has grown at a compound rate with the escalation of per capita income and changing patterns of consumption and saving habits. Some studies indicate that declining interest rates over the past years have encouraged investments in properties rather than in low income yielding government securities and term deposits. Similarly, rises in income in the private sector have made housing more affordable. There are tax benefits for borrowers. Lastly, Sri Lankan migrants are investing in real estate in a big way as an alternative means of investment.

(Source: https://www.pressreader.com › india › banking-frontiers)

Fiji

Fiji vows to build more affordable housing units

Fiji's Public Rental Board [PRB] will construct more affordable housing units for families as the demand keeps growing in the island nation every year.

According to Fiji Broadcasting Corporation [FBC], PRB Board Acting General Manager Patrick Veu said on Monday that over 200 units are needed annually to meet the growing demand of people moving to urban areas for a better lifestyle, education for children and work opportunities. Financial constraint is one major challenge faced by the PRB to meet the ever-growing housing need, he said, adding that due to financial constraints, the PRB were only able to in the past 20 years or so to construct 495 units. Mr. Patrick Veu said they would like to construct 200 to 500 units per year in order to meet the demand out there.

The board is currently constructing more than 30 rental units in Lautoka, the second largest city in Fiji and plans to build 630 more units in the future.

Arif Khan, managing director of Bayshore Real Estate, in a report on affordable housing in Fiji said this shortage will still have an impact unless more land and home developers arise. Khan further expressed the belief that urban market for housing facilities will likely remain high on prices. The properties will also maintain their attraction. This is because demand is on a high, outpacing supply in the market. He noted that housing demand in Fiji would continue rising owing to the current economic indicators. This is partly because of market liquidity and high consumer confidence.

Thailand

Baht appreciation and yuan depreciation affecting property sales

The Thai baht's appreciation particularly against the US dollar and the Chinese yuan is seriously impacting condominium sales in Bangkok.

Lumpini Wisdom, LPN Development Plc's property research firm recently told The Nation that condominium sales to foreign investors, especially from Hong Kong and mainland China have dropped drastically this year.

According to Lumpini Wisdom, Chinese and Hong Kong condominium investors were once as much as 40% of the total market.

In addition, the Chinese government's restriction of capital outflows to not more than $US 50,000 (Bt1.5 million) for its citizens has also contributed to the Thai condominium market's malaise.

With the new currency controls, Thai property companies also fear that Chinese investors that are awaiting property transfers may change their minds and walk away from intended purchases.

From 2017 onward, Chinese investors were known to purchase as much as 20% of many Bangkok condominium projects.

Low-cost housing sales impacted by high mortgage rejection rates

The Thai government's Pracharath low-cost housing program has been slow to gain traction because

potential low-income purchasers are having difficulty qualifying for mortgages.

As many as 80% of loan applications for the state's low-cost housing scheme have been rejected, which may force many developers to halt projects amid slumping demand.

Few property developers have been interested in bidding to develop the low-cost housing projects because they are required to sell the homes at a maximum of Bt 1 million ($US31,250) and pay a 3.3% specific business tax. All projects must also include common areas for residents.

The Pracharath program was designed to provide home for families with annual incomes of less than Bt100,000 ($US3,125). Purchasers would purchase homes on land leased from the Treasury Department.

If units are not sold, they would be first offered to families earning less than Bt35,000 ($US1,093) per month before offering the properties to the general public.

GH Bank president Chatchai Sirilai earlier said that most rejected loan applicants could not afford the monthly minimum payments. GH Bank and the Government Savings Bank are the primary lenders for the Pracharath Thai housing program.

GH Bank savings certificates heavily oversubscribed

The Government Housing Bank's special savings certificates priced at Bt1 million ($US31,250) each are expected to be oversubscribed.

The savings certificates are part of the Bank's Bt27 million ($US 843,750) lottery program, Wimarnmek.

The Wimarnmek savings certificates pay 1.4% interest per annum for those that hold the certificates until their three-year maturity.

In addition to interest payments, depositors participate in a lottery that offers periodic cash prizes. Twenty-seven lucky depositors will receive cash prizes equal to Bt200,000 ($6,250) each month. During the three years, 927 cash prizes (Bt200,000) each will be paid to lucky depositors. The probability of winning a prize is 0.1%.

Proceeds from the savings certificate will be used for mortgage lending with a fixed interest rate in the range of 2.5-2.75% per year.

Europe: a shifting regulatory landscape

By Mark Weinrich

The European Banking Authority [EBA] is an independent European Union [EU] authority. The EBA's task is to work with the EU member states' national supervisory authorities to ensure an effective and coherent level of regulation and supervision in the European banking sector. The EBA published its detailed annual work programme for 2020 in October 2019. The programme includes a description of the EBA's objectives and key strategic work areas, expected results and main outputs. It is focused on six strategic areas:

1. *Supporting the deployment of the risk reduction package and the implementation of the global standards in the EU.* The risk reduction package was adopted in May 2019 and implements the internationally agreed Basel standards for a binding leverage ratio [LR] and a net stable funding ratio [NSFR] in the EU. It also aims to strengthen the process of resolution of struggling banks. The EBA will work to deliver the Level 2 regulations necessary for the implementation of the new rules, along with the introduction of the Investment Firm Directive [IFD]/ Investment Firm Regulation [IFR] regime and the Covered Bonds Directive.

2. *Providing efficient methodologies and tools for supervisory convergence and stress testing.* The EBA will start consulting on Pillar 2 revisions, improved incorporation of proportionality, coherence with Pillar 1, and the levels of application policies on capital and liquidity. The EBA will continue monitoring banks' own funds and liquidity provisions, with a focus on capital and liability instruments, the termination of grandfathering of own funds instruments, and the use of discretions in the area of liquidity transactions for computation of the liquidity coverage ratio. The EBA will also conduct an EU-wide stress test.

3. *Moving towards an integrated EU data hub and a streamlined reporting framework.* The EBA aims to upgrade its supervisory data platform, which supports data collection, data validation, data integration and report monitoring. The culmination of this work will establish the EBA as an EU-wide data hub at the service of competent authorities and the public. The EBA will also work on a feasibility study on an integrated EU reporting framework.

4. *Making anti-money laundering (AML) a real priority for the EU.* The EBA will strengthen its role in the area of AML and countering Financing of Terrorism [CTF] supervision by national authorities.

5. *Contributing to the sound development of financial innovation and sustainability.* The EBA will continue to build environmental, social and governance [ESG] considerations into its general work and will prepare a Discussion Paper on the incorporation of ESG into risk management and supervision. The EBA will continue delivering its FinTech roadmap by monitoring financial innovation and ensuring that regulation remains technologically neutral.

6. *Promoting an operational framework for resolution.* The EBA will deliver on its mandates, starting with expediting the ones that are essential to the operationalization of the resolution framework such as on the minimum requirement for own funds and eligible liabilities [MREL]. The EBA will also focus on some practical aspects that appear necessary for the execution of resolution decisions, with a focus on bail-in.

The six strategic areas of the work programme arise from various mandates and legislative proposals but are nevertheless ambitious. Of particular interest are the planned activities regarding AML. Recognising the significant pressure that recent laundromat scandals within the EU have created for the EBA and other supra-national authorities, the likelihood of further developments in this field is very strong. The EBA has even indicated that further centralisation may be the only way to ensure a 'truly European approach' to AML/CTF.

In this context, it is also of interest to see how legislators and regulators are responding to the fast-moving and dynamic forces unleashed by digital disruption. Consider the progression of EU Anti-Money Laundering Directives. While nearly 12 years elapsed between the adoptions of the third and fourth directives, the fifth directive followed just a year later and the sixth directive only six months thereafter. The need to account for technologies such as virtual currency platforms and e-money is a contributor to this acceleration.

Clearly, regulators (not only the EBA) have become more proactive in adopting technology in their supervision of the industry. Against this backdrop of technology powered supervision, financial institutions increasingly have to integrate technology into their compliance, identity management, reporting, and other functions. This will be not an easy task, in particular for smaller and middle-sized institutions which will have to segment their adoption of regulatory technology over time. It will be most critical for them to start by looking broadly at workflow, data handling, processes, and training, so that they can determine which technological fix achieves the most complete solution.

Covered bonds in LAC countries – an update

↳ By Claudia Magalhães Eloy

In the summer of 2017, there was a discussion in this column as to how Latin America and the Caribbean was gradually becoming part of the global covered bond [CB] trend with dedicated regulation appearing in various jurisdictions. Back then, Brazil was about to enact a piece of ancillary regulation to the main law (of 2015) which came into force later in 2017[1], finally realizing this new instrument, called Letra Imobiliária Garantida [LIG], in the country. At that time, the only issuances in the region had been those of Panama (USD 300 million of a USD 500 million program, by Global Bank) and Chile (Bonos Hipotecarios, USD 202 million of a USD 400 million program, by Santander), made between 2012 and 2014, both falling considerably short of expectations.

No new CB jurisdictions have been created in the region since then. In Mexico, despite more recent (2016 and 2017) efforts from the National Housing Comission [CONAVI] to create a comprehensive regulatory framework for CB "Bonos Cubiertos", it did not reach fruition, mostly due to banks' lack of interest. Also, the law, specifically the Ley de Instituciones de Crédito [LIC], has not yet been altered[2] and still forbids banks from securing debt via loans over depositors' rights, therefore preventing proper regulation of CBs.

In regard to new issuances, so far there have been none in Chile since 2014, despite changes in regulation that were supposed to whet the appetite of the markets: since 2015, the Liquidity Coverage Ratio recognizes BHs as high-quality liquid assets; and, in 2017, mortgage loans issued before the bond's date of issuance became eligible to compose the cover pool[3]. In Panama, after a partial buyback of CBs in September 2016, the outstanding Global Bank bonds matured in October 2017. More recently, in December 2018, a second Panamanian issuer, Banco La Hipotecaria, issued USD 11mn of covered bonds and another USD 30mn followed in May 2019, both instances still in a contractual format, since there is yet no dedicated regulation for CBs[4].

In November last year the first Brazilian issuances occurred, totaling BRL 2 billion up to December/2018 among 4 issuers[5]. As of November 2019, the stock of CBs reached BRL 10.6 billion[6], putting Brazil in the pole position of the CB market in the region. Luca Bertalot, from the European Covered Bond Council [ECBC], observes that differences in performance among LA&C countries can be explained not only by the size of their domestic markets and local investor base, but mainly due to the quality of the regulatory framework[7]. Brazil´s dedicated covered bond regulation is more robust and aligned with European standards, thus positioning the country as a benchmark for the region.

Thus far Brazilian issuances have all been private ones, not publicly placed or rated, sold to individual investors on a 36-month term. Moreover, their cover pools are composed of high-value commercial mortgages, and LIGs have not yet materialized as a housing funding instrument. Improvement is also expected in the detailing of information in the registry of the issuance, according to Luis Peyser, whose law firm (i2a legal) has assisted many issuances so far: mainly regarding risk factors and the transferal process to the fiduciary agent. He expects such improvements to gradually take place as soon as public issuances begin. Further regulation to allow for public issuances is still pending, but the securities commission [CVM] has recently held a public consultation and is expected to enact regulation stipulating public issuance requirements in the first half of 2020.

Rating is another fundamental issue that has not been tested yet. According to S&P Global ratings methodology, a Brazilian covered bond program can be rated above (up to 4 notches) the issuer credit rating [ICR] under their criteria, thus allowing it to overcome a major issue with Santander´s issuances in Chile. A rating higher than sovereign is possible, depending on refinancing risk. Yet, transfer and convertibility [T&C] assessment limits rating upgrade to 2 notches. In the end, in terms of rating, significant differentiation of those bonds from regular unsecured bonds of major issuers may prove challenging, notably while the sovereign rating does not reach investment grade.

In terms of demand from local investors, institutional investors have not yet shown interest since up to this point CB issuances have been priced at below market interest rates, targeting individual investors who benefit from tax exemption on CBs. Institutional investors and trusts compose just 9% of all funding for the entire banking system in Brazil (Central Bank, June 2019). Currently with a record low interest rate (the reference rate is down at a nominal 4.5% for the first time[8]) investors are being driven away from traditional fixed income options (mainly treasury bonds) and have started looking for new asset classes. While this may be

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[1] Law 13097/2015 and Resolution CMN 4598/2017.

[2] A draft law to change LIC was prepared in 2012 but did not pass as the Central Bank opposed it.

[3] Chilean regulation established that CB issuers have 18 months since the bond's date of issuance to allocate the resources to the origination of mortgages that will then compose the cover pool.

[4] ECBC Fact Book, 2019.

[5] Santander, Itaú, Bradesco and Banco Inter.

[6] Around USD 2.5 billion.

[7] For issues regarding Chilean 2013 issuances, see https://www.reuters.com/article/fitch-rates-first-mortgage-bonds-issued-idUSFit65977220130603.

[8] As of December 11th, 2019, down from previous historic low of 5%. The reference rate (Selic) is expected to fall to 4.25% by the beginning of 2020, then gradually rise to 6.25% in 2021 (Copom, Central Bank). Inflation is currently below target, expected to be 3.8% in 2019 and 3.6% in 2020.

indeed a good time for the CB market to develop among local institutional investors, according to Filipe Pontual (Abecip), Brazilian CB issuers can obtain cheaper funding by selling LIGs exclusively to local individual investors due to the tax exemption granted to individuals. Also, regulation establishing preferential treatment of covered bonds for risk weight purposes is not yet established but is already under analysis by the Brazilian banking authorities. This remains largely a European phenomenon as the ECBC observes (Fact Book 2019, p.47)[9]. Bertalot believes that it would be wise to have it regulated as soon as possible, thus completing the alignment of Brazilian CB with European standards and therefore sending a positive sign to international investors to step in.

In the international context, declining or negative interest rates in developed economies open up a window of opportunity for Brazilian CBs to attract foreign investors. Yet, some issues remain in that arena as well. The fact that segregation and ring-fencing of the asset portfolio are guaranteed by two features of the Brazilian legal system, the fiduciary regime and the allocation patrimony[10], may require some explaining in foreign jurisdictions. For that, according to Pontual, Abecip plans an international roadshow, not yet scheduled. Although outside the Eurozone, CBs denominated in the corresponding domestic currency dominate the outstanding volume with a share of 68%[11], in the case of Brazil, Pontual observes that in order for LIGs to be placed in international markets, they must be denominated in strong currencies (dollar or euro), thus requiring hedging and increasing issuance costs[12]. Rating may also come up as an issue in foreign placements demanding higher interest rate premiums. The USD denominated covered bond market (dominated mostly by Canadian and Australian issuances) is predominantly 'AAA' rated (ECBC Fact Book 2019). In the end, Brazil´s economic growth will be a major determinant of foreign investor´s appetite: the IMF expects GDP to grow by 0.9% in 2019 and 2% in 2020 (World Economic Outlook, 2019), while more recent forecasts show slightly higher growth rates[13].

All in all, for 2020, estimates for new Brazilian CB (LIG) issuances are just above this year´s performance and outstanding CB values should total between BRL 25 and 30 billion by the end of 2020. Therefore, a steady but somewhat slow growth in this market in Brazil should be anticipated in the short term. In the long run, Luca Bertalot is optimistic about Brazil, considering its solid CB regulation and the fact that stakeholders, notably the mortgage bankers association (Abecip) and legislators are working together, moved by the ambition to establish Brazil as the recognized benchmark for the region, successful in both national and international markets.

Returning to other markets in the LA&C region, prospects are much less certain, notably considering recent social upheavals and political turbulence in Colombia, Peru, Ecuador, Bolivia and even Chile, not to mention the financial crisis and sovereign default in Argentina. Political risk could indeed amplify negative sovereign credit trends in the regions, according to Fitch Ratings[14]:

> *"While each of these events has been rooted in country-specific factors, they reflect a wider trend of political uncertainty and social discontent in the region linked to stagnant incomes, high income inequality and a perceived lack of policy action to address these issues."*

Weaker global growth and US-China trade tensions, though seemingly nearing the end, have also hurt the Latin America region through their impact on commodity prices and exports, and according to Jamie McGeever[15] the growth-boosting arsenal of the region is worryingly depleted. That coupled with budgetary constraints in larger economies such as Brazil and Mexico contribute to the weak growth momentum. Overall economic activity in the region remains "sluggish" according to the IMF, which has recently cut expected regional growth in GDP to 0.6% in 2019, down from a previous 1.4% which equates to the slowest rate since 2016. In 2020, it is expected to rise to 2.3%.

As the ECBC (Fact Book 2019, p.45) affirms, covered bonds have demonstrated a strong degree of resilience and provided lenders with a cost-effective and reliable long-term funding instrument for mortgage loans. Moreover, in April this year, a CB Legislative Package was approved in Europe, providing enhanced harmonisation of the European CB market, in line with the objectives of the Capital Markets Union and reinforcing a European common qualitative benchmark for international investors. Such progress is expected to pave the way for the development of covered bond markets in both the European Union as well as on a global level. While CBs already account for approximately 24.9% of mortgage loans in Europe[16], they are still emerging in Latin America. It is reasonable to expect further growth in this market in the LA&C region as Basel III reforms[17] and Basel IV discussions advance and more importantly as local economic and social log-jams are cleared, enabling housing and mortgage markets to expand in the region.

9 Article 129 of the Capital Requirement Regulation grants, under certain conditions, preferential treatment to covered bonds.

10 Patrimônio de Afetação and Alienação Fiduciária, pursuant to Law 13097/2015. Fiduciary liens have substituted traditional mortgages on housing finance contracts in the country.

11 ECBC Fact Book 2019.

12 A newly enacted Central Bank resolution (CMN #4761/2019) has taken an alternative route, authorizing the sale of Depositary Receipts [DR] representative of LIG in foreign markets.

13 Fitch Ratings has just elevated Brazil´s growth rates to 1.1% in 2019 and 2.2% in 2020, while Bradesco, one of Brazil´s 4 largest banks, bets on 1.2% and 2.5%, respectively.

14 There are currently no positive Ratings Outlooks among Latin American sovereigns and a large number of Negative Outlooks. (Fitch Ratings, Nov 19th, 2019. https://www.fitchratings.com/site/pr/10102118

15 "Latin America lacks ammunition to fight global economic slowdown." https://www.reuters.com/article/us-latam-economics-recession-analysis/latin-america-lacks-ammunition-to-fight-global-economic-slowdown-idUSKCN1VA1YH

16 Hypostat, 2019.

17 Basel III (2017) provide for a more favourable risk weight treatment for covered bonds – preferential risk-weights for CBs should be applied as of 1 January 2022 – paving the way for a preferential treatment of covered bonds on a global scale." (ECBC Fact Book 2019, p.47).

Tax incentives for households in favour of investment in rental housing in France – regardless of the arguments for and against, could this be a source of inspiration for other countries?

By Sylvain Guerrini & Jean-Pierre Schaefer

1. Introduction

In comparison with other countries (e.g. the UK or Germany), France has a very dynamic building sector based on social housing, construction for owner-occupied housing and rental investment. This last sector – which is just one of the three main areas of intervention by the Government in the housing sector – is the subject of this paper.

Thirty-five years ago (1984), the French Government created the first tax scheme in favour of rental investment by private households. Ever since, the measure has been named after the most recent Minister of Housing who modified the scheme, defined and approved by the Ministry of Finance. The current scheme is named after Sylvia Pinel, who introduced changes in 2015.

Since the 80's, these measures have become one of the most important features of housing policy, together with support for owner occupation and development of social rental housing (Schaefer 2017). It represented more than €1.9 billion in tax exemptions in 2018 and a production close to 50,000 housing units. These tax exemptions have spurred strong debate even in the national press for ideological, economic or social reasons. They have therefore been constantly modified and can be considered as one of the most volatile policies in the housing sector. However, these policies have never been suspended, and the demand for this product remains strong.

Given the exceptionally high level of construction in France, rental investment does not seem to have developed to the detriment of social housing or home purchase. The impact on other sectors would be a matter for debate in countries where the level of construction remains low, especially since the Global Financial Crisis [GFC].

We will first set out the characteristics of this policy and the arguments for and against. We will then present recent changes to it, illustrating the contradictory tensions between the main objectives of these measures. Finally, we will examine the conditions under which this policy could be a source of inspiration for other countries.

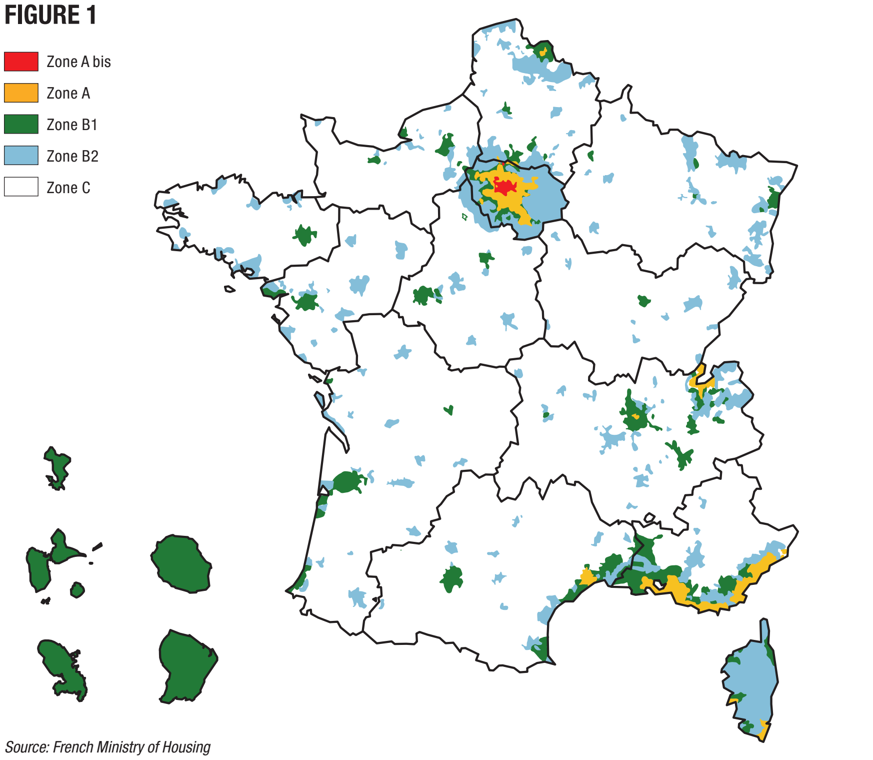
2. An adaptable measure which seems to be a French exception

2.1. Which dwellings are affected?

This scheme enables investors to enjoy an income tax rebate for different sorts of projects:

- new flats or houses off-plan or already built,
- construction,

FIGURE 1



Source: French Ministry of Housing

Currently, tax incentives in favour of private rental are available only for dwellings located in the "A bis", A and B1 areas.

- renovated homes,
- conversion of offices into dwellings, etc.

In fact, most tax rebates concern newly built rental dwellings.

With some exceptions, the project must be located in an area considered as a tight market, according to a map drawn up by the French Ministry of Housing[1].

2.2. Income tax rebate and rent obligation

The principle of this policy is fairly simple. According to its present version, the investor benefits from an income tax rebate which represents 12, 18 or 21% of the investment, depending on the period of renting. The landlord lets the home for 6, 9 or 12 years. He receives a tax rebate of 2% per year during the first 6 or 9 years and 1% per year afterwards. Inflation is not taken into account. The income tax reduction begins the year the housing is rented out. Only households subject to income tax can benefit from this tax reduction. It is calculated on the amount of the property investment excluding fees (intermediaries, notaries, registration, etc.).

The maximum investment is capped at €300,000 per dwelling and the price is limited to €5,500 per square metre (sale value). It is possible for an investor to buy 2 dwellings per year, but the rebate is limited to €10,000 per year.

The landlord can choose his tenant on condition that the income of the renter is below a certain level, which is close to the highest limits used in the social rental sector.

The rent is capped by the Ministry of Housing during the rental period chosen by the investor. The maximum rents are expressed per square meter and modulated by a surface area coefficient.

In theory, these limits must be 20% below the local market: from €8.93/m² in the countryside up to €17.17/m² in Paris (2019 figures).

2.3. Torn between two different trends, this policy has undergone significant changes

Since the creation of the first scheme (1984), all the characteristics of this policy have changed, allowing it to adapt to different political objectives.

Successive governments are gradually taking into account criticism expressed against this policy and are constantly improving its characteristics. When we examine the working of these schemes over the long term, we notice a form of tension between two main and contradictory objectives: firstly, some schemes aim to support economic activity and embody a neo-liberal approach; others are implemented from a more social perspective. From this latter point of view, one of the main objectives of this policy is to create affordable housing for middle- and lower middle-income households.

Modified by the Socialist Government in 2014, the current scheme is known as "the Pinel scheme" because Sonia Pinel was in charge of housing in the government when this scheme was adopted.

2.4. The Pinel scheme: a relaxation of the previous scheme to stimulate housing construction

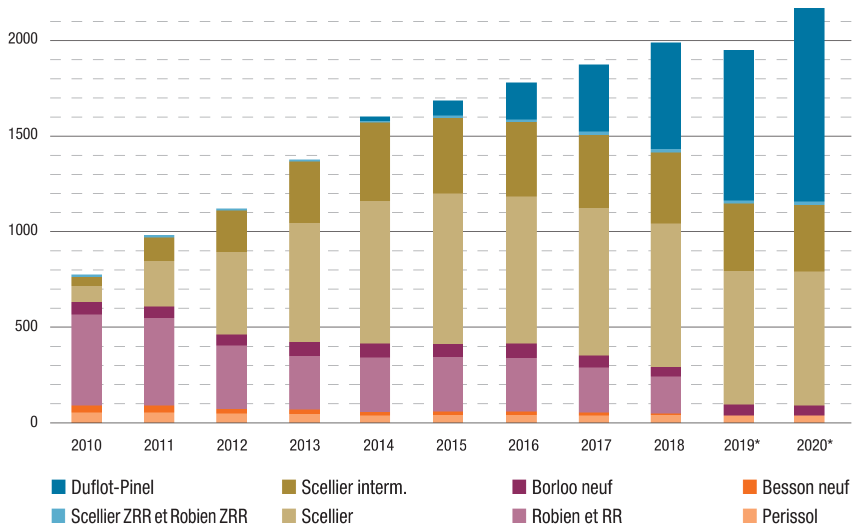
Faced with sluggish housing construction, a new system was implemented on 1 September 2014 replacing that of Duflot. It expands and diversifies financing opportunities: the lease period can be adapted to the investors' project (6, 9 or 12 years) instead of a single duration of 9 years. Geographical restrictions are maintained but a revised zoning map has applied from 1 October 2014, expanding the eligible areas. Rent and resource limits remain the same. However, the Government has removed the possibility for local authorities to impose lower rent ceilings on landlords, which had been possible before. This new version of the scheme was a success, since the level of production has never been higher in 20 years. Given the risk of a bubble and the recurrent criticisms against the scheme, geographical restrictions have been reinforced since 1 January 2018.

2.5. No equivalent policy in other European countries

When it comes to its size, France benefits from a medium range private rental sector [PRS], which has been preserved thanks to the tax scheme. This policy seems to be a French exception. At the present time, some countries in Europe have a small rental sector. Even countries with a strong rental sector like Germany have not incentivised households and prefer to fuel (lower) building activity via institutional investors.

In Portugal, Italy and Spain where the PRS is weak and national plans were adopted after the GFC, no schemes were created in favour of the rental investment of households (Housing Europe 2017, Poggio and Boreiko 2017, Vorms 2009). Until 2010 in Germany, all rental investment benefited from relatively low amortisation (ANIL, 2006). It was a question of neutrality between the different types of investors: households, institutions and public entities. As for other actors, depreciation was calculated on the basis of 2% of the value of property per year for 50 years (not including the plot of land). This scheme applied to all investments, regardless of whether the dwelling was new or old, and whether or not its rent was controlled.

FIGURE 2 Fiscal expenditures (in M€) per fiscal scheme



Source: Finance Acts 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020

* : estimates

[1] In theory, an area is considered as a tight market when demand outstrips supply of homes, but the map has also been based on political considerations.

In Denmark, investors who are private individuals have not been able to access housing subsidies granted to pension funds and insurance companies since the beginning of the 2000's (Whitehead et al., 2012).

The French scheme seems therefore to be an exception in Europe, whereas it is one of the levers used by the Government to maintain a high level of construction in France. Yet this policy has fuelled heated debate in this country.

3. The arguments for and against in France

3.1. A significant cost to the public purse

The French critics of this policy first draw attention to its increasingly high cost to the housing budget. They point out that these dwellings would have been built even without the tax rebates and that investors are benefitting from a "windfall-effect". This is the point of view of the French National Audit Office, even though the Auditors recognize in the same publication that they do not have sufficient information about the effects of this policy (Cour des Comptes 2018).

In addition, these policies have an impact on the budget for long periods of time. For instance, the "Scellier scheme" in force from 2009 to 2013 will continue to have an impact on the budget until 2029.

Besides, this kind of investment does not need any administrative decision from the Ministry of Housing: the tax department cannot refuse any project if it respects the law. This is called a "handout policy" ("guichet ouvert", Vergriete 2013). Consequently, the tax exemption may become difficult to control.

3.2. Some inflationary effects

Furthermore, these criticisms reinforce the general debates regarding the inflationary effects of public measures in favour of housing. For the last 15 years, housing markets in France have been accused of being "artificially" boosted by subsidies whatever the measure (e.g. recently Grislain-Letrémy and Trevien 2014). The price of land and construction costs are said to have become grossly inflated. These measures could be responsible for the high price of dwellings even during (and after) the GFC. Households do not currently negotiate the price of their dwelling, unlike public or institutional housing investors.

3.3. The rental risk of unviable or poorly sited projects

Other critics underline the fact that the dwellings are built regardless of demand essentially because of the handout principle and the lack of control by the Ministry of Housing (Bosvieux 2011).

In addition, the development of a rental sector owned by private households raises another issue. Individuals instead of institutional investors now essentially assume the rental risk in France.

Even though some insurance systems have been implemented over the last 15 years and re-enforced recently, the risk of rent non-payment could be high for individual landlords.

In fact, the yields were often miscalculated. Furthermore, the risk was underestimated by investors and today some might have made a bad investment essentially because their dwelling is poorly located. These dwellings might become vacant, suffer from a high turnover, or bring in a lower rent than expected. This problem is linked to the way these homes were sold. Specialised brokers emerged in the early 2000s and used "aggressive" sales practices. Their door-to-door salesmen presented the dwellings as risk-free fiscal products.

To increase the apparent profitability of the investment, they built the dwellings in small and medium-sized towns in the south and southwest of France. In these regions, land was cheap, but demand was low. The market in these towns was destabilized, and the rent and prices of these homes fell sharply. The investment therefore was far less profitable than expected.

Since 2007, the media has raised public awareness of the dangers of these investments. After one year without any tenant, the owner loses the entire income tax rebate.

Badly located and poorly built (Vergriete 2013), some blocks might deteriorate quickly. The local authorities are afraid of the fragility of these buildings, in particular when a large majority of flats in a block are financed via a tax scheme (Dussart 2014).

The adversaries of this policy therefore stress its "enormous" cost for the Government's budget, its inflationary effects and the risks it represents for unwise or ill-advised investors.

On the other hand, the supporters of tax rebates also have many arguments, which are dealt with in the next sub-section.

3.4. A major economic role

They first underline the fact that this policy has played a significant and positive economic role. 1.25 million new dwellings were built and financed between 2000 and 2017. This represents about a quarter of the production of dwellings in France during the same period (FPI 2018). As the rate of house building in France is higher than anywhere else in Europe, it seems that this enhanced production has not been the expense of other kinds of dwellings.

According to these supporters, the scandals and the excesses linked to these schemes, though regrettable and spectacular, remain marginal and do not call the principle of this policy into question (Bosvieux 2011). Furthermore, following the GFC, new programmes are better located, and the brokers specialising in tax schemes have changed the way they work or disappeared.

This policy also enables building companies to maintain many jobs in their sector and these jobs are not relocatable.

In addition, the scheme implemented in 2008 played a major contra-cyclical role during the housing crisis. It boosted the activity of building companies and saved them from bankruptcy. The rebound reflected by the figures of the French Property Developers Federation (*Fédération des promoteurs immobiliers*) is indeed impressive (FPI 2018).

Furthermore, proponents of tax support measures believe that the additional dwellings created thanks to these measures represent a good deal for the Government budget in terms of VAT and other taxes (Bosvieux 2011). The tax rebate is more or less the same amount as the VAT. They provide immediate income for the national budget in exchange for a deferred tax expenditure. They are therefore economically profitable for the public purse. Moreover, fiscal expenditure remains low in comparison with the overall housing policy budget of €42 billion. In addition, the state collects taxes on the rents of these new homes.

3.5. The preservation of the private rental sector

Defenders of tax exemptions also underline the fact that these measures have preserved a large private rental housing stock in France (Guerrini 2013, Bosvieux 2011), whereas institutional investors withdrew from this market in the 1980s.

Block sale and "cut-and-sell" (*ventes à la découpe*) have allowed insurance companies and banks to significantly reduce their housing stock (Cléach 2003). They turned instead to investments in equity markets, retail parks and offices. The preservation of the private housing rental stock in France is a cause for great concern and this objective remains central today. Due to the slump in rental income observed in the 2000s, private rental housing sector is tending to shrink, essentially to the advantage of owner occupation. Without new building, its weight would have decreased significantly (Guerrini 2013).

However, private rental housing is essential to the fluidity of housing markets and the mobility of employees. This sector is therefore essential simply to keep the job market alive (Babès et al. 2012).

On the other hand, public authorities face a paradox about the development of these programmes. Tax incentives for private rental investment have become essential for the development of social housing. For 3 years now, more than half of public housing construction has been linked to rental investment through the mixed projects imposed by local authorities. Planning documents can now require that new projects be mixed from a social point of view. These local policies fuelled the development of a new means of production called "VEFA-HLM" – *vente en état futur d'achèvement* (Karli 2017). Instead of building dwellings themselves, social housing companies purchase housing off-plan from developers, which they continue to manage afterwards. VEFA-HLMs have made it easier to couple private and public housing production, which were uncoordinated until the beginning of the century.

Some also credited rental investment with the moderation of rents observed in some cities such as Montpellier, Angers, Nîmes, La Rochelle and Marseille. Moreover, it has created positive competition with the landlords of old rental homes who have been forced to renovate them (Bosvieux 2008).

Finally, the inflationary effects of this policy have been supported by only one study. Furthermore, the author of the paper in question observed this effect only on the land price (Bono and Trannoy 2012).

The proponents of tax exemptions emphasize their beneficial effect on the French economy. It has fuelled job creation and played a great role in the development of the PRS without diminishing the construction of other housing (social and for purchase), which remains at high levels. The advocates of this policy contest its inflationary effects, considering them as marginal or unproven.

4. A source of inspiration to develop the private rental sector in other European countries?

4.1. The importance of private rental housing since the GFC

The 2007 crisis has confirmed the importance of having relatively fluid housing markets (Housing Europe 2017). It might lead to improved functioning of the labour market, able to accommodate both young people leaving the nest and mobile active households.

Owner occupied housing stock does not offer this fluidity, because of the high transaction costs for homeowners who want to move home. Ownership is more difficult than before, because household incomes have dropped, and house prices remain high in several countries. Even though it has decreased a little in recent years in Europe, owner occupation still represents by far the most widespread housing tenure in the EU (Housing Europe 2017).

With fewer people buying property and with the financial risks associated with homeownership (Whitehead 2014), the general rental demand has increased.

The social housing stock does not seem able to cope with this growing demand for rental housing. First of all, the public rental market has been contracting sharply throughout Europe since the 1980s (Scalon et al.). This is the result of the neo-liberal policies pursued in Western Europe and the privatisation of dwellings conducted in Eastern Europe after the fall of the Berlin Wall (Hegedüs et al. 2013).

Nevertheless, this is not the case in France where the construction of tax-free rented housing has developed independently of social housing. As a matter of fact, building of social housing has remained strong. Furthermore, the GFC created tensions in the social sector (UNICE 2015) which has experienced a "residualisation" phenomenon (Housing Europe 2017).

Under these conditions, the fluidity of the housing market relies largely, and more than ever before, on the private rental stock.

4.2. Develop the private rental housing stock in Europe to respond to the crisis

Since the crisis, there has been a growing conviction that the existence of a stable PRS enhances macroeconomic stability (Whitehead 2014). In the public debate, Germany is now considered a model of good practice (Tutin and Vorms 2013). The private rental stock in Germany and Switzerland is substantial and is owned by institutional investors.

In some countries where the rental housing stock is low (Southern and Eastern Europe), the real estate crisis has fuelled debate on the need to conduct a housing policy more favourable to the rental sector, as in Spain, Portugal, Italy or even Ireland.

The countries concerned, however, have not undertaken an increase in public investment (Housing Europe 2017). On the contrary, in Spain and Italy, increased budgetary restrictions have led the public authorities to abandon social housing construction projects planned before the crisis.

Taking another path, they tended towards a liberalisation of the PRS in order to create a positive environment for it: legislation regulating rent increases has been relaxed in the hope that this will stimulate private investment (Steinmetz 2015OECD 2012; Vorms 2009; Pinto 2017). However, this liberalization has its limits and places tenants in a vulnerable position. Furthermore, the link between deregulation and the growth of the sector has not been proved in the past (Whitehead et al. 2012).

Ultimately, attempts to strengthen the PRS in Europe have not paid off sufficiently to cope with the situation created by the GFC.

From the international point of view, it can be seen that few countries have chosen to base the development of new rental supply on investment by households.

Nowadays, it seems important to create or reinforce the supply of private rental homes, which could enable people to move where jobs are located. This could be based on investment by households and not only on liberalisation of the sector or on institutional entities. The French experience highlights the flaws and benefits of such a policy, enabling one to imagine under what conditions and with what system of regulation such policies could be implemented.

4.3. Encourage rental investment by households, provided that it is regulated locally

Tax incentives favouring rental investment by households are one of the levers used by the government to obtain a relatively high level of construction in France and to contribute to the resilience of housing policy based on a wide diversity of tools (Schaefer 2017).

So, it might be a good idea to develop a tax policy in favour of rental housing investment for individuals, provided certain conditions are respected.

First, this policy must be focussed on new construction or on in-depth renovation of existing housing.

A product must be defined that is aimed at private households and not at institutional investors.

The tax reduction should not exceed the VAT gains so that the leverage effect is maximized while limiting the cost to the public purse.

The location of dwellings should be restricted to areas where the need is proven, even if in the high-demand areas the rental yields of this type of projects are not always high. Federal countries could put in place controls and programming systems that would involve local authorities. Nevertheless, this involvement should have a genuine impact on their public finances so that they take a real critical look at these projects.

Rental yield might not be much higher than any other type of asset, assuming that capital yield in the long term will depend on the location. Social targeting needs to be defined by income caps, so that the percentage of eligible renter households is significant, and to cover the gap between the availability of social dwellings (when they exist) and the market. The rents should also be modulated locally, so that the dwellings can play a genuine social role.

The investor should not expect the tenant to pay the entire cost of the flat in 10 or 15 years. As most of them buy with a mortgage, a loan to value [LTV] below 80% should be recommended.

It is also necessary to define a period of controlled rent. A 9-year horizon seems a minimum, but some countries would prefer a shorter commitment. In any case, it seems necessary to avoid overly long commitments that go beyond the investment horizon of an individual (< 15 years).

5. Conclusions

5.1. Measuring the windfall effect

A fundamental question remains, which has hardly been addressed by the researchers: what is the contribution of the windfall effect? While the triggering effect of these policies on investors is significant, tax expenditure seems limited in comparison with jobs, taxes and revenue created by these projects (Schaefer 2017). The low level of private rental construction financed by households in other European countries suggests that this policy has significant triggering effects.

5.2. Better control over the location of housing

Another question concerns the optimal location of housing, which is very important for the occupation and good health of the collective programmes.

Tax schemes made it possible to finance housing that was more or less well-located depending on the economic situation, in spite of competition from other land uses. These dwellings were built in the most sought-after cities and districts in times of property crisis. On the other hand, they were built on plots further away from the centres and in less attractive cities during the construction booms (Vergriete and Guerrini 2012).

There are few studies to measure the risks for homeowners of this type of investment, especially compared with other investment such as the stock market. Faced with the GFC, Governments in Europe were able to consider a new way of developing the private rental sector based on households. The measures in favour of their investment could constitute an additional lever for the authorities. From this perspective, the French example should be examined, so that the risks for the investors can be identified and limited. There is probably a balance to be struck between real involvement of local governments and a mechanism that may need to be better coordinated between the Ministries of Housing and Finance. To be effective, this policy must involve a national framework and local decision-making at the margins. Essentially, it would be regulated when it comes to the location.

For this, it seems essential that local governments should have access to a comprehensive analysis of their local housing market and have designed local policies that are appropriate to the context.

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Towards harmonisation of covered bonds in Europe

↳ By Otmar Stöcker

After decades of discussion on the EU-wide harmonisation of the legal framework for secured bonds issued by credit institutions, the European Commission first published a proposal for a directive for covered bonds [CBs] in March 2018. Preliminary studies are also being conducted to determine whether an additional directive for European Secured Notes [ESNs] would make sense. The same debate took place in Germany in the course of the development from the German Mortgage Bank Act (*Hypothekenbankgesetz*, HBG) to the German Pfandbrief Act (*Pfandbriefgesetz*, PfandBG); that is, whether an additional legal framework for secured bonds issued by credit institutions should be established in addition to that used for the Pfandbrief product. This article presents the background and the current state of discussions on both topics as at the end of October 2019.[1]

1. Preparatory work on the EU harmonisation of covered bonds

Ideas for harmonisation do not simply occur on their own. In a collegial, Europe-wide exchange, the VDH/vdp[2] has repeatedly launched initiatives and made tangible contributions over decades in order to enable the Pfandbrief concept, which has enjoyed success in Germany for 250 years, to spread throughout Europe.

1.1. Covered bonds

In the course of the past almost 250 years, there have been at one time or other regulations on CBs and mortgage banks in almost all countries of Europe. This was especially the case in the 19th century. In the 20th century, these were abolished in socialist countries, and in a number of Western and Southern European countries, issuers developed into monopoly institutions.

Since the 1990s, laws on secured bonds issued by credit institutions have experienced a renaissance. The countries of Central and Eastern Europe wanted to build up a modern housing finance system and develop competitive capital market products to fund this. In the countries of Western Europe, the decisive impetus came from the discussion on the introduction of the euro; issuers in prospective euro countries became aware that, from the point of view of international investors, currency would no longer play a role as an investment criterion in their capital market products. Accordingly, they wanted to make their Pfandbrief-like instruments more competitive with the German Jumbo Pfandbrief by modernising the legal framework. Monopolies were eliminated, and new laws created.

This resulted in not only intensive legal activity throughout Europe, but also to a greater willingness of banks and their associations to work together across the continent to develop the European legal framework for secured bonds issued by credit institutions.

While terms like "Pfandbrief," "Pfandbrief-like product," "mortgage bond," and the like had been common parlance for quite some time, "covered bond" later gained prominence in the capital market as a collective term; a direct translation of the German "*Gedeckte Schuldverschreibung*."

The term "covered bond" was used as early as 2000 in the Pfandbrief fact book.[3] Up to 2003, the EMF published its reference book under the title *Mortgage Banks and the Mortgage Bond in Europe*. In 2004, the European Covered Bond Council [ECBC] was founded; on this occasion, the more neutral term "covered bond" was chosen as the product name. This term had initially been used sporadically in the capital market and later more frequently to describe not only bonds issued by credit institutions and covered by mortgages, but also those covered by claims against the public sector. The terms "mortgage covered bond" and "public sector covered bond" then spread.

Although the term "covered bond" does not indicate the issuer of the debt obligation, it is now internationally understood to be an issuance by a credit institution. In contrast, asset-backed securities [ABSs] and mortgage-backed securities [MBSs] are issued by special purpose vehicles [SPVs], which do not have any credit institution status, and therefore do not have their entire business operations monitored by banking supervisory authorities.

At the European level, in-depth discussions have been going on for many years about which criteria are required to designate a financial product a "covered bond."[4] Up to the establishment of Article 129 of the Capital Requirements Regulation [CRR], there were no detailed quality descriptions for CBs, and certainly no legal protection of the designation at the European level, so any market participant could designate their product a CB. Provisions for designation protection have only existed at the national level, such as Article 41 of the German Pfandbrief Act.

It should also be kept in mind that there was a strong opinion in the ECBC that secured financial products issued by non-banks should also be referred to as CBs for marketing purposes. This opinion prevailed in May 2007 in the ECBC's Technical Working Group[5] at a discussion-heavy meeting in Krakow when it came to answering the question of which financial products should be covered by the term "covered bond." As the vast majority of participants did not want

[1] This article is the English translation of the abridged and updated article by Stöcker, Pfandbriefe und Gedeckte Bankschuldverschreibungen (Part 2), Auf dem Weg zur Harmonisierung von Covered Bonds in Europa, EuZW 2018, pp. 617 – 624.

[2] The Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken, vdp) was named the Association of German Mortgage Banks (Verband deutscher Hypothekenbanken, VDH) until 2005.

[3] VDH, The Pfandbrief, Fact and Figures, Bonn 2000, p. 26.

[4] In the ECBC, this discussion is conducted under the heading of "labelling." A wealth of national laws and country reports on CBs can be found on the homepage of the ECBC (www.ecbc.eu).

[5] The task of the Technical Working Group for "common features" is described by Grossmann, ECBC, European Covered Bond Fact Book, 1st Edition, Brussels 2006, p. 23 ff.

to hinder innovation in CBs, no definition of "covered bond" was formulated; the focus was rather on the "common essential features" of CBs.[6] During the course of the financial crisis that began a few months later, this broad view was narrowed down by the ECBC, so that all CBs could be clearly differentiated from any form of securitisation.

Despite all Europe-wide discussions about the design of such laws and products, a great deal of diversity has arisen, both with respect to the details and the fundamental structure of the products as well as their core; namely, the issue of how to protect investors in the event of insolvency.

Today, CBs can be classified into around five basic models based on the issuer:

- specialised funding institutions (vehicles),
- traditional specialised credit institutions,
- universal credit institutions,
- SPV models, and;
- pooling models.[7]

The most recent CB model is the SPV model, in which securitisation techniques are used by a universal credit institution issuing bonds "covered" by the guarantee of an SPV to which the universal credit institution transfers assets. The cover pool structure of the traditional model is thus achieved by setting up a special company, which does not issue CBs itself, but only guarantees them. Some market participants see an advantage in the SPV model as no detailed legal provisions for insolvency protection are required, as this is achieved by the SPV construction.[8] In terms of its legal structure, this model can be placed between traditional CBs and securitisations.

CBs received a further boost, as they were able to hold their own much better than securitisations during the financial crisis from mid-2007 onwards. The importance of CBs was also reflected in that the European Central Bank [ECB] supported its monetary policy through CB purchase programs. Today, most European jurisdictions have laws on CBs. This has increasingly raised issues regarding the treatment of CBs by supervisory authorities as well as EU-wide harmonisation.

The range of cover assets for CBs has also been broadened: in Germany through aircraft mortgages, in Italy through loans to SMEs, in Spain through export credits, and in Luxembourg through financing for renewable energy plants – with new types of CBs tailored to these cover assets.

The economic importance of CBs has also driven harmonisation efforts. The global volume of CBs at the end of 2018 totalled EUR 2,577 billion: issuers from EU countries had a share of EUR 2,140 billion, of which the German Pfandbrief had a share of EUR 370 billion (i.e., 17.3%).[9]

1.2. Development of an EU single market

Although the concept of full harmonisation had long characterised the work for a European single market, the European Commission changed its strategy at the end of the 1980s towards the mutual recognition of financing techniques. In consequence, in the spring of 1988, the European Commission decided to suspend work on a CB directive,[10] as it considered the Second Council Directive on the coordination of the business of credit institutions (Directive 89/646/EEC) sufficient for the cross-border issuance of CBs. However, this did not clarify the complex legal question of EC-wide recognition of CB creditors' preferential right in insolvency.[11]

Over the years, however, it has become apparent that this strategy was insufficient, especially with respect to mortgage credit and CB-related issues. When a country's CB system also includes the entire legal framework of loans and mortgages intended as cover, cross-border activity fails because of the national provisions of consumer protection law, real estate law, and bank insolvency law. For this reason, the European Commission later returned to seeking full harmonisation in areas with majority support. However, CBs were long excluded from this, because they were not considered important enough in many countries, and because other priorities were set at a higher political level. This lack of interest has, however, not dissuaded the advocates of a Europe-wide dissemination of the CB concept.

1.3. Europe-wide technical exchange and harmonisation

With the founding of the European Mortgage Federation [EMF] in 1967, a platform was created through which experts could exchange information on the national legal bases of the mortgage business.[12] The VDH joined the EMF in 1968.

In 1969, on the occasion of the celebration of the 200th anniversary of the German Pfandbrief, the VDH hosted the heads of specialised associations and credit institutions from abroad that had a particular interest in combining mortgage lending and funding business activities. There, it was agreed that there would be regular discussions on the development of mortgage banks and Pfandbrief-like instruments. These meetings of institutional heads[13] served to help them get to know each other and build trust among colleagues who had not only experienced the war and post-war periods, but who were also deeply convinced that the development of a European legal framework could contribute to the establishment of an EU single market serving as a basis for a peaceful Europe.

As institutions with a special interest in the long term, German mortgage banks recognised that the German Pfandbrief would only continue to survive if it could be anchored in all important EU provisions. It was agreed that this could only be achieved for a financial product like the Pfandbrief through cooperation with partners from other countries. The more similar the quality standards of the financial products, the more effective one can be in Brussels.

In order to carry out an in-depth comparison of laws and systems for the Pfandbrief and similar

[6] Grossmann/Stöcker, ECBC, *European Covered Bond Fact Book*, 2nd Edition, Brussels 2007, p. 72 ff.: "The bond is issued by – or bondholders otherwise have full recourse to – a credit institution, which is subject to public supervision and regulation." These essential features were adopted by the ECBC Steering Committee, and published in ECBC, European Covered Bond Fact Book, Brussels 2008 and 2009. The following information is provided on CB issuers (2008, p. 76, and 2009, p. 97): "In most covered bond structures, the bond is issued by a credit institution, … In some structures, however, the covered bond is issued by a special purpose entity [SPE], which on-lends the proceeds to a credit institution …"

[7] See also Stöcker, *Covered Bond Models in Europe: Fundamentals on Legal Structures*, Housing Finance International, Winter 2011, pp. 32-40.

[8] This CB SPV model is followed by the United Kingdom, the Netherlands, and Italy, as well as all CB models outside of Europe based on the English legal system, or in which securitisation structures were developed before the introduction of covered bonds.

[9] ECBC, *European Covered Bond Fact Book 2019*, p. 599.

[10] See EC Mortgage Federation (Ed.), *Mortgage Banks and the Mortgage Bond in Europe*, Baden-Baden 1993, Introduction, p. 2, and Chapter IV, p. 3 f.

[11] For more on the connections between the work on a mortgage credit directive, the decision not to pursue a CB directive, and the consequences of this, see VDH Annual Report 1998, p. 51 ff. One of the consequences of this was that the VDH advocated the use of the term "Pfandbrief" for the German financial product in the markets of the EC Member States by means of advertising and press conferences, and developed an intensive series of worldwide roadshows. At the roadshows, the VDH/vdp not only presented the German Pfandbrief, but also explained the similarities and differences between European CBs. The new orientation of the public relations work of the VDH was partly triggered by the fact that public Pfandbrief institutions had terminated their cooperation in the form of the Deutscher Pfandbriefdienst (previously known as the Gemeinschaftsdienst der Boden- und Realkreditinstitute) in 1991. As such, the VDH had to develop an independent strategy to raise the profile of the Pfandbrief. See VDH Annual Report 1992, p. 77 f.

[12] The Segré report formed an essential part of the background of the founding of the European Mortgage Federation. This was the final report of an expert group set up by the EEC Commission in 1965 to establish a European capital market.

[13] Over time, these consisted of the heads of specialised associations of mortgage banks in Denmark, the Netherlands, Germany, Austria, as well as both Swiss Pfandbrief centres and an Italian specialised institution.

products, the VDH and the Institute of Banking Law at the University of Cologne prepared a comparative law study.[14] At the presentation of the study at a Europe-wide conference in Munich in 1981, Prof. Pleyer laid out the proposal for the Europe-wide harmonisation of CB law.[15] The VDH assumed responsibility for intensifying the exchange of views among European experts on this issue, which led to the follow-up conference at Chiemsee in 1984, where the core elements of a CB directive were agreed.

This frequently invoked "spirit of Chiemsee" led to the founding of the Mortgage Bond Committee of the EMF in 1992.[16] From 1996, this was named the Mortgage Bond Committee (in German, *Pfandbriefausschuss*), and was renamed the Capital Market and Mortgage Bond Committee in 1997 (in German, *Kapitalmarkt- und Pfandbriefausschuss*).[17]

The conferences in Nuremburg in September 1992 and the European Mortgage Bond Conference in Brussels in December 1993 were important milestones in this context. The first major task of this EMF Mortgage Bond Committee was to compile all European CB laws in a loose-leaf collection,[18] which was later continued in book form, up to a fourth edition.[19]

As the majority of EMF members still wanted to focus on the mortgage loan activities of their businesses, the VDH took over the financing of these Europe-wide meetings. Due to three languages being spoken at these meetings, costs for interpretation represented the largest cost item, though these were eliminated once the meetings were conducted solely in English. The Association of Danish Mortgage Banks (*Realkreditrådet*) hosted the September 1995 meeting of the EMF Mortgage Bond Committee in Bornholm. In the committees of the EMF, there were recurring discussions on the financing of the special activities of the EMF Mortgage Bond Committee, particularly in view of their increasing scale. As such, the respective hosts bore the costs of these meetings for quite some time. Only in 2002/2003 was a separate budget for this created within the EMF, which was transferred to the ECBC in 2004.

Due to the perennial question of the priority given to the EMF's activities and the role of Pfandbrief-like instruments in this context, the VDH, which advocated a more intensive approach to CB issues, then initiated a debate regarding whether to reorganise CB issues in the EMF or to establish a new body. These discussions were at times heated and had shifting majorities, but resulted in the founding of the European Covered Bond Council [ECBC] in 2004, first as a division of the EMF,[20] and then as a parallel pillar to the EMF.[21]

In September 1997, in Rüschlikon on Lake Zürich, the EMF Mortgage Bond Committee discussed a University of St. Gallen study commissioned by the VDH on the question of whether and for whom the harmonisation of CB law would be advantageous. The clear answer of the study was that strong CB providers would show no interest in a harmonisation of Pfandbrief regulations in Europe, as they can achieve brand advantages in its absence. Harmonisation would only be possible at the inevitable expense of brand leadership and the associated high CB quality. Weaker partners, on the other hand, could try to label anything meeting a minimum standard a CB. Accordingly, German Pfandbrief issuers would have the least interest in harmonisation given their very high European market share at the time[22] and the fact that practically only the German Pfandbrief was internationally recognised. Although the VDH was still in favour of harmonisation, the vast majority of committee members opposed it.

In the course of the following years, the VDH was unable to fully support the individual ideas for harmonisation that arose from time to time, as these aimed for "full harmonisation"[23] at a basic level, which was out of the question for German mortgage banks. As such, it concentrated on improving German Pfandbrief law. As a result of this, a "competition of the systems" developed as more and more countries began to modernise their national CB systems in order to offer products that were competitive with the German Pfandbrief, which had achieved international success thanks to Jumbo issuances. German Pfandbrief law was again the benchmark for these attempts at modernisation – both in the EU Member States and in the Central European countries in transition.

1.4. Comparative law and system marketing

In the 1980s, the VDH conducted seminars for its member institutions in the Netherlands, France, the United Kingdom, Italy, and Spain in order to prepare them for the cross-border real estate financing expected in the context of the development of the European Single Market. Speakers at the seminars included representatives of the respective national mortgage credit institutions. In a second series of seminars held in Madrid (October 1989), Lyon (May 1990), Milan (November 1990), and London (May 1991), the VDH gave the mortgage banks an understanding of mortgage and land register law, as well as of the respective real estate markets. These seminars were combined with meetings with the local national credit institutions, which, with the involvement of many in the banking industry, contributed to a deepening of the exchange on the similarities and differences of capital market-based funding instruments.

In December 1992, the EMF organised discussions to share experiences with bank representatives from Poland, the (then) Czechoslovakia, and Hungary. Although most members of the EMF had little interest in supporting the neighbouring Central European countries, the VDH developed intensive advisory activities in Central and Eastern Europe,[24] as did the Association of Danish Mortgage Banks, albeit to a lesser extent.

[14] Pleyer/Bellinger, Das Recht der Hypothekenbanken in Europa, Munich 1981. In the Introduction of EC Mortgage Federation (Ed.), Mortgage Banks and the Mortgage Bond in Europe, Baden-Baden 1993, mention is made that, with a view to the work of the European Commission on a directive on secured bonds issued by credit institutions, the EC Mortgage Federation published the aforementioned study in English and in French (Mortgage banks in Europe, Les banques hypothécaires en Europe) in 1987.

[15] These "Thesen zur Diskussion" (theses for discussion) can be found in Part B, following "Zusammenfassung: Feststellung der Gemeinsamkeiten" (Summary: Determining Similarities) in Pleyer/Bellinger, Das Recht der Hypothekenbanken in Europa, Munich 1981, pp. 181-187.

[16] Initially named the Mortgage Bond Committee of the EC Mortgage Federation. The Chairman was Dieter Bellinger, then Managing Director of the VDH.

[17] The reason for the renaming was the wish of the British EMF members in particular that, in addition to mortgage bonds, that also mortgage-backed securities [MBSs] be covered by the committee, as, at the time, there were no mortgage bonds in the United Kingdom, only MBSs. However, in the absence of proposals for topics and basic work on MBSs from the British side, work continued to focus on mortgage bonds.

[18] EC Mortgage Federation (Ed.), Mortgage Banks and the Mortgage Bond in Europe, Baden-Baden 1993 and in a 2nd Edition in 1996. These were published in English, German (Die Hypothekenbanken und der Pfandbrief in Europa) and French (Les Banques Hypothécaires et l'Obligation Foncière en Europe). The VDH bore the costs of publishing these editions, including the translation costs.

[19] European Mortgage Federation, Mortgage Banks and the Mortgage Bond in Europe, 4th Edition, Brussels, November 2003. The 3rd Edition was published in January 2001. While the 3rd Edition was also financed by the VDH, the EMF financed the 4th (and final) Edition by means of a special budget established in 2003.

[20] Decision of the Executive Committee of the EMF on 22 June 2004. The first ECBC Chairman was Louis Hagen, then Chief Executive Officer of the VDH/vdp.

[21] Decision of the joint sitting of the Executive Committee of the EMF and the Steering Committee of the ECBC on 4 June 2014.

[22] According to statistics published in EC Mortgage Federation (Ed.), *Mortgage Banks and the Mortgage Bond in Europe*, Baden-Baden 2nd Edition 1996, p. IX.16, German mortgage banks' share of the mortgage bank market across 14 countries was: balance sheet total 66.7%, mortgage loans 46.8%, public sector loans 95.7%, mortgage Pfandbriefe 43.6%, public Pfandbriefe 97.7%, and both types of Pfandbrief together 70.88%.

[23] This term was not so used at the time. Rather, harmonisation meant the final regulation of all important details via an EU directive, so that higher quality should not be permitted at a national level. Later, this was referred to as full harmonisation.

[24] The VDH reported on the individual measures in its annual reports over many years, starting with the VDH Annual Report 1992, p. 67.

The approach from Western Europe was taken up by the Europe Committee of the VDH when it wanted to gain an impression of the developments in Central Europe in meetings with foreign bank colleagues and real estate market experts. From the outset, however, the focus here was on supporting the respective governments and banking associations in rebuilding market-oriented systems for real estate financing and their capital market refinancing through Pfandbrief-like instruments. Following visits of the VDH Committee to Prague (November 1996) and Bratislava (April 1997), the Polish Mortgage Credit Foundation, together with Chancellery of the President of the Republic of Poland, organised the first CB conference of Central European CB countries at the meeting with the VDH Committee in Warsaw in November 1997. This was accompanied by an initial coordination meeting between the banking supervisory authorities of the participating countries. From this conference, the VDH/vdp developed the (non-profit) annual Central European Covered Bond Conferences [CECBC], which continue to focus on fundamental questions of law and supervision of CBs, as well as on the legal framework of real estate financing.[25] At these conferences, CB supervisors also regularly exchange views on the principles of CB regulation and the supervision of CB issuers.

Over many years, the VDH/vdp has been involved in almost all work on regulatory amendments across the European region regarding CBs, and opened an office in Berlin before the association officially moved there, in order to strengthen the responsible area in terms of personnel. In the Central and Eastern European countries in transition, the association has pursued strategic system marketing in order to create a legally secure framework for the future real estate financing of its member institutions and, in view of their expected EU membership, to find long-term allies for legal policy issues in Brussels. To this end, the VDH/vdp has cooperated with ministries, other authorities, and parliaments, as well as with banks and their associations in many countries, and reported on the results through publications in order to raise awareness of the dynamics of CB legislation in Europe.[26] This included efforts to harmonise mortgage law in Europe through the creation of a Eurohypothec.[27]

These activities established networks for both real estate law and the legal framework for CBs. The vdp has expanded both networks into think tanks: the Round Table Security Rights over Real Property[28] and the Round Table Covered Bond Legislation.[29]

1.5. Preliminary stages of the EU harmonisation of covered bonds

As the European Commission did not further pursue the draft CB directive,[30] the Association of Danish Mortgage Banks advocated a small-scale solution. In 1988, Article 22(4) was implemented into the UCITS Directive[31], which, for the first time, anchored the rudimentary guidelines of a CB product in an EU directive. The wording of this provision, central for many years, remains the same up till today: "… where bonds are issued by a credit institution which has its registered office in a Member State and is subject by law to special public supervision designed to protect bond-holders. In particular, sums deriving from the issue of those bonds shall be invested in accordance with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest." A detailed commentary on this provision is contained in the publications of the EMF.[32]

This provision has been incorporated into other directives, such as those concerning investment companies, risk weighting and large exposure requirements for credit institutions, investment regulations for life and non-life insurance, risk weighting for investment firms, exemption from deposit insurance, and ECB Lombard eligibility.

This EU minimum standard for CBs was an important basis for the VDH/VDP's consulting activities in the context of system marketing. Despite the lack of detail in these EU provisions, all countries working on new laws or wanting to modernise their existing CB laws used this minimum standard as a working basis. This was also true for the Central and Eastern European countries in transition with the prospect of EU membership, if only to make their financial products attractive to Western European investors. This had a positive influence not only on the design of CB laws, but also for mortgage and land register law as an important basis for mortgage cover assets, which, in turn, contributed to legal certainty with respect to real estate investments.[33]

Following the accession of Poland (1996), the Czech Republic (1995), and Hungary (1996) to the Organisation for Economic Co-operation and Development (OECD), the organisation criticised its new members for violating the right to provide services, as the CB law of these countries required that the issuer's registered office be located in their respective country. The VDH and

[25] The CECBC conference programmes and documents are available at www.pfandbrief.de – Agenda – Central European Covered Bond Conferences.

[26] Kälberer, "Das französische Gesetz über die Sociétés de Crédit Foncier" in: Der Langfristige Kredit (DLK) 1999, p. 634 ff.;

Lassen, Tim: (1) "Neue Regelungen zum Pfandbrief und zu Hypothekenbanken in Norwegen" in: Immobilien & Finanzierung (I&F) 2004, p. 48 ff.; (2) "Wiedereinführung Pfandbrief-ähnlicher Produkte in Russland" in: I&F 2004, p. 120 ff.; (3) "Änderungen im lettischen Hypothekenpfandbriefgesetz" in: I&F 2004, p. 189 ff.; (4) "Hypothekenobligationen in Bulgarien" in: I&F 2004, p. 542 ff.; (5) "Neues Pfandbriefgesetz in Litauen" in: I&F 2005, p. 91 ff.; (6) "Pfandbriefe und Fundierte Schuldverschreibungen in Österreich" in: I&F 2005, p. 374 ff.; (7) "Development of the Russian Covered Bond Market" in: European Mortgage Federation Mortgage Info.04/2012, p. 5 ff.; (8) since 2008, the annual Russia country report in: ECBC, European Covered Bond Fact Book, and (9) through participation in international consulting projects: "Chapter VI: Financial Framework" in: United Nations Economic Council for Europe (UNECE): Country Profiles on the Housing Sector: (a) "The Russian Federation"; New York – Geneva 2004, pp. 59-80, and (b) "Serbia and Montenegro"; New York – Geneva 2006, pp. 51-57.

Sacalschi/Stöcker, "Neues Gesetz über Covered Bonds in Rumänien" in: I&F 2006, p. 511 ff.;

Stöcker/Neubauer: (1) "Der neue Pfandbrief in der Tschechischen Republik" in: DLK 1995, p. 398 ff.; (2) "Neues Hypothekenbankgesetz in Ungarn" in: DLK 1997, p. 483 ff.;

Stöcker: (1) "Das neue Hypothekenbankgesetz in Polen" in: DLK 1997, p. 650 ff.; "Die Novelle des Hypothekenbankgesetzes in Polen" in: I&F 2002, p. 575 ff.; (2) "Das neue Hypothekenbankgesetz in Luxemburg" in: DLK 1997, p. 780 ff.; (3) "Neues Gesetz über Hypothekenpfandbriefe in Lettland" in: DLK 2000, p. 55 ff.; (4) "Das neue Hypothekenbankgesetz in Finnland" in: DLK 2000, p. 544 ff.; (5) "Die Weiterentwicklung des Pfandbriefrechts in Europa" in: I&F 2002, p. 748 ff.; (6) "Neues Gesetz über Covered Bonds in Schweden" in: I&F 2005, p. 301 ff.; (7) "Mittel- und Osteuropa, Neue Gesetzgebung über Hypothekenbanken und Pfandbriefe" in: European Mortgage Federation, Mortgage Banks and the Mortgage Bond in Europe, 3rd Edition, Baden-Baden 2001, V.15, p. 325 ff., and abridged in Mortgage Banks and the Mortgage Bond in Europe, 4th Edition, Brussels 2003, p. 219 ff., in which a separate contribution was included for Poland for the first time, written by Tulodziecka, p. 181 ff.

In addition to these are the publications in various countries in their respective national languages.

[27] The results of the workshops arranged by the vdp, attended by experts from several countries and numerous Europe-wide harmonisation projects, were published in Drewicz-Tulodziecka, Basic Guidelines for a Eurohypothec, Warsaw 2005.

[28] For more information, see www.pfandbrief.de – Agenda – Round Table Security Rights over Real Property. The results have been published several times: Stöcker/Stürner, Flexibilität, Sicherheit und Effizienz der Grundpfandrechte in Europa, Volume III, 3rd Expanded Edition, 2012 (vdp publication series, Volume 50). An up-to-date overview of the topics is provided by Lassen/Luckow/Thurner, Grundpfandrechte 2016 in Europa und darüber hinaus, Berlin 2016 (vdp publication series, Volume 54).

[29] For more information, see www.pfandbrief.de – Agenda - Round Table Covered Bond Legislation. The results have not yet been published, but have been made available to various national supervisory authorities, as well as the EBA, the ECB, the European Commission, and the SRB.

[30] See I.2. above.

[31] In a later amendment to the UCITS Directive, Article 22(4) was changed to Article 52(4).

[32] Bellinger, "Chapter IV: Commentary on Article 22(4) of the UCITS Directive" in: European Mortgage Federation, *Mortgage Banks and the Mortgage Bond in Europe*, 4th Edition, Brussels, November 2003, p. 49 ff.

[33] As part of the creation of a law on mortgage banks and CBs (Listy Zastawne) in Poland, silent (not registered) privileges over first-ranking mortgages were abolished – first for mortgage cover assets of mortgage banks, then in general.

experts from the countries concerned drew up a commentary and submitted it to the OECD in October 1998, stating that this is also the case in all Western European CB laws, and necessarily so, as the CB investor's statutory preferential right in insolvency can only apply in the country of domicile of the issuing credit institution. The same criticism was later voiced by the European Commission during the EU accession negotiations with these countries; accordingly, the VDH explained to the EU Commission the connection between the cover principle and the preferential right in insolvency of the CB issuer.

The central provision in German banking supervisory law to recognise CBs as *Gedeckte Schuldverschreibungen* (secured bonds issued by credit institutions according to German law) was contained in Section 20a of the German Banking Act (*Kreditwesengesetz*, KWG). Section 20a of the KWG was replaced with effect from 1 January 2014 by the (directly applicable) CRR.[34] Article 129 of the CRR now regulates the requirements for CBs for preferential risk weighting. Article 129 also established detailed quality criteria for CB cover assets for the first time. However, with respect to insolvency protection and supervision, reference is still made to Article 52(4) of the UCITS Directive.

The European Banking Authority [EBA] examined the eligibility of this preferential treatment in its Securitisation and CB Working Group, and published a report on 1 July 2014.[35] The report contains recommendations for the further development of national CB laws, which then form the foundation of the discussion on the EU-wide harmonisation of CB laws. Based on this, the European Commission published a consultation document on CB harmonisation on 30 September 2015.[36]

The EBA Report on Covered Bonds, published 20 December 2016, not only compares national laws on CBs, but also makes detailed recommendations for the harmonisation of CBs.[37] It also provides a brief overview of the special treatment of CBs in EU law and in the ECB's monetary policy.[38]

After obtaining a study,[39] the European Commission published its draft for a CB directive in March 2018,[40] as well as its draft to amend Article 129[41] of the CRR.

This package on CB harmonisation was adopted by the European Parliament on 11 October 2019, and by the European Council on 8 November 2019. Publication in the *Official Journal of the European Union* happened on 18 December 2019 (L 328/1 and L 328/29). The new provisions will take effect on the twentieth day following this publication (8 January 2020), and national legislators have an implementation period of 18 months (8 July 2021), followed by a transitional period of one year for the application of these provisions (8 July 2022).

2. European secured notes

A number of years ago, during the financial crisis, some Southern and Western European governments initiated a discussion coordinated by the ECBC to extend secured bonds issued by credit institutions to further asset classes that had previously been financed through deposits, unsecured bonds issued by credit institutions, and securitisations.[42] From the outset, it was stressed that these should not be referred to as CBs and should be clearly distinguished from them, however, these new instruments should have similar legal structures. The cover assets envisaged for these instruments were SME financing, infrastructure financing, and other asset classes not funded by traditional CBs.

A concept for an ESN legislative framework is currently being considered at the European level. To this end, the European Commission issued a call for advice to the EBA. On 20 June 2018, the EBA published a presentation on its website summarising the results of its deliberations in preparation for a public consultation in London on 26 June 2018.

The EBA envisages an ESN potential issuance volume ranging from EUR 400 billion to EUR 1.2 trillion, depending on the over-collateralisation assumptions, and only if the ESNs are accorded the same preferential treatment as covered bonds. With respect to SME ESNs, the EBA concludes that all of the EBA best practice recommendations on covered bonds could be appropriate in the context of SME ESNs. However, some adjustments to this best practice should be applied with respect to the composition of cover pools with underlying assets located in different jurisdictions, over-collateralisation, the liquidity buffer, and the scope of disclosure.

In order to achieve a minimum level of quality, a very high legal minimum over-collateralisation level has been proposed – currently 30%; this could revive the long-standing discussion about excessive asset encumbrance at many banks. The EBA also sees this, but comes to the conclusion that the risk profile of issuers could improve rather than worsen as a result of ESNs. Nevertheless, the EBA recommends that, if ESNs become highly successful, potential asset encumbrance levels at an aggregate level (i.e., not at an instrument level), at a national level, or for specific institutions could be considered.

In addition, the EBA considers certain quality requirements for the cover assets and the cover pool to be reasonable, in particular a granular portfolio. Based on these proposals, the EBA recommends a preferential risk weight, albeit worse than for CBs. The Liquidity Coverage Ratio [LCR] should first be determined when the liquidity of the product can be prudently estimated.

However, the EBA does not consider ESNs appropriate for the funding of infrastructure loans due to the lack of granularity characterising such loans. Rather, the EBA proposes the creation of a new off-balance-sheet product, an EU infrastructure bond, which would be secured by infrastructure loans transferred and segregated into an SPV. A pan-European legal framework could be established for this, and the product could be subject to special public supervision. As the EBA is not proposing a dual-recourse instrument (i.e., a CB-like financial product), it has not carried out an assessment of its potential regulatory treatment. The EBA has offered to investigate proposals for standardising such a product if it receives a corresponding call for advice.

This brief commentary by the EBA confirms that discussions are likely to focus on SME loans.

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34 Capital Requirements Regulation, Regulation (EU) No 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 624/2012, Official Journal of the European Union L 176 of 27 June 2013, p. 1 ff. (Corrigendum in Official Journal of the European Union L 321 of 30 November 2013, p. 6 ff.).

35 EBA Report on EU Covered Bond Frameworks and Capital Treatment, London, 30 June 2014.

36 http://ec.europa.eu/finance/consultations/2015/covered-bonds/docs/consultation-document_en.pdf

37 http://www.eba.europa.eu/documents/10180/1699643/EBA+Report+on+Covered+Bonds+%28EBA-Op-2016-23%29.pdf

38 EBA Report on Covered Bonds of 20 December 2016, p. 83 f.

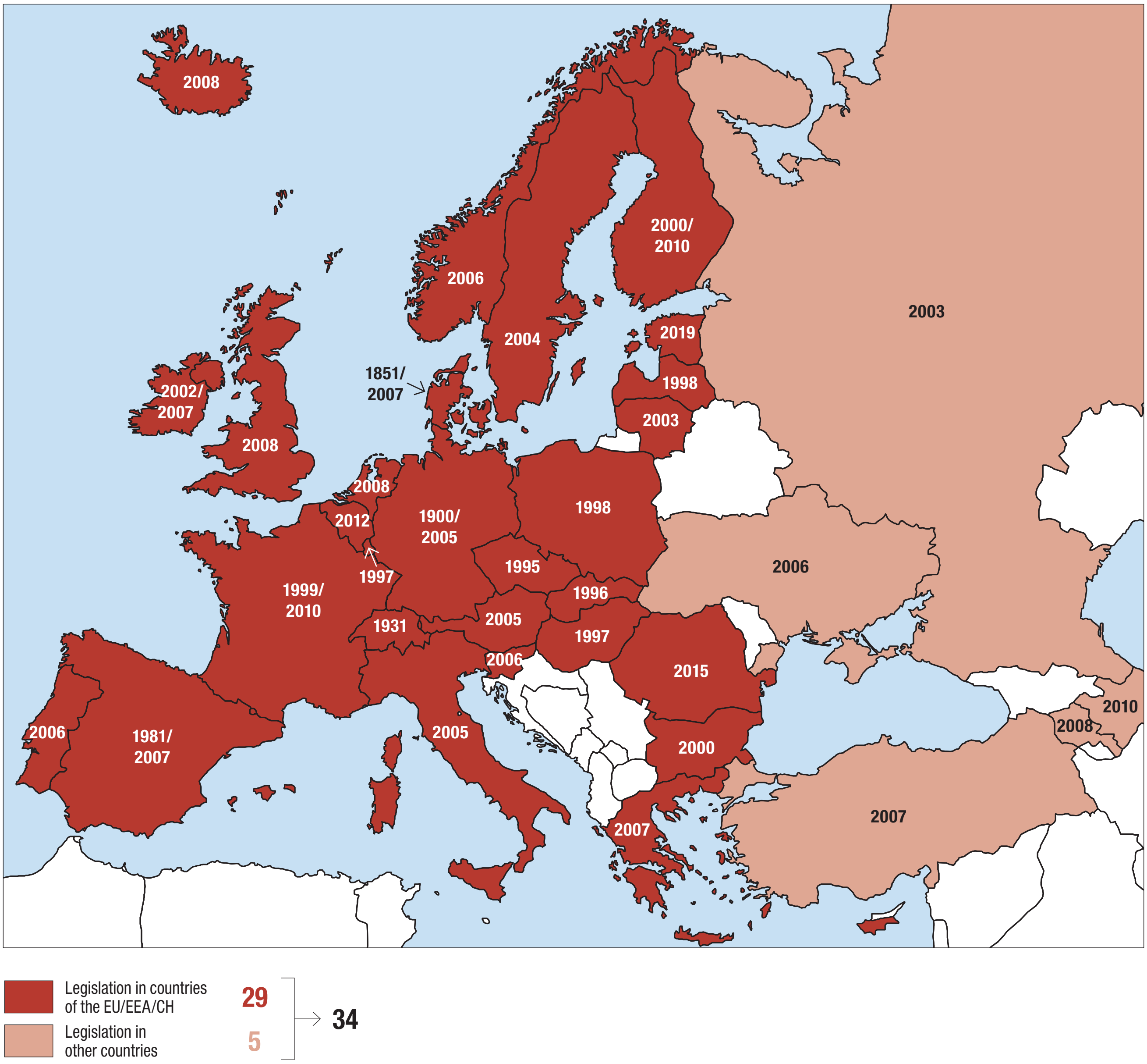
39 ICF, Covered bonds in the European Union: harmonization of legal frameworks and market behaviours, 2017.

40 European Commission, Proposal for a Directive of the European Parliament and of the Council on the issue of covered bonds and covered bond supervision and amending Directive 2009/65/EC and Directive 2014/59/EU, Brussels, 12 March 2018, COM (2018) 94 final.

41 European Commission, Proposal for a Regulation of the European Parliament and of the Council on amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds, Brussels, 12 March 2018, COM (2018) 93 final.

42 ECBC, European Covered Bond Fact Book, 2015, p. 54 ff., and 2016, p. 53 ff.

MAP 1 Geographical Overview Covered Bond Legislation in Europe (as of April 2019)



Detailed credit quality criteria have not yet been proposed. It appears that the quality requirements would have to be within the framework of CRR methodology (i.e., dependent on external or bank-internal ratings). Consideration is being given to leaving the credit quality criteria to the national implementing laws, which could, however, mean a great deal of quality differentiation within Europe.

It remains to be determined how SME ESNs could be regulated in European law. This could be achieved either through a separate ESN directive or through an extension of the CB Directive. If it is done through the CB Directive, Article 6 of the Directive could be extended by a further provision outlining the assets eligible as cover for an ESN. By integrating an ESN component into the CB Directive, the entire structural provisions for CBs could be used for ESNs without having to establish a parallel set of rules. It remains to be seen whether provisions for facilitating ESNs will be made in one place or another, which would be feasible from a regulatory point of view.

The regulatory treatment of ESNs will have to be discussed in more detail. In addition to the above-mentioned risk weighting and LCR issues, it should be expected that SME ESNs will be UCITS-compatible, that they will be exempted from a BRRD bail-in, and that they will also be taken account of in Solvency II.

According to Article 31(5) of the CB Directive, the European Commission "shall adopt a report on the possibility of introducing a dual-recourse instrument named European Secured Notes. The Commission shall submit that report to the European Parliament and to the Council, together with a legislative proposal, if appropriate."

3. Conclusion

For more than 250 years, there have been intensive discussions on the question of how the capital market instrument of secured bonds should be developed and legally structured. The German Pfandbrief has the longest tradition of all products of this kind. Its legal framework still represents the benchmark for legislators, not only because of its regulatory content aiming at a high level of investor protection, but also because of the depth of its regulation and high availability of its regulatory content in the form of the Pfandbrief Act Brochure, which has been published by the VDH/vdp for many decades. Currently numbering 105 pages, the brochure is available in both German and English.

The CB harmonisation for a European covered bond opens up a new era of European provisions for such secured bonds issued by credit institutions. Here, not only the supervisory treatment of CBs will be regulated, but also the minimum quality of CB products themselves. In this context, the CB Directive attempts to achieve a balancing act; namely, to retain existing CB instruments in their basic structure, as well as to improve the quality of all CBs.

Thanks to the European Commission and the EBA, more than 50 years of discussion on the EU-wide harmonisation of secured bonds issued by credit institutions have been enriched with the first concrete and complete attempt at harmonisation, addressing the entire range of topics relating to secured bonds issued by credit institutions.

The fact that this major harmonisation project could be completed in the year of the 250th anniversary of the German Pfandbrief is a fitting culmination of the long development of the Pfandbrief from its origins in the Schlesische Landschaft , through the Mortgage Bank Act of 1900, to the Pfandbrief Act of 2005. The decades-long initiatives and activities of the VDH/vdp to foster the Europe-wide discussion on the functioning and legal framework of national CBs, to disseminate CB expertise worldwide, and to make the similarities and differences transparent in detail, form a central leitmotif from a national legal basis through to EU harmonisation, and have made a significant contribution to winning over partners advocating an EU framework for CBs. Even if the CB Directive "only" strives for a minimum standard, this goes far beyond the content of previous attempts at harmonisation and, with its adoption, offers a high probability that CBs will continue to be taken into account in EU law.[43]

Whether there is room for a directive on ESNs in addition to an EU directive for CBs depends on how narrowly the cover assets for CBs are defined. As ESNs involve asset classes that are completely different to CB cover assets, it has to be ensured that both products can be distinguished in the market at all times. If, for policy reasons, ESNs are pursued, then it would be preferable to regulate both products in a uniform legal framework, as the legal structures of the products are very similar, if not identical. Otherwise, duplicate regulations would have to be created for various products with identical structures, which would, in turn, be the cause of irritation at the EU and national levels when it comes to interpretations and amendments. Differentiating, transparent, and intuitive designation protection provisions at the European and national levels is essential to prevent confusion in capital markets; the practicability of the translations for these designations into the national languages of EU Member States also needs to be taken into consideration in this context.

[43] Due to the recent strong growth of CB markets and the introduction of new CB laws by countries outside of Europe, it has been possible to implement the privileged capital adequacy regime for CBs in the Basel framework, not least thanks to corresponding initiatives by the ECBC. In principle, the capital weights provided in Article 129 of the CRR were adopted by the Basel Committee, albeit with a minimum over-collateralisation requirement of 10%; furthermore, neither ship nor aircraft mortgages were recognised as cover assets, although Article 129 CRR at least allows ship mortgages as cover assets. See Basel Committee on Banking Supervision, Basel III: Finalising post-crisis reforms, December 2017, Section 5, Exposures to Covered Bonds, pp. 10-12, Paragraphs 32-36.

Lessons from the UK housing sector and application for emerging economies

By Olu Olanrewaju & Michael Appleby

1. Introduction

Affordable housing in the UK is by no means perfect, in fact various estimates suggest that between 1997 and 2017 there was an overall deficit of 600k homes compared to the UK Government targets (Channel 4 News, 2017). This does however hide the fact that the UK has one of most well established affordable housing systems, which has been in existence for over 100 years. Over that time, many new interventions have been tried and tested each with their own lesson about developing affordable housing systems. These lessons can be learnt and applied to countries across the world that are seeking to develop or boost their affordable housing programmes.

2. UK housing sector – how we got to where we are

Affordable housing first emerged in the UK in the 19th century as part of various philanthropic and voluntary organisations. These charitable housing associations [HAs] Housing associations are independent private sector, not-for-profit bodies that provide rented homes at sub-market rents and were privately funded to provide affordable housing as an alternative to the slum conditions that many of the poorest population lived in. Some of the earliest housing associations, like Peabody and The Guinness Partnership, continue to provide social housing today for those in low income and affordable housing for middle income earners and they are among the UK's largest housing providers.

Around the same time, employers began to build homes for their workers and through newly formed building societies, mortgage schemes were introduced for workers to buy these homes. In turn, the mortgage schemes also encouraged builders to construct for this new market. In the late 19th and early 20th century, a series of housing acts allowed urban local governments to clear away slums and began to build social housing, known in the UK as council housing. However, the level of government intervention was minimal and had stagnated by the first World War.

This all changed after the first World War when the UK government began to introduce subsidies to finance the construction of new homes. Passed in 1919, the Housing and Town Planning Act required local governments to meet the local housing need by law. For the first time there was large-scale centrally funded housing construction across the UK, resulting in 1.1m homes being built between 1919-1939 (The Guardian, 2019). Despite this, there remained a severe housing shortage in the UK and large-scale demand continued through to the post-WWII era – this was exacerbated by the destruction of housing stock in during the World War 2 (where estimates from various sources suggest that around 100k were destroyed and up to 2 million were extensively damaged).

As a reaction to the extreme demand, the UK saw a massive housing boom following the second World War with 1.5 million council homes being built in the decade after WWII. In 1952 to 1955, local governments completed more than 200,000 homes for social housing across the UK – a total which has only been reached once (1962) in the interim period, with numbers dropping to less than 1,000 completions between 1999 and 2009 (Office for National Statistics, 2019). The UK government continued to provide large scale capital subsidies into the supply and investment of social housing until the 1970's.

Margaret Thatcher's premiership election in 1979 was a significant date for UK housing policy discourse as it signified a shift away from significant direct government subsidies to social housing rent tenure instead focusing on promoting home ownership. Throughout the 1980's, legislation was introduced by Thatcher 's government to promote a new 'Right to Buy' scheme that incentivised social housing tenants to outright buy their current homes through a discounted rate depending on how long they had been a tenant. The policy sparked a huge rise in council homes sold under the scheme, with 1.3 million homes being purchased under the 'Right to Buy' scheme between 1979-80 and 1997-98 (UK Government, 2019).

Another important policy for social housing under Thatcher was the introduction of private finance for housing associations in 1988. This was significant as housing associations no longer relied on the UK Government as its sole source of revenue and expanded their role to access private finance to deliver housing. Furthermore, the Housing and Planning Act in 1986 enabled local authorities to shift the ownership of their stock to housing associations and newly created large scale voluntary transfer [LSVT] organisations. Thatcher's legacy was that for the first time in the 20th century, the focus of the UK Government's housing policy was no longer on house building but instead was on the transferring UK housing stock into the private market and allowing private finance to fund social housing. Although the number of affordable homes being built in total has dropped, in some respects this has been a successful public private partnership in the UK which has led to a significant amount of funding from new sources being directed into the sector. This view would however be argued by those most in need of new affordable housing who have not seen the direct benefits of enough new homes being built.

HAs are subject to strong regulation to safeguard effective governance and financial viability. Lenders to the sector can take full security against housing assets valued according to a conservative valuation methodology. Private investment facilities in England total £78.5 billion and c. £85 billion across the UK. There are 1775 HAs managing 2.4 million homes in England. HAs are likely to remain the main developer of affordable housing in the future.(Andrew Heywood 2016) However the recent entry of for profit housing companies such as Legal and General noted below in the delivery of affordable housing is a trend that is interesting and worth taking note of.

Fast forward to 1997 and after winning the UK general election by a record landslide, Tony Blair centred his housing policy on improving the quality of the current housing stock. This began by introducing the 'Decent Homes Standard' in 2000 which aimed to tackle the poor quality and disrepair of around two million social homes by ensuring all social housing met a standard of decency by 2010 (Design Buildings, 2019). For local governments this meant that there would need to be considerable investment into refurbishment and new developments to meet the government's standard. Therefore, in order to access and manage extra funding many local governments transferred their stock to newly formed housing associations [LSVTs)] resulting in 1.3 million homes being transferred between 1998 and 2008. The programme had improved over a million homes by its 2010 deadline and continues to be used as the sector standard for housing decency in the UK today.

Under Gordon Brown's premiership, the Housing and Regeneration Act of 2008 allowed for-profit providers to enter the market and register as social housing providers. Instead of these organisations reinvesting rent and sales surpluses into developing and refurbishing stock, they pay the surpluses as dividends to shareholders. Whilst the debate around these providers remains contentious, there are currently 46 for-profit providers in England, who own circa 2,500 homes across the UK. This is still only a small part of the overall social housing sector, but with organisations such as Blackstone, Legal and General and Man Group entering into the sector with for-profit providers, it is likely that the number of homes owned by these types of organisations will increase rapidly over the next five years.

The 2010 Coalition government (between the Conservative and Liberal Democrat parties) drastically reduced it's funding for affordable housing to almost half of Brown's government as they introduced austerity measures to tackle the global financial crisis. Instead, the Coalition returned to a drive for home ownership. Thatcher's famous 'Right to Buy' scheme was revamped, providing discounts of up to £75,000 for buyers. A 'Help to Buy' scheme was also introduced by the Coalition government, offering government equity loans totalling £3.5bn to buyers of private housing and near-full government mortgage guarantees amounting to £12bn (Inside Housing , 2015). Cameron's, May's and Johnson's consecutive Conservative governments since 2015 have continued to pursue home ownership.

Yet despite the many interventions, initiatives and schemes introduced by the UK government over recent decades, we are still faced with a severe housing shortage that has led to the UK's housing affordability crisis. Blair started his premiership by proposing a target of building 200,000 homes a year: a target his government would only reach in the final two years of his ten years as Prime Minister. This target was increased to building 240,000 homes a year under Gordon Brown but fell short by an average of 58,000 homes. Whilst Cameron saw housebuilding underperform by an average of 65,000 a year in his seven years as Prime Minister. Overall, the deficit between the UK government targets and actual homes delivered amounted to 600,000 homes (Channel 4 News, 2017).

So why has there been such an ongoing failure to hit house building targets in recent years? The reasons are complex, but can be summarised in a few points:

- Housing has not been a political priority – for any government over the last 25 years – the sector has therefore had to compete with other areas for funding and recognition.
- In recent years Government housing policy has shifted to focus on home ownership rather social or affordable renting.
- Over this period and due to the above, we have seen reducing levels of government subsidy available for affordable housing – meaning those that are involved in the provision of affordable housing (housing associations) have had to subsidy new social homes with finance from other sources such as development and sale of outright sales homes. This model inevitably exposes the affordable housing sector to cyclical nature of the residential property market in the UK.
- The number of new homes being built by the private sector has remained at consistent levels, but local authority building has reduced dramatically in the last 40 years and the private sector has not plugged the gap, resulting in an overall drop in the number of new homes being built.
- Continued economic difficulties have led to increasing house prices, whilst wages have remained relatively static, meaning the relative cost of housing has increased significantly.

Whilst these reasons largely inform the consensus around the housing shortage in recent decades, other reasons such as the suggestion that the planning system does not enable adequate supply of homes, hoarding and delayed release of land for development due to land banking by developers, lack of construction capacity within the building industry, gaps in infrastructure etc. have also been posited as factors that have contributed to failure to achieve the house building targets.

While housing in the UK have not always been on top of the agenda, it has not stopped Governments from unrealistic housebuilding targets announcements, before a brick has even been laid, without reference to inconsistent past delivery record or allowance taken of the conditions that need to be in place to deliver the scale of housing required. This suggests that political announcements of new housing supply that are not sufficiently based on reality are not unique to Africa. As described above, this has been an ongoing feature of consecutive UK governments.

3. Current demand for housing in the UK

Housing policy has been a contentious but integral component of past Prime Ministers' domestic policy over the last century. Yet after an array of policy measures, objectives and narratives, the UK is still facing a housing affordability crisis that impacts millions of British people and only threatens to get harsher. In September 2019, the UK's National Housing Federation published it's annual 'Understanding Society' survey (National Housing Federation , 2019) which found that:

- 15% of the population in England are living in an unaffordable, insecure or unsuitable home
- 2.5 million people are unable to afford their rent or mortgage
- 8.5% of the English population could only afford to live decently in social housing – almost double the number on the government's official social housing waiting list
- 1.15 million households were on the social housing waiting list in 2018, with only 290,000 homes available (although the exact figures are often disputed and potentially distorted to promote alternative views of the extent of the problems)
- 400,000 people are homeless or at risk of homelessness
- 340,000 homes are need every year, including 145,000 social homes, to meet UK housing demand

The size of the crisis is frightening and impossible to ignore. Yet whilst the housing supply shortage is one driver that has led to the current situation, the shifting of housing policy away from house-building (as previously mentioned) highlights that this is one area of a multi-faceted issue that needs to be addressed to curb the crisis.

A key factor of the UK's affordable housing crisis is that demand currently outstrips supply significantly. The range of estimated need for housing in the UK is between 250,000-350,000 which the net supply consistently falls short of (Wilson & Barton, 2018). This is more acute in specific regions of the UK, most notably in London and its surrounding areas where the demand-supply gap amounts to over half of the national total.

However, a barrier that is preventing the supply-demand gap falling is the increasing unaffordability of homes. As shown in Graph 2, house prices are increasing more quickly than earnings which has meant that in 2018 full-time workers could expect to pay on average 7.8 times their annual salary on purchasing a home.

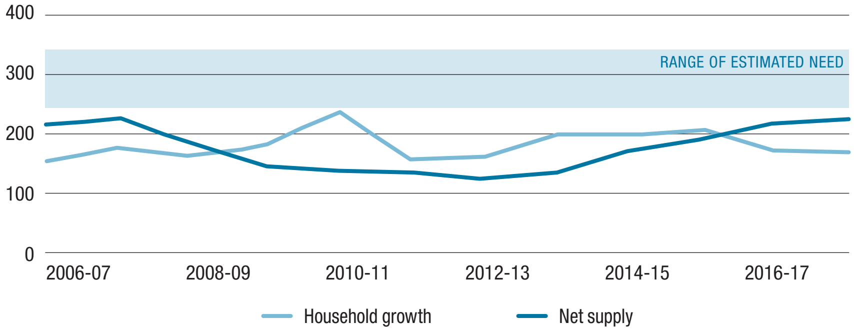
When considering that banks will typically only lend five times the salary of a lender, it has led to a situation where owning a house is becoming impossible for increased numbers of households, particularly for first time buyers. This situation is exacerbated when considering that due to the rapid increase in house prices, deposits for mortgages can also be unaffordable (typically 10% on the cost of a home) for low income and even average income earners.

This situation is further compounded by the overall downward trend in the number of new properties being built each year – as shown in Graph 3 below.

Since 1970 the number of new homes being built by the public sector (through local authorities) has reduced dramatically. Within that period there has been no increase in the number of homes being built by housing associations and the private sector to plug the gap created by local authorities.

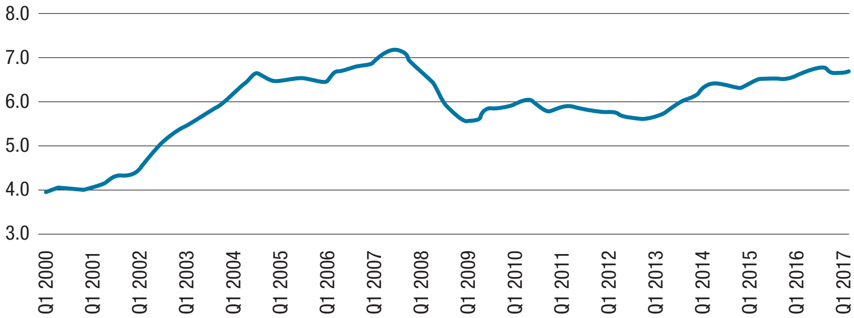
The reduction in local authority building has largely been a result of national government housing policy over the last 40 years. The transfer of social housing provision from local government to housing associations and a move in policy from a focus on rental to homeownership provision. There have also been significant financial restrictions around the ability of local authorities to fund the building of more homes.

GRAPH 1 New Household Demand (light blue) vs Housing Starts (dark blue)



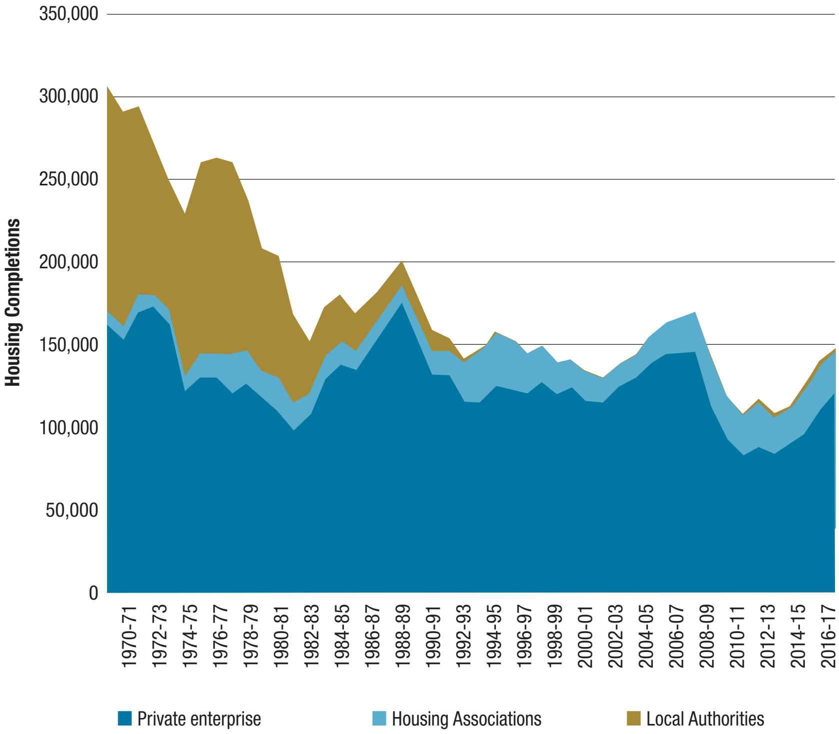
Source: Office of National Statistics

GRAPH 2 House Prices to Annual Salary Ratio



Source: ONS Earnings and Nationwide Price Data

GRAPH 3 Reduction in public sector housebuilding contributions



Source: Ministry of Housing, Communities & Local Governments

The impact of the reduction in local authority building has also been felt most strongly in the social and affordable rental sectors. The main provision for new social housing in recent years has been solely through housing associations. The reduction in building of more social homes has created significant demand at this point in the market – leading to the crisis figures identified above of 1.15m people on the waiting lists for social homes.

4. Lessons to be learnt from the UK

Clearly the UK hasn't found a perfect solution to tackling the affordable housing crisis, but considering all the above, what can other countries learn from the UK and apply to their own context? Some key areas include:

- Focus on the whole housing system
- Ensure there are is a diverse range of players in the market
- Develop robust regulation
- Ensure a sufficient focus on long term financing and maintenance
- Engage with the private sector
- Innovate

Comments on each of these areas are provided below.

4.1. Focus on the whole housing system

A key lesson from the UK is that there is no single silver bullet to tackling the housing crisis or developing new affordable homes. There is a strong need for focusing on the whole housing system. Any individual market intervention will only be successful if the whole system is stable, with enough enabling factors in place and barriers reduced. This includes areas such as:

- There is access to capital markets with affordable long-term financing available for affordable housing developers
- There is no pure market solution for those in the bottom end of the income pyramid in any country. For those at the bottom end and middle-income government subsidy would be required. The challenge is to ensure effective deployment of the subsidy intervention to achieve policy objectives especially for targeted groups.
- Purchasers / renters have access to affordable housing finance products to support the purchase of homes or to make rental payments.
- There is an established mortgage market providing products to purchasers at all levels
- Welfare systems are robust and in place to support those in need
- There is a resilient supply chain in place for construction activities
- Housebuilders can develop at scale and effectively by having access to cheap land, suitably located, appropriate building practices and access to infrastructure and services
- Organisations are available to manage rental homes at a large scale
- There is a legal and administrative system in place with a robust regulatory / policy environment that provides confidence to investors and other players operating in the housing industry
- There are different housing tenures to cater for different housing groups.
- Coherent government policies backed with appropriate resources and capabilities and capacity to ensure the system functions as designed.

These and other elements need to be effectively balanced to ensure the successful implementation of any identified market intervention.

4.2. Ensure there are is a diverse range of players in the market

A housing market needs a range of actors in place to develop and manage housing. As a starter here is clearly a strong role for Government. The UK has been through various cycles of direct Government intervention in the housing market through to more hands-off support through the provision of grant funding and other market-based initiatives. What is clear however from the UK experience is that Government needs to be actively engaged and pro-actively involved in developing the market and setting the overall framework for building new homes. This includes setting the agenda for overall targets, developing and enabling the policy environment and driving through a wide range of interventions and support activities.

In addition to Government, a key lesson from the UK is that there cannot be a reliance on any one form of delivery model or vehicle. Charities, independent organisations, hybrid organisations and the private sector all have a role to play in a) the initial development of homes and b) the longer-term management and maintenance of homes.

Each of these organisation types plays a critical and slightly different role within the housing system. Each is likely to tackle a slightly different element of the overall housing crisis. For example:

- **Local authorities –** by their nature, focus on the provision of social housing pitched directly at lower income levels. They are also more direct levers of the state and can quickly enact Government policy. Largely grant funded, they are also able to operate a counter cyclical model, maintaining the building of more homes – when housing associations and private developers may be reducing activities. They can also focus on parts of the sector which are likely to be less attractive to other players.
- **Charitable housing associations –** independent of government, serve a broader market but individually and are able to tailor their services to niche or specific client groups – they are also able to access a more diverse range of financing than local authorities, but do still require grant support (from Government) and cross subsidy (from their own commercial activities) to build new social and affordable homes. They can often be created from community need or demand and have a strong focus on specific community or customer groups.
- **Private sector –** it is only in recent years that the private sector has been playing a direct role in the provision of affordable and social housing in the UK (through the set-up of 'for-profits'). However, it has always been largely relied upon by local authorities and housing associations to be the outsourced provider of construction services. These bodies need scale to operate efficiently, which typically cannot be achieved within a single local authority or housing association. We are also however beginning to see an increase in private sector activity in the UK in the development ongoing management of market rent (i.e. not pitched at lower income levels) activities – addressing a specific gap in the current market.

In addition to these actors, there is also a requirement for mortgage providers, regulators, national bodies etc. all to provide the additional support required to manage the overall system.

4.3. Develop robust regulation

The UK has one of the most mature housing regulation systems in the world. This has developed over a long period of time and has been amended to address differing pressures at different times. At present the English housing association sector is primarily regulated by the Regulator of Social Housing (RSH – NB there are different regulators in Scotland, Wales and Northern Ireland), which is a stand-alone 'non departmental public body' of government.

The regulatory environment is focused on the overall governance and viability of housing associations. This means that the regulator proactively regulates housing associations to ensure that they are well run and do not put social housing assets at risk. It responsively regulates (and only intervenes in cases of 'serious detriment') consumer standards related to areas such as the quality of housing and services provided to customers.

The environment is however changing. Post the Grenfell tragedy (a fire in a high story tower block in West London which led to 72 deaths) there is increasing pressure for there to be a greater regulatory focus on consumer or customer standards in the housing association sector. This will potentially lead to organisations being required to have a stronger focus on areas such as engagement with their residents, the quality of services, health and safety etc. Despite any changes, what is clear in England (and other parts of the UK under different regulators) is that there is a robust regulatory system in place which drives standards and compliance within the sector.

The primary purpose of the RSH is to protect social housing assets within the sector and ensuring that organisations are effectively governed and financially well run. However, a key advantage of a highly regulated system is that it improves confidence of the lenders who fund housing association. A significant degree of assurance is provided to lenders that housing associations are pro-actively and effectively regulated on governance and viability elements – ensuring housing associations have access to low cost of financing, enabling them to build more homes.

4.4. Ensure a sufficient focus on long term financing and maintenance

In the early part of the development of the UK social and affordable housing system, there was a strong focus on the development of new homes, at pace. There was however less focus on how those homes would be managed in the longer term, with a lack of focus on the future funding requirements required to maintain homes at a decent standard. Homes by their nature are long term assets, they require ongoing investment from an effective organisation set up to focus on the long-term funding, as well as management and maintenance requirements.

This lack of focus resulted in problems in the quality of homes in the social sector in the UK and led to the set-up of the 'Decent Homes Standard' by the Labour Government in 2000, which required all social housing to be brought up to minimum standards by 2010. Due to the poor quality of housing, there was a significant backlog of investment required from both local authorities and housing associations. From 2000 to 2010 significant sums were invested by organisations in achieving the standard. Due to limited available financing, Government was required to invest significant amounts to provide support to local authorities who still retained stock. Housing associations were also required to fund activities. All of which took money away from potentially building more new homes.

A key challenge is therefore in ensuring that in addition to there being access to funding to cover the costs of initial development activities, there is also a robust financial model in place to fund the longer-term maintenance and management costs of those new homes. This is most likely to come from rental income, so there is a need to ensure that the market is strong enough to support those ongoing costs and / or there is access to government support on subsidising rent.

4.5. Engage with the private sector

As detailed above, the private sector plays a key role in any social and affordable housing sector. That has particularly been true in the UK where support has been provided for the development of new homes and provision of housing to certain market segments. With the influx of new 'for-profit' providers, the private sector is now beginning to challenge the established sector by bringing in new delivery and business models, new ways of working and approaches. This is helping to stimulate innovation and will potentially lead to an overall increase in standards. Some examples include:

- A mix of company structures to ringfence risk and provide the potential for future exit strategies e.g. holding companies registered with the housing regulator (in England) with a second sister company set up to employ staff and provide services to the owned assets
- Models based largely on an outsourcing approach – where the asset organisation employs very few or no staff, housing management / repairs services are then outsourced (primarily to existing housing associations) – enabling the organisation to get access to 'best in class' services within the sector, as well as a flexible model to support growth
- Operating models with a much stronger focus on delivery of services through digital channels and supported by technology
- Developing of service delivery models backed by different skillsets that are traditionally found in housing associations
- More diversified service offerings targeted at niche consumer segments, with service provision tailored to meet the specific needs of that segment

However, in addition to simply ensuring that there is enough engagement with private sector players, there interventions which can be developed to encourage greater private sector interest. For example, in the UK Section 106 legislation (introduced in the Town and Country Planning Act 1990) has played a key role in enabling additional investment from the private sector into the social housing market. The basic premise of the intervention is that private housing builders are required to contribute to social and community activities when building out private schemes. This often takes the form of a certain proportion of new build properties within a scheme being nominated for social housing provision. Or alternatively the developer makes a financial contribution to another community activity (as agreed through planning with the local authority).

The approach has helped to drive investment back into the affordable and social sector, when the private market is strong. It has also provided a strong pipeline of new build properties being provided into the housing association sector (when a developer nominates units for Section 106 provision, they will typically be acquired by a local housing association).

The private sector is also often keen to develop solutions to development challenges. Over the last 20 years there has been a significant amount of estate regeneration activity in the UK, where large social housing estates (often build in the 1950s and 1950s) have been regenerated and replaced with new housing provision. These are often large, complex and costly schemes. Working closely with public-private partnerships have helped to develop and finance solutions that could not have been delivered alone by either sector.

5. Examples of housing market interventions

There is a strong track record of targeted interventions which have been implemented across the world to help improve the supply of social and affordable housing. This includes activities specifically design to tackle demand and supply side issues.

Examples on interventions, which could be considered in developing economies, include:

- **State backed companies / joint ventures –** Governments can directly intervene in housing markets through creation of state backed companies to tackle very specific initiatives or challenges. For examples in the UK, local authorities are working together to create a new entity to focus on tackling homelessness in the capital. The company (Capital Letters) is a not-for-profit vehicle and is backed by nearly £40m of funding from the Ministry of Housing and Local Government and is managed collaboratively by London local authorities who are providing additional support in terms of staffing, properties etc.
- **Diversity in tenure types and housing products to meet the needs of all levels of the income pyramid –** There is no one size fits all type of housing tenure suitable for all elements of a housing the market. The UK has a wide range of housing products – including social (60% of market value) and affordable rents (80% of market value), market rent, shared ownership (where purchases acquire a share of a property and rent the rest), help to own etc. It is important that a diverse product range is developed, as each level of the income pyramid will have differing demands and requirements. For example, at the low-income level there is a requirement for a rental product at low market values, potentially supported by government subsidies or a welfare system. However, for young professionals or key workers entering into the housing market on low to middle income levels but with home ownership aspirations, there will be a demand and need for shared ownership[1] or help to own products to help them onto the housing ladder (if outright home ownership is out of their reach).
- **Public private partnerships and financing –** In the UK public private partnership arrangements in financing have had a significant and positive impact on funding new affordable homes. According to the Homes and Communities Agency – the affordable housing sector in England's total agreed borrowing facilities reached £99.8 billion at in 2018/19. Current cash and undrawn facilities in the sector (£26.8 billion) are sufficient to cover forecast expenditure on interest costs, loan repayments and development for the next year (£20.9 billion), even if no new debt facilities are arranged and no sales income received. During the last quarter, 42 providers arranged new funding, including refinancing, totalling £2.8 billion, with 11 providers each arranging facilities worth £100 million or more. Bank lending accounted for 58% (£1.6 billion) of new funding in the quarter. Capital market funding, including private placements and aggregated bond finance, contributed 36% (£1.0 billion) and other sources, including local authority lending, contributed 6%. The scale and level of funding from the private sector into the affordable housing sector is significant and has been a main driver for building new homes in the UK. This has been enabled through a strong focus on building partnerships between the public and private sectors and creating an environment which provides funders with high levels of confidence when investing in the sector (e.g. through the creation of a robust regulatory framework).
- **Investment in modern methods of construction [MMC] –** These are a suite of products to deliver construction projects using alternative supply chains and faster, more efficient technologies. In line with other innovation policies, there are examples of Governments providing supply-side grants to MMC manufacturers to actively build the market for MMC. While MMC products are generally recognised as the outputs of factory homebuilding, MMC can also refer to on-site build technologies (i.e. Building Information Modelling or innovative joint block work) or partial off-site technologies (i.e. bathroom and kitchen pods or panellised walls). The most recognisable form of MMC for housing today is modular housing built off-site in a factory environment. With government support, these schemes can act as cost effective and quick way to scale up the delivery of high-quality affordable homes. The benefits are clear to see, but the intervention is not without challenges. For example, there has been some scepticism from mortgage lenders and consumers who are concerned about non-traditional methods of construction and there are longer term implications for the service provider managing new asset types.
- **Reducing the cost of land –** Land values are often a prohibitive cost on the viability of social and affordable housing. There are examples of governments introducing legislation to compulsorily purchase land at a social value, rather than a 'hope' or commercial value – which is typically the case. For example, in contrast to the UK, French and German local authorities have powers which enable them to quickly assemble development sites at existing use values through compulsory purchase powers – with future opportunities for the landowners to share in the benefit of the uplift in land value. This type of intervention can help to tackle some of the challenges posed by higher land costs. Alternative approaches are also available, where public land is provided on a long leasing basis to a charitable housing provider who is then able to develop new homes on the plot. The public sector retains ownership of the land, but the housing association is able to reduce one of the largest costs of building new homes – enabling a higher level of affordability to residents.
- **Public land strategies –** There is a need for clarity in the way public land can be used for building new homes. Without a strategy, land will be disposed / used in an ad-hoc manner, with individual government departments making decisions on how they use their land without reference to an overall policy framework. A public land strategy, provides this clarity and also specifies areas such as; what land will be released for housing, to whom it will be released, the terms and conditions of releasing land to developers, and what returns (financial and otherwise) the government should expect.
- **Developing an appropriate planning framework –** An intervention focused on changing the regulations concerning what can and cannot be built. Revising the rules around what can be built, can help improve delivery, both in terms of volumes and speed.

[1] Share-ownership properties are offered on a part-rent, part-buy basis, where a consumer purchases a portion of the property (e.g. 25%) through a typical mortgage process, but then rents the remaining portion (75%) from a service provider (typically a housing association) who retains ownership of that part of the asset.

- **Planning delegation and authority –** An intervention focused on changing the locus of decision-making and accountability for planning and housing delivery. In some countries the decision making around planning can be bureaucratic and centralised, leading to slow processes. Some interventions have been designed to enable the devolution of the planning of new homes to a local level – providing greater control in the hands of local communities. These plans could have to respond to delivery targets provided by Government but could provide greater local accountability and transparency in housing delivery.
- **Tax incentives for developers –** In any housing market there will be a reliance on the private sector to help construct new homes. Private developers will only engage, if they can maintain their own profit margin – this is true whether building for sale or building to pass on for rental purposes to another organisation. There are options therefore for conditions to be created to relax tax requirements for housing building and development activities. This can help stimulate the supply side of the market, gain more interest from a broader range of potential players, increase competition and reduce costs. Although less successful in the UK, this is an option being considered by other counties (e.g. Kenya). In theory the approach is intended to create conditions to relax tax requirements for housing building and development activities. This can help stimulate the supply side of the market, gain more interest from a broader range of potential players, increase competition and reduce costs.
- **Tax incentives for homeowners –** In many countries additional tax requirements when purchasing a property can stretch the finances of a purchaser. Reviewing existing taxes and ensuring that the tax environment is not a prohibitive factor for potential purchasers is also key. For example, over the last 10 years in the UK, the Stamp Duty System (i.e. the tax applied when buying a home) has been reviewed to become reduce the tax costs for first time buyers and lower cost homes – promoting home ownership at lower levels in the market. In practice, care is needed with this intervention as the approach can simply lead to an increase in prices (where sellers push up prices to cover the gap left by the reduction in tax).

6. Summary

In summary – despite having a well-established and mature housing system, with robust regulation and a range of players – the UK has not found a perfect solution to tackling the affordable housing crisis. There are however a wide range of lessons that can be learned and applied to other contexts.

Based on our experience at Altair International in supporting the design and development of a wide range of interventions, our view is that the key one is the need to ensure there is a strong focus on the overall housing system – developing an environment which will support the implementation of a range of housing market interventions. We have had experience of supporting interventions such as new modern methods of constructions, public private partnerships, development of new rental products and identifying approaches to tackle poverty in social housing – but without a supportive environment in place, none will be successful.

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An update on the Japanese housing market

By Masahiro Kobayashi[1]

1. Introduction

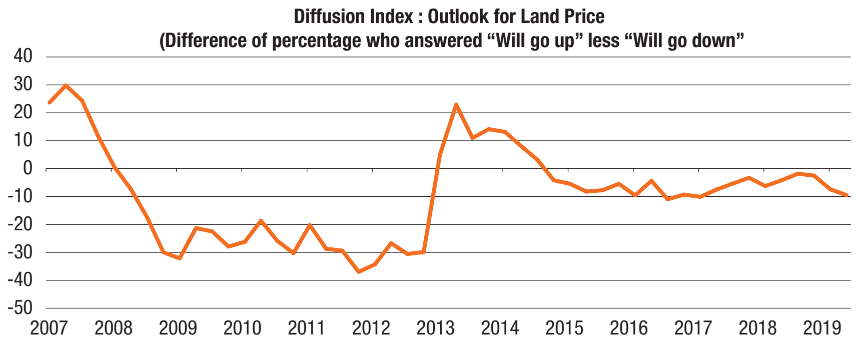
As is widely known, the population of Japan started to decline a decade ago and has decreased by approximately 1.6 million in 10 years. In April 2019, the Statistics Bureau, Ministry of Internal Affairs and Communications, released the result of the "Housing and Land Survey" which they conduct every five years. The previous Survey in 2018, showed that there were 8.49 million vacant houses in Japan as of 2018, representing 13.6% of the total housing stock. Within 5 years, the number of vacant houses increased by 0.29 million while the vacancy rate inched up by 0.1%.

With less demand for housing and plenty of available housing stock, it was also widely believed that housing prices in Japan will continue to decline for the foreseeable future. The Bank of Japan conducts an "Opinion Survey" which includes the outlook for land prices in Japan. In 2013, the percentage of the respondents who answered that land prices will go up surged immediately after the Bank of Japan introduced an extraordinary monetary accommodation called "QQE" or "Quantitative and Qualitative Monetary Easing". This measure was expected to lift the Japanese economy out of prolonged deflation and the survey result was regarded as evidence that people were confident that the Japanese property market might recover with the new monetary policy.

However, the inflation rate in Japan as measured by the annual growth rate of the consumer price index remains far below the target of 2% and the momentum toward the achievement of the inflation target is waning. In these 5 years, more people are expecting the price of land to go down rather than go up [Figure 1].

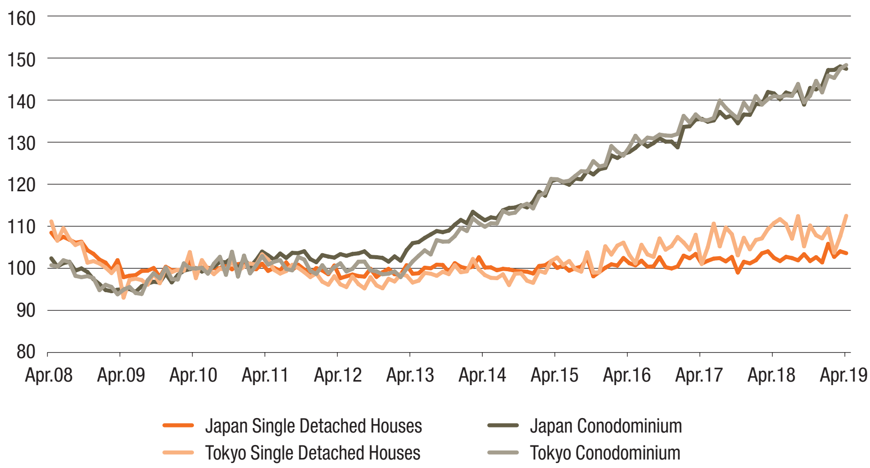
Despite such a perception, property prices in Japan started to rise during these couple of years, not only in Tokyo, the capital city, but also in some remote towns in the islands of Hokkaido and Okinawa.

FIGURE 1 Outlook for Land Price in Japan



Source: Bank of Japan "Opinion Survey"

FIGURE 2 Property price index



Source: Ministry of Land, Infrastructure, Transport and Tourism [MLI])

In this article, I will describe the current housing market conditions in Japan and explain the background of the recovery of the market, and then conclude.

2. Current market conditions

The Ministry of Land, Infrastructure, Transport and Tourism [MLIT], Government of Japan, releases monthly property price index in Japan, both for single detached houses and condominiums as well as both for the national average and selected metropolitan area such as Tokyo. The price of single detached houses remains almost unchanged both in terms of the national average and Tokyo, while the price of condominiums started to pick up after 2013 both in terms of the national average and Tokyo [Figure 2].

[1] Director General, International Affairs and Research Department, Japan Housing Finance Agency (JHF).

The difference in the price trend between single detached houses and condominiums is not driven by the supply side. The number of housing starts in Japan remains slightly below 1 million units per year recently, and the balance between single detached houses, condominiums, and rental houses has not significantly changed, i.e. the rise of condominium prices is not because of the shortage of supply [Figure 3].

3. Impact of inward investment

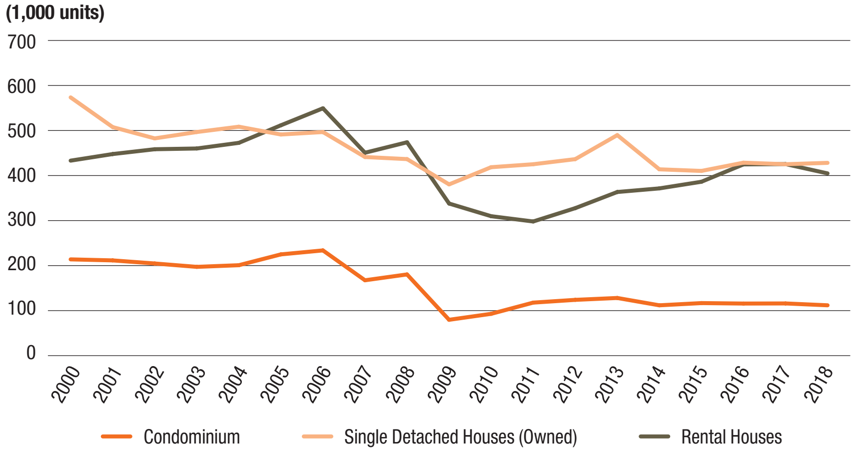
There are no official statistics on the inward investment into the residential real estate market in Japan. However, the Bank of Japan analyzed the impact of inward investment in its "Financial System Report" April 2019 by using industry data as follows.

> In addition, inflows of funds from foreign investors have not gained momentum, although such inflows as part of investors' search for yield were observed, particularly for office properties in the Tokyo metropolitan area, until around last year (Chart B2-4). In the case of residential real estate, prices of newly built apartments continued rising, especially in the Tokyo metropolitan area, but have recently been more or less flat (Chart B2-5).
>
> As a result of these persistently higher prices, sales of apartments[2] have been sluggish, as evidenced by the relatively low percentage of newly built apartments sold. Such a weakness in the newly built apartment market has also been evident for high-priced newly built apartments, which were formerly supported by strong demand from foreign investors and wealthy individuals (Chart B2-6).

It is widely believed that there are many Chinese investments into the Japanese residential real estate market. There are many suggestions in the media that Chinese travelers visit real estate brokers in Japan and purchase condominiums in Tokyo in cash. However, the analysis by the Bank of Japan does not include the breakdown of the inflows of funds from foreign investors by country.

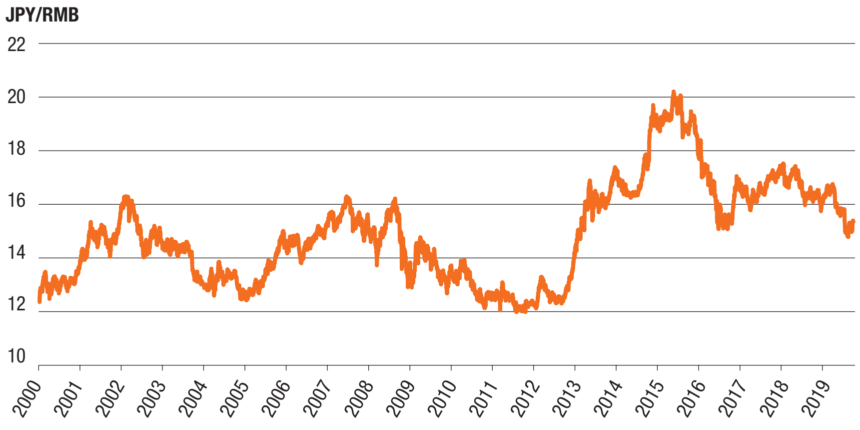
After the Bank of Japan introduced QQE in April 2013, the Japanese Yen depreciated significantly against the Chinese Yuan Renminbi through to mid-2015 [Figure 4]. This was

FIGURE 3 Number of housing starts



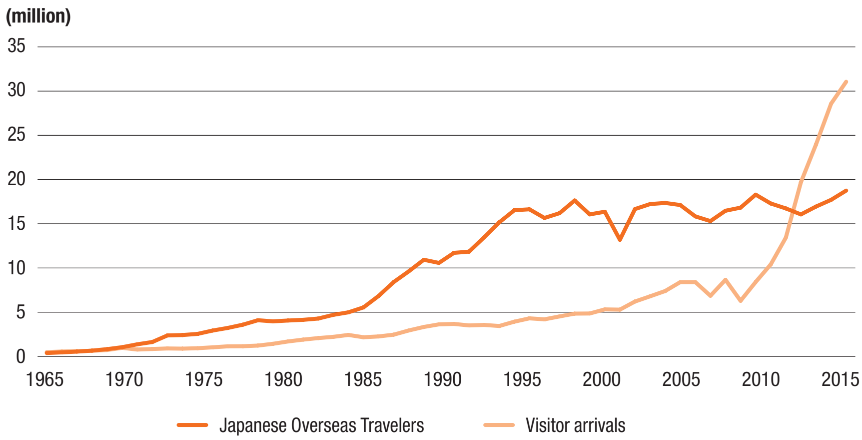
Source: MLIT

FIGURE 4 Foreign exchange rate: JPY/RMB



Source: FRB

FIGURE 5 Number of visitor arrivals and Japanese overseas travelers



Source: Japan Tourism Agency

[2] The original report of Bank of Japan uses the term "apartment", which is referred to as "condominium" in this paper.

largely affected by the depreciation of the Japanese Yen against the US dollar in the same period, but it made Japanese residential real estate more affordable for Chinese investors. The advantage of foreign investors from foreign exchange devaluation, however, is the same for the US or European investors as well.

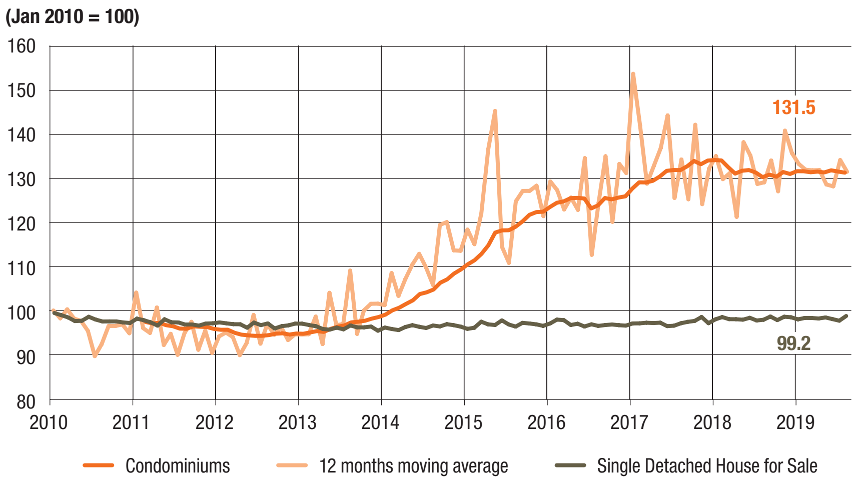
According to "Chart B2-4: the value of real estate property acquisitions by domestic and foreign investors" in the aforementioned BOJ Report, the share of foreign investors peaked in 2017 at slightly higher than 30%. There is no doubt that strong inbound investments by foreigners supported the rise of property price in Japan to some extent, but it is difficult to quantify their magnitude. On the other hand, the number of foreigners visiting Japan has increased from 6.2 million people in 2011 to 31.2 million people in 2018 [Figure 5].

The vast majority of the foreign visitors are tourists who need accommodation during their stay in Japan and as such, construction of hotels is increasing. This does not seem to directly affect the residential real estate market, but many condominium projects are proposed in the center of cities which have better access to public transportation (railways or subways). Acquisitions of the lots for hotels and condominiums are usually awarded via competitive bidding among developers without distinguishing the proposed use of the lot. As competition to acquire project sites with hotel projects intensifies, the land price in general has started to pick up even for condominiums.

At the same time, number of construction workers has decreased from 7 million in 1990's to less than 5 million in 2018. The shortage of labor also triggered a rise in construction cost, especially for condominiums which require more specific skills than single detached houses[3] [Figure 6].

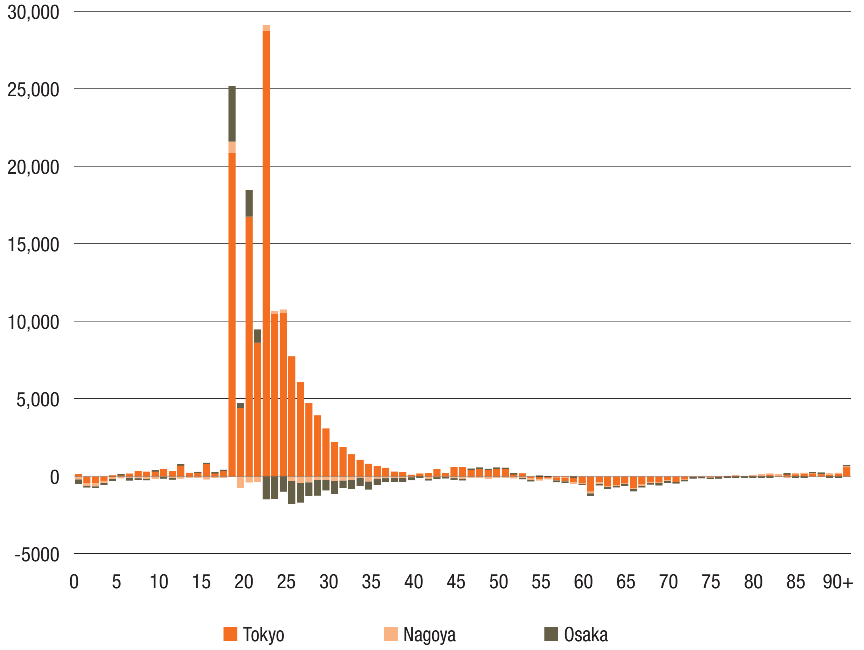
Coupled with the rise in land prices and construction costs, the price of condominiums in the Tokyo metropolitan area has, in nominal terms, recovered to the level equivalent to the peak of the property price bubble in the early 1990's. The average price to income ratio for those who purchased condominiums in the Tokyo metropolitan area with "Flat 35"[4] exceeded 7 times in 2018, but the debt to income ratio remained slightly below 23%. Thanks to an extraordinary low interest rate environment, affordability remains high despite the higher property prices.

FIGURE 6 Construction cost index



Source: MLIT

FIGURE 7 Number of net domestic migrants by age in 3 metropolitan areas (2018)



Source: Ministry of Internal Affairs and Communications

4. Changing preference to housing type

Strong demand for condominiums in the Tokyo metropolitan area is not only amplified by foreigners but also by domestic demographics. The total population in Japan is declining gradually but the population of Tokyo is increasing due to domestic migration from other prefectures. The majority of the migrants are from the young generations beginning a college education or starting a career job after graduating from school [Figure 7]. These people are usually not married and even if they get married, they will tend to live in multi-family units, either in rental apartments or condominiums.

[3] The structure for condominiums is usually reinforced concrete while single detached houses are usually built with wood.

[4] "Flat 35" is brand name of a 35 year fixed rate mortgage product provided by JHF under it's secondary market operation.

An aging society is also affecting the preference for the type of houses. In the past, single detached houses were thought to be the final stage of the "housing ladder"; young people usually start their habitation in rental property and purchase a condominium when they get married and then move to single detached houses when they have children. A condominium in those days was considered to be a temporary place to live. However, as society ages, people are more accustomed to living in condominiums because they are easier to maintain than single detached houses. Based on the survey by MLIT, the percentage of condominium owners who think they will stay in the unit until they die was only 21.7% in 1980 but increased to 62.8% in 2018 [Figure 8].

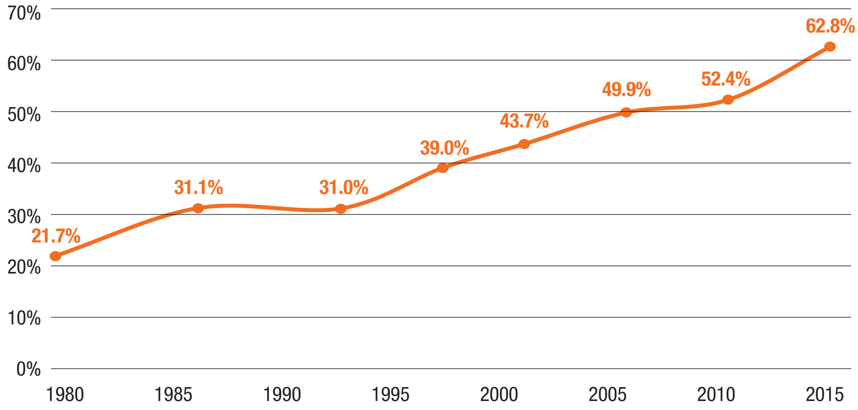
People are moving to the centres of cities where they have better access to public transportation services. According to the "Land Market Value Publication" by MLIT, the residential lot located closer to the nearest railway stations showed higher appreciation in 2018 compared to 2017 [Figure 9]. This trend is more apparent in 3 metropolitan areas than other areas.

Traditionally, condominiums have been located closer to center of the cities than single detached houses. In 2018, there were many cases of traffic accidents caused by elderly drivers, which also discouraged many older people from using cars and encouraged them to use public transportation. Such services are not available to many residential sites which were designed to be served by the automobile.

As a result, the average sold (bid) price of existing condominium units exceeded that of existing single detached houses in the Tokyo metropolitan area in 2018, for the first time on record. It is to note as well that there is almost no deviation between the asking price and the bid price for condominiums [Figure 10], but there is a significant deviation for single detached houses [Figure 11]. This means that there is a large difference in the perception of the value of single detached houses among those who would like to sell them and those who would like to purchase them.

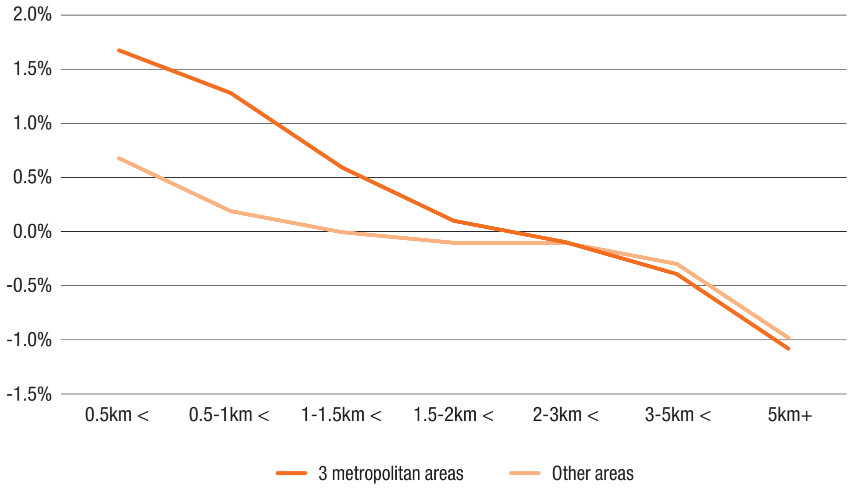
Notwithstanding these trends, there are many people still living in single detached houses. Many local authorities are encouraging older people living in remote area to relocate themselves to the center of cities under the concept of "compact city". From the perspective of revitalization of regional economies, JHF has concluded agreements with many local authorities to reduce the interest rate for housing loans along with subsidies from local

FIGURE 8 Percentage of condominium owners who think they will stay in the unit until they die



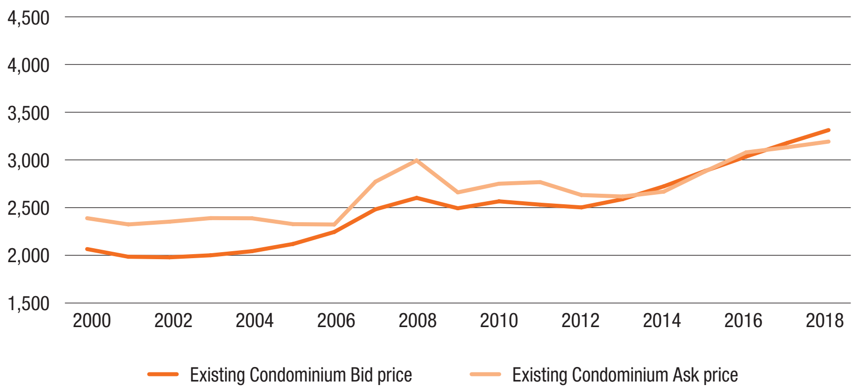
Source: MLIT

FIGURE 9 Year over year change of residential lot by distance from nearest railways stations (2018)



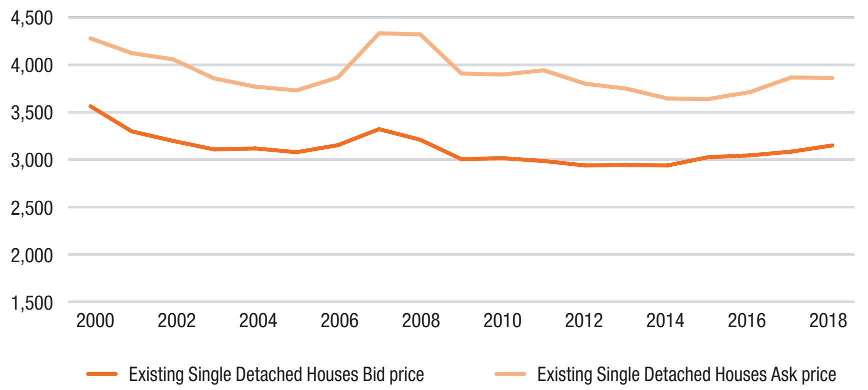
Source: MLIT

FIGURE 10 Average price of existing condominium unit in Tokyo metropolitan area: ask price and bid price [in 10,000 JPY]



Source: Real Estate Transaction Promotion Center

FIGURE 11 **Average price of existing single detached house in Tokyo metropolitan area: ask price and bid price [in 10,000 JPY]**



Source: Real Estate Transaction Promotion Center

authorities to encourage more people to live in local communities.

5. Conclusion

After experiencing two "lost decades" in deflationary pressure, the residential real estate market in Japan has been picking up at last, supported by extraordinary monetary accommodation by the Bank of Japan, which also devaluated the Japanese Yen and made Japanese housing more affordable to foreign investors, including China and the US, among others. The recovery of property prices, however, seems to be more noticeable for condominiums than single detached houses. Condominium prices are rising both from the supply side and demand side; construction costs as well as land prices in the centers of cities which have better access to public transportation services are rising, while mode of living in condominiums is gaining more popularity in an aging society. Whether such a trend is temporary or permanent has yet to be observed.

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Digitizing housing finance to increase transparency and reduce risk

By Lew Schulman

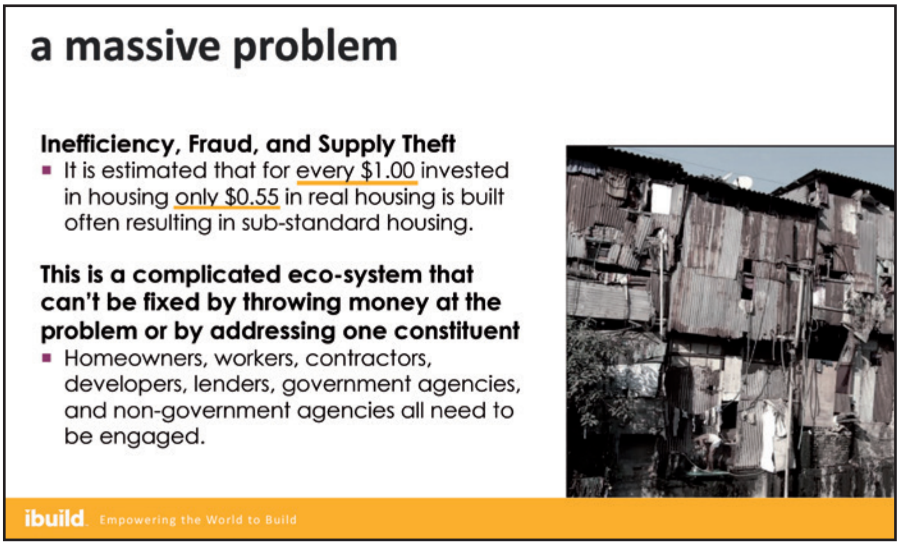
I should probably first explain the iBUILD mobile enabled marketplace. iBUILD is a patent-pending, SaaS platform that organizes the construction marketplace in developing countries. iBUILD is accessible via our mobile-enabled and web-based platform, localized by market, to stimulate housing construction activity. Further, the fintech solution provides end-to-end transaction traceability across an entire ecosystem and provides loan monitoring, tying digital disbursements to completed and verified work in real time, through app integration on the ground with a unique, customizable lender portal for accounting and upper management. iBUILD delivers lenders the ability to immediately digitize their construction loan portfolio, improving efficiency and transparency of transactions during the construction process, and insight into the skilled professionals and authenticated suppliers the customer has approved for payments throughout the project. What iBUILD ultimately accomplishes is the digitization of the housing/construction market and aggregation massive amounts of data which helps to inform and address all aspects of the housing value chain.

The first thought that came to mind as I began to write was, "are we really all in when it comes to solving the most pressing problem of the last 100 years?" The affordable housing unit deficit now exceeds 350 million units world-wide and that number is steadily climbing.

Are the innovative housing finance sector products or building process innovations we read about really addressing the core issues that are preventing access for these hundreds of millions in waiting to affordable housing inventories? I would also ask you, "is a lack of innovation really the reason we haven't scratched the surface on implementing greater capacity, lower cost, better quality and scaled project development?" It's really not a secret but the answer is, "no", and I would argue that it is due to a lack of transparency and the lack of organized resources. Further, in the developing world, housing construction encompasses an enormous informal sector and there is little to no financial motivation to formalize itself nor the proper vehicles to do so.

What do I mean by lack of transparency? I will share with you a few examples. When a consumer puts his or her money into the housing project, they have no idea whether a Shilling or Naira or Rupee of finished product will result. When a worker displays an advanced skillset on the job, does the employer who hires them realize that and pay them a higher wage? Does their next employer have a trusted record or reference pertaining to those verified skills? In the informal marketplace, when a person makes a request for quotes on a project, how can they have any faith in whether or not the project has been estimated correctly? And what recourse do they have when there are budget overruns? There is no way to verify the previous work history of the contractor providing the quote, just like there is no way to verify that a supplier asking for 50% of your materials expense upfront, will be delivering proper materials. Because we don't reward a good workforce in a way that incentivizes them to become better, we continue to allow those who are poorly skilled and fraudulent to compete and retreat into the shadows without consequence. We are still treating the workforce like a commodity to use and dispose of as we see fit. When a worker is hired there is no way to know if they have ever worked on a construction site let alone what their skills capability really is. Today when someone begins a construction project, they are often, unknowingly, giving their money to someone who will underestimate cost, take shortcuts to make amends and fall short of the standards required for certified, quality work.

For all of these reasons, and more, the housing market in developing countries is built upon an underlying foundation which is faulty and cannot provide the necessary security and confidence for the lending of long-term capital for housing construction. Today, lenders cannot see the real-time construction progress of their funded projects and often times they are the last to know when work falls behind schedule or cost overruns result in jobsite closures. Sometimes it is because of graft, or other factors that should have been known, had there been a professional and reliable level of transparency and accountability throughout the process.



Only when the performance or capability of workmanship is known, rated and fairly compensated is it possible to motivate workers toward skills improvement which then increases sector capacity. A public, transparent rating builds a quality workforce of artisans who see a career in construction with clearly attainable goals.

Here is where transparency holds the key. What we have learned over the last decade is that by giving people technology that is easy to use, organizes what they are looking for and rewards them with trust, good quality of service and financial empowerment , people will adopt the technology and integrate it into their everyday life. Look at Uber and how they have changed the transportation industry, Airbnb and how they have changed the hospitality industry and I can go on and on. Regardless of the challenges they still face in getting it right for everyone, these are two prime examples of the average citizen using technology to solve a major issue in their lives which changed those industries forever.

What we have also learned from the use of fintech driven products is that the enormous amount of information that these mobile-enabled platforms aggregate, accelerates the social learning curve and increases the economic impact. Technology has created a roadmap to the world on how to transform whole industries by organizing and illuminating resources and allowing trust in transactions to be assumed and expected. Mobile-enabled technologies with high consumer value propositions can easily offer scalable, financially viable solutions for their industries. Technology marketplaces go a step further, expanding offerings to include products related to that industry that not only empower people to get what they need but also enhance the quality of the lives of those performing services. These are all essential in expanding the workforce in these industries and creating aspirations and a career path for those who are looking to spend their lives mastering a skill.

The new iBUILD technology, for the construction industry, provides a multi-faceted, one-stop solution to a complex, dynamic set of issues that face not only consumers, but lenders, architects, government, contractors, workers and suppliers alike. The mobile platform was developed for non-smartphone users (USSD[1] feature phones and SMS[2] code) to address the needs of developing economies. iBUILD creates open and fair access to meaningful work through a comprehensive housing construction marketplace inserted into a transparent ecosystem of support that includes the ability to make digital payments through a single platform for all transactions across the construction value chain, throughout the life of the project. iBUILD enables any individual to have the power to connect and transact in order to sustainably replace, repair and improve the adequacy and security of their own shelter based on individual need.

Transparency of funding disbursements through the virtual wallet is a key feature in attracting major partners to the platform. Fraud is a major detractor for banks and micro finance lenders in the housing industry.

In Mckinsey & Company's 2014 report: Tackling the world's affordable housing challenge, the need for over 440 million new housing units to be supplied by 2030 was highlighted in order for the sector to close the global affordability gap. These households represent a population of over 1.7 billion people, which is more than 20% of the world's population. The critical need to adequately house the poor, now, is not going to be met through the formal development and construction industry, building an entire house at a time. An entirely new unit is not what is most needed. Further, it is impossible to build the 440 million new homes necessary, using the existing model of relocation and whole house construction. However, a mobile app can transform the dynamics of the market, and the iBUILD team believes they can dramatically help close the 440 million unit housing gap by empowering the masses, leveraging the informal cash economy and increasing access to finance coupled with the necessary technology to connect to a powerful ecosystem that allows anyone to construct at a project level to specifically meet their own basic need. Housing production is primarily done in the developing world using cash. However, the marketplace must include those lenders who are participating in the housing space as well. By imbedding a mobile payment system in our marketplace fintech platform it enables payment based on verified completion of milestones. One of the key features is the embedded geotagging which allows for progress to be tracked in real time. As an example, a consumer or lender or developer could ask for photographic proof of completion and using the iBUILD app the photo indicates the location within 2 meters of the site. The photo is then stored in the file of that particular project for review in the future if necessary. Funds are only released when a milestone is reached and verified. Another example is how iBUILD is formalizing the informal sector for workers. A worker can easily download the iBUILD app and create a profile which would include his or her perceived skill level. Once their profile is completed, immediately they begin receiving job offers from contractors who are on the marketplace. The embedded chat feature allows them to ask questions and accept the job offer. When they show up for work, they tap their phone against their supervisor's and their hours begin to record. Then at the end of the week their supervisor must rate their performance before paying or authorizing payment. This corrects any inaccuracy and also provides the worker with an electronic resume which now allows the next employer or customer to really know who they are hiring. Now workers can see a career path and the ability to earn more based on their proficiency. If the worker has a certified skill or attains a certification during their career, they receive a badge that is visible to anyone who views their profile. This allows the assessment of skill across whole markets and exposes weakness both in skill and location. Most importantly it weeds out the bad actors. The rating system is used on everyone in the marketplace. If you buy materials or use services, you are rated on quality and performance including consumers. If I am a contractor I want to know if the person I am working for actually pays.

Whether it is whole house construction or more commonly, making incremental, structural improvements and additions to existing shelter, iBUILD instills confidence through access to a supportive mobile fintech enabled ecosystem that brings accountability and transparency to all transactions in the housing construction process. The iBUILD team has extensively explored how the rapid adoption of mobile applications and mobile money technology could help to solve the problems associated with housing construction in developing economies. Kenya, for example has a mobile phone penetration of 88%, and was one of the company's first test markets for the app. Early contributors such as IBM and MasterCard Innovation Lab and some of the leading micro finance institutions in the world, have afforded iBUILD with the capacity and expertise needed to develop its comprehensive approach.

The positive effects of equal access to high quality, affordable housing is far-reaching

[1] Unstructured Supplementary Service Data (**USSD**), sometimes referred to as "Quick **Codes**" or "Feature **codes**", is a communications protocol used by GSM cellular telephones to communicate with the mobile network operator's computers.

[2] **SMS** stands for Short Message Service and is the most widely used type of text messaging.

for children, adults and communities. These include increased performance in school, decreased unemployment, better health and well-being, improved infrastructure, and of course, increase in quality, and sustainability of shelter. 11 of the 17 United Nations Sustainable Development Goals are Supported through increased availability of Affordable Housing. The iBUILD technology delivers a powerful platform that meets 11 of the 17 sustainability goals. Financial inclusion, gender equality and job creation are also pieces of the iBUILD solution that are intimately associated with the construction ecosystem in developing and developed countries.

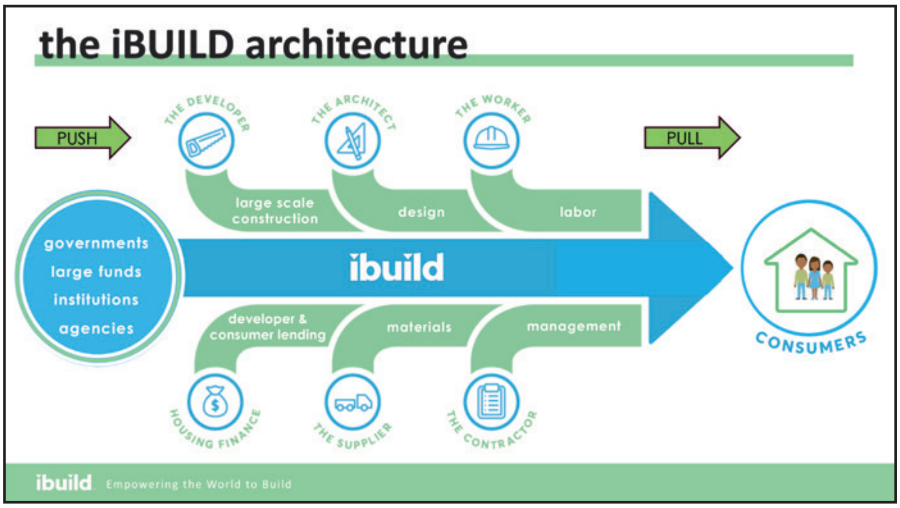
IBUILD is the solution that the affordable housing and construction industry has been waiting for to address the dearth in housing and to eliminate the lack of transparency that exists globally in this massive informal industry. There are fintech apps and platforms that are out in the market. However, they are merely addressing a segment of the market and are mostly employing a piece of the housing construction value chain. iBUILD is the first, and to date only fintech SAAS solution that bring all aspects of the housing value chain together and provides them with the tools necessary to be successful. Most importantly its free to join!

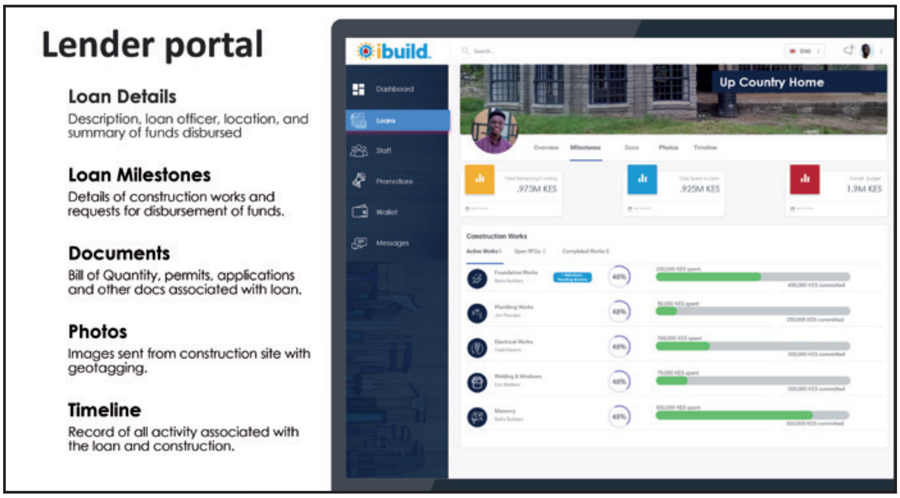
By organizing the industry stakeholders and imbedding a mobile payment system within our platform, iBUILD creates a trusted marketplace where informal workers: get jobs, get paid and get rated for their skills. Consumers are able to get competitive bids, hire artisans, who may not be formal but are rated, to do work in a secure environment that is transparent and manageable. iBUILD enables suppliers to sell their products to a wider audience. Contractors and developers are able to manage multiple projects across various sites with ease and assurance of progress and quality. Workers, SME's and even consumers can get insurance and other services to mitigate risk and improve their lives.

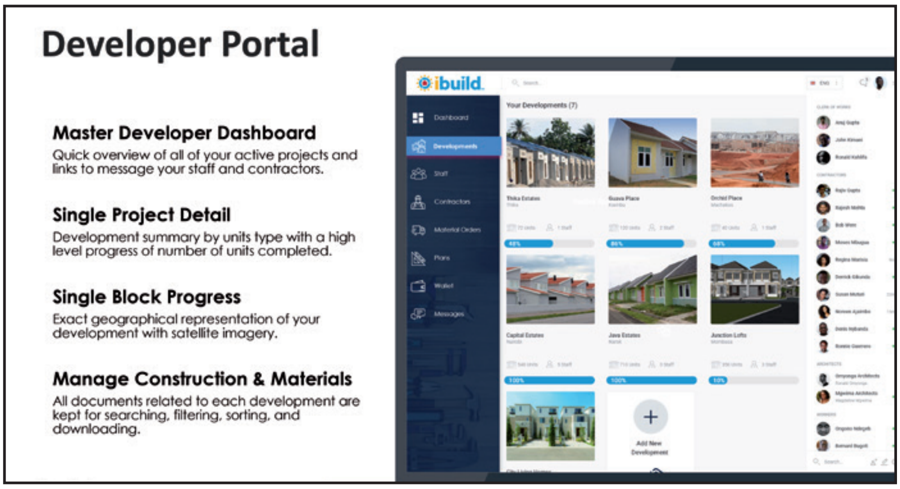
Financial institutions can now find new customers in the marketplace who are actually in need of lending and receive applications and scanned documents to underwrite as well as verify employment tenure if the applicant has been consistently paid via the iBUILD worker timesheet tools. Users will be able to offer their payment history as another factor in loan approval which is extremely important for the millions of informal workers who have no payment history. Upon loan approval, banks can approve and disburse project funding through the iBUILD app based on completed milestones with verifiable geotagged photographs of progress. This helps to expedite the building process and cut down on the cost of managing an entire portfolio of loans. It is easy to expand loan offerings across multiple markets and manage disbursement easily from their iBUILD dashboard that interacts with the mobile app, receiving real-time construction progress updates and disbursement requests from the field.

IBUILD affords the lender to manage project budgets including material ordering and verified deliveries before releasing payments directly through a customized portal.

Furthermore, lenders providing financing for developers will find the iBUILD technology to deliver immeasurable benefit in the management of disbursements and real-time construction progress for large scale projects. Developers



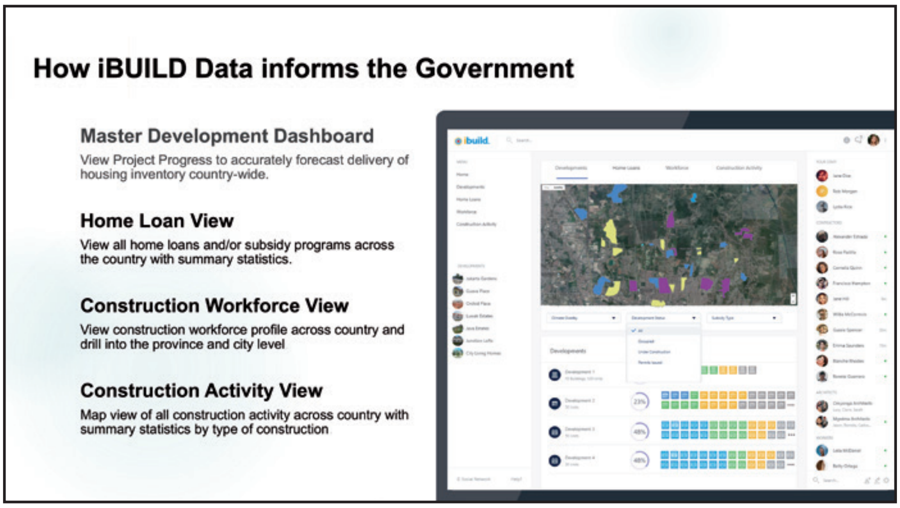


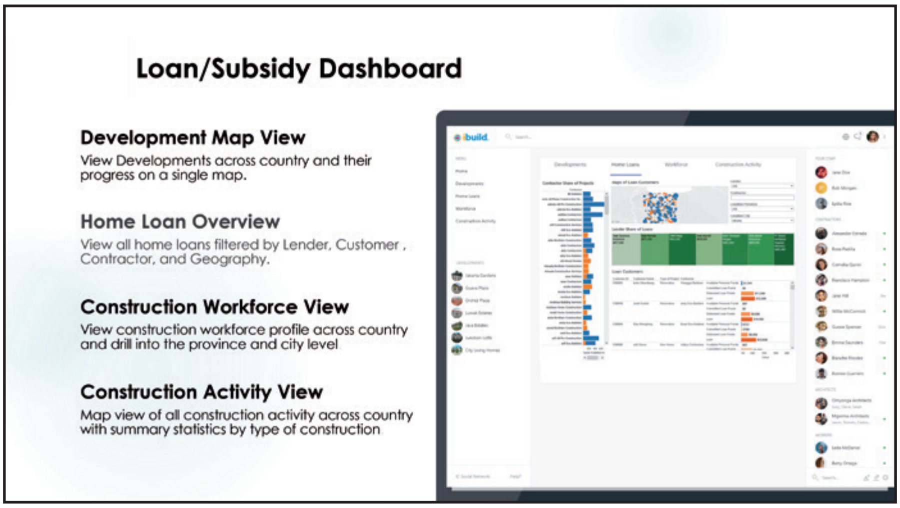


benefit from their own iBUILD dashboard that enables monitoring and management of budgets, workforce, material ordering, construction progress and payments across multiple projects and locales, simultaneously.

Governments using the iBUILD platform can administer subsidy, track progress, and analyze the workforce on a variety of levels to help inform policy and improve delivery of resources.

In summary, the IBUILD platform ushers in a new era of capability for the housing and construction industry. iBUILD presents a dynamic, transparent marketplace that includes a full construction sector ecosystem. iBUILD offers specific features and functionality for each stakeholder with tools that provide quality, accountability and financial inclusivity as central benefits. If you are using iBUILD, you are playing a pioneering role in creating a digitized construction sector that is trusted, competent and investment worthy.





A New approach for housing demand and supply in Nigeria: the housing continuum concept

By Andre Asselin

1. Introduction

It is arguably within the norm that a housing policy paper would begin with a statement about unmet housing needs to build a sense of urgency for action. Many papers will affirm the existence of a crisis to legitimize robust and immediate government actions, often with significant price tags. However, other than to remind the reader that Nigeria has an enormous housing deficit – many say in the order of 17 to 20 million dwellings[1], this paper starts with the premise that, whatever the true number, it is big, arguably too big for government(s)[2] to tackle on their own with a few programs, however good the intentions and the program design.

To be sure, government programs to build 10,000 homes in this or that city or town, and another 20,000 homes in another location, bring welcome relief, and should continue, but when the magnitude of the problem confounds program designers and keepers of the government purse, there may be a need for a new paradigm.

Consider very simple arithmetic: assume that government(s) would somehow contribute ½ to the cost of producing the 17 million homes, each costing no more than ₦5 million[3], then the federal and state governments together would be on the hook for ₦42.5 trillion. (note that the total federal budget of Nigeria stood at N9.12 trillion in 2018 or less than ¼ of this very crude estimate of required program cost).

Consider also that every year that passes, nearly another 1 million homes are added to the total shortfall. As well, consider that all population growth forecasts for Nigeria suggest that the requirements for housing will accelerate over the foreseeable future. Add to this the need for public infrastructure (roads, water, sewer, electricity, communication, schools, healthcare facilities), not to mention the need for public transportation facilities, also the infrastructure requirements of those who are currently housed but not well serviced, and the need to maintain/repair existing facilities… the resulting budgetary demands are staggering and would surely surpass any potential government response or capacity to fund a sufficient and complete program response.

2. The case for a new paradigm

The pressure on federal and state politicians to “do something” is as enormous as the size and scope of the housing deficit described above. No doubt these politicians should pursue current efforts. However, while employing traditional policy measures, nothing stops government(s) to consider a new approach in parallel.

This new approach could start with the assumption that the households or persons requiring the missing 17 million dwellings – or however many there really are – live somewhere currently: share crowded dwellings, perhaps share a room or even only share a bed, or live in dwellings of poor quality, or pay too much for rent or have deferred forming a family.

This new approach could also postulate that homeownership is NOT (or should NOT be) the only policy objective to be considered. In Canada, for instance, policymakers envisage the notion of the “housing continuum” (see graphic below) as the vector through which housing choices should be made available to Canadians. No doubt a graphic of housing choices for Nigeria would look different, but the continuum concept would still apply.

An examination of the “Canadian continuum” concept (graphic courtesy of CMHC[4]) with Nigerian delegates at a recent MBAN[5] seminar revealed wide gaps in the current interventions of the Nigerian federal government (see shaded parts of the continuum in the graphic

1 Estimates vary depending on the methodology and source of information. Evidently, only a fraction of this estimate are households who can afford homeownership, as many have very limited income.

2 Federal and state governments are involved in housing.

3 As of Dec 10, 2019, 1 USD = 350 NGN (Nigerian Naira), www1.oanda.com.

4 CMHC – Canada Mortgage and Housing Corporation.

5 MBAN : Mortgage Bankers Association of Nigeria. Each year MBAN, in collaboration with DevPar Financial Consulting Ltd., holds a training seminar on housing finance.

below). Current government programs mainly purport to facilitate access to homeownership, neglecting rental housing as a legitimate housing choice for Nigerians.

In that context, discussions at the seminar also stressed the absence of housing finance products for the production of rental housing and, as importantly, the absence of mechanisms that would help harmonize the relationship between landlords and tenants - that would protect the property rights of landlords but also provide tenants easier access to rental housing and greater security of tenure.

Discussions also highlighted the absence of a renovation, conversion and home extension vector (including utilities, water etc..) for providing Nigerians housing choices through greater use of the existing housing stock.

Finally, discussions centered on the absence of a fluid housing resale market that would enable households to move up and down the property ladder as they need and as their personal finance would allow. A fluid housing resale market would also facilitate greater labour mobility within Nigeria.

Overall, the "new paradigm" that was contemplated consisted of enabling the existing housing market – facilitating private initiatives – to supply more dwellings through renovations, conversions, extensions, resales, infills, additions, as well as the construction of new units for both ownership and rental. For instance:

- Measures to "enable" the market, to intensify its use and to supply more accommodations such as: targeted incentives to enhance the use and quality of the existing stock of housing and buildings as well as legal and para-legal (and education) measures to harmonize landlord and tenant relationships;
- Measures to enhance the production of housing, including current program formulae, and financial support for first-time homebuyers as well as the consideration of new formulae that would entice investors to invest in purpose-built affordable rental housing – both small and larger private rentals.

Of-course, all of the above would require enhanced access to housing finance, for ownership, for renovation or conversions, and for rental housing.

3. Enhanced access to housing finance is mostly there

There can be no doubt that the development of housing finance has been a central concern of the federal Nigerian government, certainly over the past 10 years.

Although results thus far are very modest – mortgage debt to GDP still remains below 1% – huge strides have been made to facilitate the work of mortgage banks and microfinance institutions, and to encourage commercial banks to consider entering the mortgage market.

Nigerian financial institutions now have easy access to funds for their mortgage activities and to manage liquidity and interest rate risks (through NMRC[6] and MWFL[7]) and will soon have access to low down-payment mortgage lending and credit-risk protection (through NMGC[8]).

Attempts at providing funds through FMBN's NHF[9] have provided limited results over the past 30 years but efforts are being made to redirect FMBN's energies through a new Strategic Plan.

Most importantly, in supporting the work/introduction of NMRC, MWFL and potentially NMGC, large efforts have been deployed to build an efficient "ecosystem" within which mortgage lending can operate, expand and help serve the housing needs of the nation.

Among these measures are:

- The creation and operation of 3 credit bureaux
- The standardization of mortgage loan underwriting practices with the creation of 3[10] separate UUS (Uniform Underwriting Standards)
- The creation and deployment of a standardized and efficient IT infrastructure[11] and information gathering platform for all mortgage lenders
- Last, but not least, the crucially important MMFL (Mortgage Market and Foreclosure Law) and the supporting list of market enabling measures to provide lenders with a legal framework within which they would quickly obtain strong security for their loans and protection of their principal in the event of default.

The MMFL has been fully drafted and in fact adopted in 2 states (Lagos and Kaduna) and the law is under active consideration in a number of states. Efforts to achieve wider adoption of the MMFL are being made by the Central Bank of Nigeria [CBN] at the Council of State Governors.

The path to the growth of the mortgage market is well laid-out and known; market growth and development can take place through a more solid "ecosystem". The obstacles that remain lie in the adoption of the MMFL reforms.

Clearly, Nigerian stakeholders and policymakers know what to do to grow their mortgage market, thanks to the leaders of the mortgage banking industry, the CBN and the support of the World Bank. But they now need the engagement of state politicians who control the entire legal regime that controls property rights and mortgage laws, and related business processes and taxation. There is no longer need for studies; there is need for action.

4. Conclusion

Nigeria would achieve greater strides in meeting the needs of its population and could address the housing deficit more effectively If there were greater emphasis on mobilizing private initiatives to improve the capacity of the existing housing stock to provide more decent units, both qualitatively and quantitively. This would thus require the mortgage market to finance a wider range of actions and help build a better housing continuum in Nigeria.

Looking ahead, Nigerian politicians will be pressured to build large volumes of homes, but they will also need to focus on achieving more sustainable results through reforms of property rights, taxation, and through improvements in other aspects of the housing ecosystem. With the support of housing finance, and perhaps targeted government assistance or incentives, this will empower small and large investors to make better use of their buildings and land, and consumers will have a greater range of housing choices they can afford.

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[6] NMRC – Nigeria Mortgage Refinance Company

[7] MWFL – Mortgage Warehouse Funding Limited

[8] NMGC – Nigeria Mortgage Guarantee Company

[9] FMBN – Federal Mortgage Bank of Nigeria and its NHF – National Housing Fund

[10] UUS for 1. Borrowers in the formal economy; 2. Borrowers from the informal economy; 3. Diaspora borrowers

[11] The platform is called MMS – Mortgage Market System, operated by NMRC

2019 EFL Autumn Conference: Making Private Equity Work For Housing Affordability

↳ **By Saskia van Balen**

Throughout Europe, cities and housing providers are struggling to keep pace with housing demand from middle and lower-income households. This shortage is at the epicenter of concerns in areas with rapid employment growth, especially in European capitals. With the passing of time, it is becoming clear that national and local governments are seemingly incapable of filling the gap. An increase of European expenditure on housing has been resorted to in an effort to escape this intractable issue. But neither state-centric approaches nor multilateral cooperation at EU level has proven to be effective in solving this problem. On the 29th of October 2019, members and associates of the European Federation for Living convened in Dublin Ireland for the bi-annual member conference, generously hosted by Cluid Housing. For two days, the attendees discussed innovative ways to support financing for new affordable housing supply.

The main focus of the conference was on making private finance work to secure housing affordability and an increase of supply. Over 80 attendees took part in interactive discussions about the role of private finance in the affordable housing industry. David Orr, former CEO of the UK National Housing Federation and expert in international housing policy, made the audience aware about the trillions of private euros invested in the real estate sector globally and the significance of private financing for affordable housing. A large majority of EFL members (67%) voted in favor of the statement that deployment of private capital would benefit the (social) housing industry. This might seem a quite surprising outcome from social housing providers which in most countries rely primarily on governmental funding or state guaranteed loans.

According to David Orr, there is no prospect of government solving the affordable housing crisis on its own, because it is simply too expensive. 'Governments do have a compelling role to play, but housing is more than just good politics: it is good politics and good economics.'' It is for that reason that we need markets to function in these areas. This means deployment of private equity to generate sufficient returns for investors whilst at the same time fulfilling housing needs and guaranteeing affordability. Rather than relying on government subsidies to preserve affordability, why not do it by investing private equity?

From an investor's perspective, private equity can be interesting in terms of risk. Investors are increasingly finding that affordable assets can provide risk-adjusted returns that consistently exceed the performance of market-rate products. Affordable and workforce properties are almost always recession-proof, with demand actually increasing during economic downturns. A perfect hedge for economic market fluctuations. Because of the severe need for, and lack of, affordable housing stock across Europe, affordable communities have measurably high occupancies and low turnover.

Governments, on the other hand, can benefit from private equity in affordable housing, because it is a flexible form of capital that can be rapidly deployed in bespoke-tailored structures, designed to meet the needs of local and mission-oriented suppliers. With productivity growth in the construction industry having been low, the capacity of the sector to deliver more and better homes has been constrained. The lack of viable and developable land available for housing is one of the underlying reasons for this phenomenon. Too often the availability and terms of finance, especially for parts of the construction sector that are considered higher risk and less commercially viable, constrains housing delivery. Political willingness, with investors to make more money available would allow for the possibility for governments to remove obstacles on the supply side.

Opponents of the trend say that there is no place for private equity in the social housing sector. In their opinion, all social housing is best provided by charitable or non-profit distributing organisations. It is their fear that return-driven investments will lead to higher rents, poor maintenance, over-leveraged providers and weakened social outcomes. These concerns aren't justified, as governments still own the strategy. By maintaining control of the buildings, regulatory barriers would safeguard a healthy balance between the landlord-tenant relationship and the landlord-investor relationship. This way, government would aim to maximize the social impact in the same way as in subsidized housing. Deployment of private capital in no way means leaving the provision of affordable housing to the market. With the right legal framework governments can guarantee long-term affordability in the same way as they would with public spending on housing.

Governments can attract global finance, while remaining in the driver's seat. The thought that there is no place for private equity in affordable housing is outdated. In times of scarcity and an ever-increasing demand, we cannot afford to simply turn our backs on an available means that potentially offers viable solutions.

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

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- The Union runs a website - www.housingfinance.org. Please pay a visit!
- The Union publishes a quarterly journal, *Housing Finance International* (HFI)
- The Union organises a World Congress every two years
- The Union actively participates in events related to key housing finance issues around the world
- The Union facilitates the exchange of information and networking opportunities between its members

For more information, please see www.housingfinance.org
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