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The Quarterly Journal of the International Union for Housing Finance

- Global perspectives on the affordability challenge: where is the innovation?
- Addressing the affordable housing conundrum: what role can pension funds play?
- Green innovation for long-term affordability
- The bushfires in Australia and housing
- The UK housing market – stuck in a rut

International Union for Housing Finance

Housing Finance International

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Coronavirus: all in it together?

It is a testament to the speed at which the human tragedy of coronavirus has escalated that none of the articles in this issue of HFI even mention it, although all were commissioned during the past four months. Ironically, in the aftermath of the bush fires in Australia, we commissioned Alan Morris to cover the implications for housing markets and for Government. This he has ably done. Sadly, we are a long way from writing such an article about coronavirus. The magnitude of this public health disaster and its implications for our daily lives are still unfolding. This is a time for supporting the brave efforts of health workers and those struggling to maintain essential services rather than for retrospective reflection. In a journal that specialises in housing finance the best that can be done at this stage is not simply to recognise the human dimension but to acknowledge the more obvious economic, financial and markets impacts also, since these too will ultimately affect all our lives.

One thing that the coronavirus crisis has in common with the Global Financial Crisis [GFC], is that it is just that; Global. The second is that its effects reach beyond abstruse abstractions such as "markets" and "securities" and have their impact directly on you and I. The difference of course is that in the case of coronavirus, the personal dimension is massively amplified; for many it is not just their incomes and savings at risk but their lives.

It is already clear that coronavirus has the capacity to inflict economic damage and to undermine financial markets in ways that rival if not surpass the GFC, at least in the shorter term. In economic terms coronavirus creates both a supply-side and demand-side shock; if consumers are frightened to enter shops, self-isolating or ill, they will spend much less. If they are not working, they will in many cases have much less to spend. Simultaneously, if workers cannot work or can only work less effectively at home then production will fall also, potentially then causing more workers to work part-time or be laid off, cutting incomes and consumption further. The potential for a spiralling recession is real.

In terms of financial markets, parallels with the GFC can be seen also in at least three ways:

- **Counter-party risk:** will the companies and other bodies that a bank or investor has invested in default?
- **Currency and sovereign risk:** will some countries be hit harder, causing a run on their currencies and upward pressure on interest rates with further knock-on effects?
- **Liquidity risk:** who, apart from central banks, is buying?

Clearly, housing and mortgage markets will not remain unaffected. Transaction numbers are likely to fall. If consumers feel uncomfortable about visiting estate agents and viewing homes then sales will, inevitably be put on hold. Sellers too are likely to wait until the current fraught situation becomes clearer before offering their property for sale. This is likely to take months.

Distressed sales and foreclosures are likely to increase unless governments step in as the UK Government has just announced it will do. Such sellers could include those who cannot repay their mortgages due to drops in income, landlords who cannot collect rent from impecunious tenants and relatives of deceased homeowners.

The availability of mortgage finance is likely to be more constrained, partly for the reasons set out above but also because consumers suffering a significant unplanned drop in income may well draw on existing bank and building society deposits rather than add to them. This could in turn have knock-on effects.

The development of new homes could be severely cut back. The effects of a downturn in housebuilding will be felt in the longer rather than the shorter term. Nevertheless, those effects will eventually be felt in the form of greater market volatility in highly commodified markets and generally in long-term worsening in affordability ratios. In the end this can only increase the problems of inadequate housing and homelessness so eloquently described in several of the articles in this issue of HFI.

The present crisis will be resolved. However, it will only be resolved if finance (including housing finance) institutions, governments, central banks and other stakeholders work alongside each other. Benjamin Franklin put it well:

"We must, indeed, all hang together or, most assuredly, we shall all hang separately"

Affordability across different countries is a theme running through all but one of the articles in this issue. The first article, by Anacláudia Marinheiro Centeno Rossbach is titled *Global perspectives on the affordability challenge: where is the innovation?* Ms Rossbach discusses how the global challenge of affordability can be tackled and concludes that new approaches in business and housing policy should involve "systemic innovation" if they are to achieve the scale needed. Along with analysing specific innovations the article reminds us that ultimately affordability cannot be tackled without also tackling the underlying problems of poverty and inequality.

In her article *Addressing the affordable housing conundrum: What role can pension funds play?* Fiona Stewart of the IFC points to a deficit in funding for affordable housing caused by a shortage of housing of around 1billion units by 2025, with a price-tag of up to US$ 16 trillion. Ms Stewart goes on to argue the case for a greater role for pension funds in helping to meet the funding gap, a role that they have already played in a number of countries including the UK.

It is difficult to deny that rapid urbanisation and successive economic challenges are two factors contributing to the inability of many people to afford to buy or service a suitable residential property. In their article *Green Innovation for Long-Term Affordability*, Lenore Cairncross and Eloshan Naicker argue the case for green innovation in making homes less expensive to run without making them too expensive to buy.

The article by Alan Morris, *The bushfires in Australia and housing*, has already been mentioned. The coronavirus crisis threatens make us forget that within Australia the raging bush fires were a profoundly serious issue which raised and continues to raise difficult questions about governments' response to climate change as well as disasters natural and man-made. The fires also offer a significant case study on how unforeseen disasters can affect housing markets. Morris admirably covers both aspects.

Our last article focusses on self-commissioned homes. In a well-informed article, Andrew Baddeley Chappell looks at self and community-build homes and asks whether the very limited permeation of self-commissioning in the UK housing market accounts at least in part for some of the problems in that market and looks at how self-commissioning can be enabled to play a greater part in meeting the housing deficit. The role of the performance of the residential mortgage industry in relation to self-commissioning is an important theme of the article.

All in all, this is a topical and fascinating issue. We hope you enjoy it, even in these difficult times.

Andrew Heywood

Contributors' biographies

Andrew Baddeley-Chappell is the CEO of the National Custom & Self build Association [NACSBA], the Chair of the Bank of England Residential Property Forum and a consultant for Homanity. He spent over 25 years working in the UK consumer lending and savings market with Nationwide Building Society. He has worked to promote greater energy efficiency in homes and more community housing. [1.20]

Leonore Cairncross is the African regional Green Building Program Manager for IFC. She has over eleven years' experience in the financial sector having worked for a housing impact fund at Old Mutual and in project finance at Standard Bank. She holds an MBA from GIBS, University of Pretoria, and an MSc (Chemical Engineering) from University of Cape Town, South Africa.

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

Andrew Heywood is an independent consultant specialising in research and analysis of housing and mortgage markets, regulation and policy with both a UK and international focus. He is a visiting fellow of the Cambridge Centre for Housing and Planning Research [CCHPR] and a research fellow with the Smith Institute. He is also Editor of the journal Housing Finance International. Andrew writes for a number of publications on housing and lending issues and publishes reports commissioned by a wide range of clients.
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Vanessa Khosa is the AUHF administrator at the Centre for Affordable Housing Finance in Africa [CAHF], an independent think tank working to support and grow housing markets in Africa to increase affordability. She graduated her Masters in Local Economic Development from the University of Johannesburg.

Alan Morris is a research professor at the Institute for Public Policy and Governance at the University of Technology Sydney. He works mainly in the areas of housing and marginality. His most recent book, *The Australian Dream: Housing Experiences of Older Australians*, compares the impact of housing tenure on the everyday lives of older Australians dependent solely or primarily on the government age pension for their income.

Eloshan Naicker is a Green Building Consultant working with the EDGE certification program developed by the IFC, a member of the World Bank. He has over 13 years of experience in architecture, specifically the Green Building sector and holds a Bachelors' in Architectural Studies from the University of the Witwatersrand, South Africa. [1.20]

Edward Pinto is an American Enterprise Institute [AEI] resident fellow and director of AEI's Housing Center. The Center monitors the US markets using a unique set of housing market indicators. Active in housing finance for 44 years, he was an executive vice president and chief credit officer for Fannie Mae until the late 1980s.

Zaigham M. Rizvi is currently serving as Secretary General of the Asia-Pacific Union of Housing Finance and is an expert consultant on housing and housing finance to international agencies including the World Bank/IFC. He is a career development finance banker with extensive experience in the field of housing and housing finance spread over more than 25 countries in Africa, the Middle East, South-Asia, East-Asia and the Pacific. He has a passion for low-cost affordable housing for economically weaker sections of society, with a regional focus on Asia-Pacific and MENA.
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Anacláudia Marinheiro Centeno Rossbach from São Paulo, Brazil has been working for more than 18 years in the housing and urban fields, having the opportunity to advise key stakeholders in the global south. Based in Mexico City she is the Regional Manager for the Latin America and Caribbean at Cities Alliance.

Fiona Stewart, Lead Financial Sector Specialist, is part of the Long-term Finance Team at the World Bank. Previously, she worked for the OECD's Financial Affairs Division and led the Secretariat of the International Organisation of Pension Supervisors (IOPS). Prior to working at the OECD, Fiona worked in the pension fund industry.

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

Housing Finance News from Africa: promoting innovation in African housing markets: insights from the African Union for Housing Finance [AUHF] and the International Union for Housing Finance [IUHF] Conference "Realising Affordability in Global Housing Markets"

↳ **By Vanessa Tsakani Khosa**

One of the most critical issues currently facing housing markets worldwide is housing affordability. The recently held joint 35th Annual African Union for Housing Finance [AUHF] Conference and the 31st International Union for Housing Finance [IUHF] World Congress held in Cape Town, South Africa focused on "Realising Affordability in Global Housing Markets." Over 212 housing finance and development practitioners from 33 countries around the world participated in the Conference and explored the challenge of housing affordability across a series of themes. Case studies demonstrating innovation and success in housing finance markets were also shared. The Conference presentations are available on the website: http://www.auhf.co.za/conference/realising-affordability-in-global-housing-markets/

The Conference started by highlighting the urgency of the theme by stating that home ownership is not affordable for most households worldwide and that new solutions to the problem of delivering appropriate housing finance are needed if housing markets for poor households are to be opened up and delivery at scale is to happen. Internationally the President of the IUHF shared financial techniques to deliver affordable housing and demonstrated the importance of household savings for affordability. The keynote address highlighted that globally the issue of affordability is anchored by the Sustainable Development Goals [SDGs], the New Urban Agenda and the Millennium Development Goals [MDGs].

"Realising Affordability in Africa" was introduced by AUHF member the **Social Housing and Mortgage Finance Fund [Egypt]** by demonstrating the extent of the need for affordable housing in Egypt. With an urbanization rate of 45% Egypt needs to deliver over 600,000 affordable housing units per year in order to meet the demand. Egypt has had 1,003,951 applicants for their social housing program. Sixty-five% of these households are dealing with banks for the first time, or opening a new bank account, demonstrating how access to housing finance can lead to increased financial inclusion. AUHF member, the **National Housing Finance Corporation [NHFC]**, in South Africa highlighted the challenges of urbanisation and migration across urban areas and the impact that this was having on affordability and city planning. In South Africa the private sector is seen as the solution for delivering at scale, with government providing the enabling environment. AUHF member **Kenya Mortgage Refinance Company [KMRC]** in Kenya is focused on long-term financing on the demand side and government is being looked at to provide supply side solutions through land and environmental policies. Kenya has a housing backlog of 2 million units.

"Innovations in Making it Affordable" shared practical examples of where innovations had brought about cost savings. The **iBuild Global** platform lowers perceived lending risk by aggregating data for more informed decision-making processes. **Echostone** showed how modular design, energy-efficient building materials and technology can be used to create affordable and sustainable housing solutions. Local production of climate responsive building materials was highlighted as a way of impacting on the global carbon footprint and for increasing local job creation strategies. AUHF member the **International Finance Corporation [IFC]** indicated that many developers are already building green. If they get certified, they could access Green Finance. Some of the work by the IFC involves increasing awareness of green financial products that could be used to incentivise homebuyers to build green. In this way it has been demonstrated that going green does not mean more expensive or a luxury item, but that it can also help in making building materials more affordable and have an impact on climate change.

"Supporting Market Development" explored the role of disruptive technologies, such as Blockchain, that have the potential for enhancing the efforts of all stakeholders involved in the housing value chain. Blockchain technology is being used in a pilot Transaction Support Centre [TSC] in Khayelitsha, South Africa by regularizing title, preparing properties for sale, matching buyers and sellers, establishing and registering sales and then financing the sales. **Seso Global** have developed a mobile property application and **Atenu Developments** have developed an e-mortgage developer platform. Credible data is urgently needed to inform investment decisions and demonstrate the economic impact of affordable housing on the economies of the world. To this end the **Center for Affordable Housing in Africa [CAHF]** presented its Data Agenda for Africa and launched its 10th anniversary edition of the Housing Finance in Africa Yearbook. The Yearbook includes a housing country profile for each country in Africa (all 55), plus a list of key housing finance indicators for each of these countries. There are also five regional profiles. The Yearbook can be accessed on the website: http://housingfinanceafrica.org/. **71point4** indicated that housing data has become more available on the continent, but sources remain underutilised. Getting more value out of existing data is therefore critical to reducing reporting burdens, improving data quality, and attracting investment for affordable housing.

The Conference ended with an overview of the economic argument for affordable housing. CAHF's David Gardner gave a summary of the organization's work in providing a better understanding of the economic effects of housing across Africa, particularly which factors are primarily responsible for driving up costs and thus allowing for a more targeted approach to cost reduction interventions. CAHF's Housing Economic Value Chain work is explained on http://housingfinanceafrica.org/projects/housing-and-the-economy/

Following Conference deliberations, the Annual General Meeting [AGM] of the AUHF was held. The members of the AUHF agreed on the **"Cape Town Declaration for Housing Finance[1]"** in which no fewer than 12 commitments were made. The Declaration serves as the lobbying document and action agenda for the AUHF for 2020. At the AGM, members noted that there had been some changes in the Board. The current seven-member Board serves for a period of two years and comprises the following members:

- Mr Andrew Chimphondah, Chief Executive of Shelter Afrique as AUHF Chairperson;
- Ms May Abdel-Hamid chairman of the Mortgage finance fund in Egypt as Deputy Chair
- Mr Mfundo Mabaso, Growth Head of First National Bank Home finance, a division of FirstRand Bank Limited as Secretary;
- Mr Kehinde Ogundimu Chief Executive Director of Nigeria Mortgage Refinance Company as Treasurer;
- Mr Christian Agossa, Director General of Caisse Régionale de Refinancement Hypothécaire de l'UEMOA, CRRH-UEMOA;
- Mr Mehluli Mpofu, Deputy Managing Director of Central Africa Building Society [CABS];
- Mr Oscar Mgaya, Chief Executive Officer of Tanzania Mortgage Refinance Company.

The AUHF is currently planning its 36th Annual Conference, which it is co-hosting together with AUHF member the Development Bank of Rwanda [BRD]. The Conference will be held in Kigali, Rwanda from 3 – 6 November 2020.

1 https://gallery.mailchimp.com/03690fba8d6a8e33b43f8a502/files/2ca187de-9796-4d8a-9424-39a4340c05e3/Cape_Town_Declaration_Final_12_11_19.pdf

Asia-Pacific Region

↪ By Zaigham Mahmood Rizvi

Australia

Steady increase in housing finance continues.

According to analysts at Australia and New Zealand Banking Group [ANZ], investor growth in housing slightly outpaced owner-occupiers (excluding refinancing), but both represented a steady increase in demand for mortgages for the Australian economy. Owner-occupier lending grew 1.6% m/m in November ex-refinancing. This is the fifth strong monthly result in a row. The annual growth result (10.0%) was the strongest in two years. Investor lending was up 2.2% m/m in November ex-refinancing. Annual growth is still slightly negative (-3.2%) but we expect this to turn positive in the short term."

In a forward-looking statement, the analysts say, "Strong housing price growth amidst modest rises in supply are pushing up average loan sizes and squeezing some first home buyers out of the market. The number of loans issued to new home buyers has fallen for two months in a row, for the first time since January. The expected rate cut in February may exacerbate strong housing price growth and could lead to more upward pressure to loan sizes. "On the other hand, we are seeing the early stages of a recovery in listing volumes and expect building activity to start growing later in the year. This may somewhat ease the upward pressure on housing prices by expanding the supply of available homes for sale." (Source: https://www.fxstreet.com/news/australia-steady-increase-in-housing-finance-continues-anz-202001160423).

Australia housing in 'mini-boom' but signs bleak elsewhere in economy

Australia's housing stock is valued at A$6.8 trillion ($4.83 trillion), or almost four times the country's annual gross domestic product. "This reinforces our view of a mini-boom," in home prices and loans, said UBS economist George Tharenou.

Home prices enjoyed their biggest monthly jump in two and a half years in September. Sydney and Melbourne prices climbed 1.7%, a rate of increase reminiscent of the bubble days of 2016. "If loans and prices surprisingly continued to boom, it would...raise the risk it stops the Reserve Bank of Australia [RBA] from easing next year," added Tharenou, who expects further rate cuts by mid-2020. (Source: https://www.reuters.com/article/us-australia-economy-housingfinance/australia-housing-in-mini-boom-but-signs-bleak-elsewhere-in-economy-idUSKBN1WP0B6).

Australian Government's first Home Loan Deposit Scheme

The National Housing Finance and Investment Corporation [NHFIC] has announced that, following a competitive procurement process, it has appointed the Commonwealth Bank of Australia [CBA] as the second major bank lender, and a further 25 smaller lenders to the initial panel of residential mortgage lenders to offer guaranteed loans under the Australian Government's new First Home Loan Deposit Scheme, which commenced on 1 January 2020. The initial panel composition achieves the Australian Government's objective of promoting competition between the big and small lenders, and also ensuring that the Scheme has broad geographic reach, including in regional and remote communities.

The composition of the panel should enable strong activation of mortgage broker channels and promote choice for first home buyers. All participating lenders are supporting the Scheme by not charging eligible customers higher interest rates than equivalent customers outside of the Scheme.

Both the major lenders, National Australia Bank [NAB] and Commonwealth Bank of Australia [CBA] will offer guaranteed loans from the Scheme's commencement date of 1 January 2020.

(Source: https://www.nhfic.gov.au/media-resources/media-releases/cba-and-25-smaller-lenders-appointed-to-fhlds-panel/)

Bangladesh

The changing landscape of home financing

Of late, families have been lining up for home loans, and the queues of bank loan seekers have been getting longer by the day in the highly populated, but the land-scarce country of Bangladesh, which accommodates 1,103 people per square kilometre. Seeing the long queues, banks and financial institutions are also stepping up at an increasing rate to fund home purchase and construction.

Two decades ago, there was a small number of banks and financial institutions that provided housing loans, according to Md Towfiqul Alam Chowdhury, head of retail banking division of Mutual Trust Bank. "The landscape of home loan financing began to change in the last decade," he said.

Industry operators said lending for home purchase and construction began to increase after private financial institutions ventured into mortgage business following the enactment of the Financial Institutions Act 1993. Previously, the state-run Bangladesh House Building Finance Corporation [BHBFC] was the only source of housing finance in the country, said Farhaduzzaman, in charge of marketing for Eastern Housing Ltd, the country's first real estate company. Today, most of the banks offer home loans but about a dozen of them, along with a number of financial institutions, have it as one of their focus areas. Banks are also increasingly focusing on home loans as the chances of defaults are less.

"It is a growing sector," said Nasimul Baten, head of business of Delta Brac Housing Finance Corporation Ltd. [DBH], the biggest provider of home loans. "People taking home loans usually do not want to default because of the emotional attachment to their homes. The intention remains positive in this case," said a banker.

Bangladesh is one of the densely populated nations in the world and home financing has emerged as a crucial sector for the economy, said Syed Javed Noor, General Manager and head of the consumer division at Industrial Development Leasing Company of Bangladesh [IDLC].

(Source: https://www.thedailystar.net/supplements/own-home-when-young/news/the-changing-landscape-home-financing-1809988)

Round tables: affordable homes for all

The Daily Star, Bangladesh, organised a discussion on the theme of "affordable housing for all", and the related issues therewith. The discussion was held at their office in Dhaka. The participants generally opined that a comprehensive policy taking into account the interests of landowners, builders, financiers and prospective homeowners can give a boost to the housing sector and can enable more people to own their respective homes.

There are a number of policies measures and initiatives that have been taken by the government for housing but they are framed on a piecemeal basis and are not enough to ensure housing for all, said speakers at a roundtable discussion on affordable housing and the role of stakeholders. Every year, 25,000 units of apartments are registered against the requirement of more than 100,000 units a year.

"Housing is our constitutional right, but having a home remains far out of reach of a large proportion of the population," said Mohammad Abu Sadeque, Executive Director of the Centre for Housing and Building Research [HBRC]. In Bangladesh, as much as 84% of the population live in houses with a tin-roof. Participants were of the view that, there is no definition of affordable housing although it becomes a key issue, especially in developing nations, where the majority of the population are not able to buy houses at market price.

(Source: https://www.thedailystar.net/round-tables/news/affordable-homes-all-1813060)

Fiji

Minister said demand strong for Fiji's First Home grant

Fiji's Housing Minister Premila Kumar said in Parliament that there were growing demands for the First Home and First Land grant in Fiji. She said 2,321 people had benefitted from the Government's First Home initiative in the last 5 years. Under the two schemes, eligible Fijians are given a government grant to buy or build their first home.

The Fijian Government wants all its citizens to have access to a decent and affordable home and has been offering first home buyers with an annual income of less than 50,000 Fijian dollars (about 23,000 U.S dollars, a support of 15,000 Fijian dollars (about 7,000 U.S. dollars) in grant. The First Home Buyer Grant Policy is being offered by the Housing and Community Development Ministry. Fijians who earn 50,000 Fijian dollars (about 23,000 U.S. dollars) a year and above, qualify for grant assistance of 10,000 Fijian dollars (about 4,600 U.S. dollars) provided for the land-and-house package or 5,000 Fijian dollars (about 2,300 U.S. dollars) for a ready built home.

(Source: http://www.xinhuanet.com/english/2019-11/19/c_138566794.htm)

Hong Kong SAR

Hong Kong Housing Authority racks up HK$13.9 billion surplus, and predicts 2020's will be just as big

Hong Kong's biggest provider of public housing expects to record a surplus of more than HK$13.2 billion this financial year, banking on the rising supply of subsidised homes for sale. The Housing Authority also has a projected cash and investment balance of up to HK$35 billion by 2024. The authority's finance committee made the upbeat forecast on Friday in its five-year budget outlook, as it recorded its biggest surplus in almost 15 years at HK$13.93 billion for 2019-20, mostly because of larger profits from selling about 7,000 affordable homes. The authority's surplus for 2020-21 would remain high at HKS13.2 billion, similar to last year, as another 7,000 subsidised homes in Sha Tin and North district and on outlying islands would hit the market this year.

(Source: https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3045541/hong-kong-housing-authority-racks-hk139-billion)

Hong Kong will relax mortgage rules to help first-time home buyers

Hong Kong's Chief Executive Carrie Lam announced plans to help first-time home buyers break into the world's least-affordable property market. The Government plans to allow purchasers to borrow up to 90% of a property's value to a maximum of HK$8 million ($1 million), up from HK$4 million previously. That means first-time home buyers will be able to buy more expensive homes with a down payment of just 10%.

(Source: https://www.bloomberg.com/news/articles/2019-10-16/hong-kong-to-relax-mortgage-rules-to-help-first-time-home-buyers)

India

Indian state of Bihar approves Rs 120 crore to build homes for 33 lakh (3.3 million) poor families

The state cabinet of Bihar, India, on Tuesday sanctioned Rs 120 crore (Rupees 1 billion 200 million) for a housing facility to around 33 lakh (3.3 million) poor families, who had not been covered under the Pradhan Mantri Awas Yojana (Prime Minister's Housing Schemes) of the central government.

Briefing media after the cabinet meeting, the Rural Development and Housing Department's Principal Secretary Arvind Choudhary said 32.86 lakh (3.286 million) housing units would be constructed under the CM Gramin Awas Yojana (Chief Minister's Village Housing Schemes) for poor families. He said the houses will be built in phases depending on the availability of funds.

Water being an essential component of a decent habitat, well water supply is also being assured under the program. The cabinet also sanctioned Rs 45.67 crore (Rupees 456.7 million) for renovation of a total of 7,319 wells in rural areas under Jal-Jeevan-Hariyali (Water-Life-Greenery) scheme of the state government. In the first phase, the renovation of 1068 wells will be completed. A total of 14 proposals were approved at the meeting chaired by chief minister Nitish Kumar.

(Source: https://realty.economictimes.indiatimes.com/news/residential/bihar-approves-rs-120-crore-to-build-homes-for-33-lakh-poor-families/73262718)

Maharashtra Government to help builders in developing SRA projects

In Maharashtra, India, the State Government will soon roll out a 'lien' scheme in a bid to bail out cash-strapped builders whose Slum Rehabilitation Authority [SRA] projects are stuck due to lack of funds. Under the scheme, builders who don't have money to pay premiums and development charges can lien flats from their sale components and move ahead with construction. Once the buildings are ready, the builders can sell the flats and pay their dues. If they fail to do so, then the SRA will auction the flats and recover the dues. The plan was floated at a meeting headed by Chief Minister Uddhav Thackeray on Monday, when he reviewed the functioning of the Housing Department. Housing Minister Jitendra Awhad and SRA chief executive Deepak Kapoor were present at the meeting.

The Chief Minister told the Housing Department to submit proposals to redevelop dilapidated Maharashtra Housing & Area Development Authority colonies under the Cluster Development Scheme. There are 56 such old colonies in Mumbai, with 104 layouts and 3,700 buildings, housing more than 76,000 residents. Redevelopment of these colonies will be undertaken under 33(5) of the Development Control Rules. The Government is also considering appointing SRA the sole authority to clear slum rehabilitation projects.

(Source: https://realty.economictimes.indiatimes.com/news/industry/maharashtra-government-to-help-builders-in-developing-sra-projects/73262020)

In India, fiscal support and Government policies to drive realty sector up by 6.6% in 2020

Long-term growth in India will mainly be driven by the country's massive population, which requires continued investments into the residential building construction sector. It is expected that the country's residential and non-residential buildings sector would expand in 2020 by 6.6%, in real terms. This is expected to be driven by fiscal support given by the government, and a continued focus on the provision of affordable housing in urban areas.

"Short-term expansion of India's building sector will be driven by a mixture of fiscal support and government policies supporting the housing market, as well as heightened activity within the logistics, retail and industrial buildings sectors," a statement published by Fitch Solutions (https://www.fitchsolutions.com/).

Long-term growth, on the other hand, will mainly be driven by the country's massive population, which requires continued investments into the residential building construction sector, the statement said.

Instances of stalled housing projects have been on the rise over the course of 2019, due to a credit crunch sparked by a series of defaults by non-bank financial companies, resulting in decreased access to funding for both developers and homebuyers.

(Source: https://realty.economictimes.indiatimes.com/news/industry/fiscal-support-government-policies-to-drive-realty-sector-up-by-6-6-in-2020-fitch/73030027)

Indonesia

Proposed senior loans Housing Finance Program proposed for Indonesia

The Asian Development Bank [ADB] will establish a $300 million Rupiah-equivalent program that will be offered to certain eligible Indonesian private commercial banks in the form of senior loans denominated in Rupiah for the purpose of mortgage on-lending, together with technical assistance [TA] provided by ADB. The Housing Finance Program, aligned with Strategy 2020 and ADB's objective to support the growth of finance sectors in developing member countries, will:

(i) deepen and broaden the Indonesian financial sector through development of the housing finance subsector, which is needed to improve access to standard financial products, and strengthen it through the ADB TA that will help participating banks improve mortgage lending skills, thereby enabling them to lend to people of lower income classes;

(ii) address Indonesia's urban housing shortage, which is estimated at a current backlog of 8.1 million homes with a need for approximately 800,000 additional homes annually for the next 20 years: and

(iii) contribute to gross domestic product growth and job generation, particularly for unskilled labourers in the country's construction industry and small and medium-sized enterprises sector.

(Source: https://www.adb.org/sites/default/files/project-document/62547/44936-ino-rrp.pdf)

Japan

Japanese government-linked agency suspects fraudulent use of its Flat 35 housing loans

Flat-35 long-term fixed-rate housing loans provided by the government-linked Japan Housing Finance Agency may have been fraudulently used for real estate investment, it has been learned. Under the Flat-35 program, loans are provided for up to 35 years through commercial financial institutions in collaboration with the agency to help individuals buy homes to live in. Use of the loans for real estate investment is prohibited. The agency is an independent administrative agency supervised by the land ministry and the Finance Ministry.

Land minister Keiichi Ishii said at a news conference that it would be regrettable if any improper use of the loan program is confirmed.

(Source: https://www.japantimes.co.jp/news/2019/05/08/business/japanese-government-linked-agency-suspects-fraudulent-use-flat-35-housing-loans/#.Xj5aWDEvN-0)

World Bank Group and Japan Housing Finance announce MoU to explore joint opportunities for green housing finance

The World Bank Group and Japan Housing Finance [JHF] signed a Memorandum of Understanding [MoU] that aims to foster cooperation on green housing finance in Asian countries. "With this MoU, we are looking forward to deepening the impact of our global experience and regional cooperation with JHF in developing green housing financial products that can benefit Asian countries in their efforts to address climate change," said Alfonso García Mora, World Bank Group Global Director, Finance, Competitiveness and Innovation.

"Working together with the World Bank, we are looking forward to sharing our experience and knowledge of green housing finance, and assisting the creation of greener and liveable society for everyone," said Keizo Ohashi, Senior Executive Director and the Member of the Board of Japan Housing Finance.

Under the partnership, the World Bank Group and JHF will focus on financial products in residential energy-efficiency finance, including in such areas as Fintech, risk management, policy design, legal and regulatory framework and the overall Green Finance ecosystem.

(Source: https://www.worldbank.org/en/news/press-release/2019/06/17/wbg-and-jhfa-announce-mou-to-explore-joint-opportunities-for-green-housing-finance)

Malaysia

More Malaysians can now own their own homes

Malaysian households earning less than RM4,360 monthly can soon have access to Bank Negara Malaysia's RM1 billion fund for affordable homes to finance first homes that cost less than RM300,000. Bank Negara has expanded the fund's eligibility criteria in which maximum monthly household income will be increased to RM4,360 from RM2,300 previously and maximum property price to RM300,000 from RM150,000.

Bank Negara Governor Datuk Nor Shamsiah Mohd Yunus said this was the central bank's measure to assist a larger targeted group to own their first home. "The RM300,000 house price is in line with the definition of affordable housing according to National Affordable Housing Policy," she said at the launch of Khidmat Nasihat Pembiayaan [MyKNP] here.

The scheme, launched in January, was expected to benefit first time homeowners who otherwise would not be able to afford a home due to financial constraints and loan eligibility. Shamsiah said financing approval rates had been stable as financial institutions continue to provide financing to viable businesses and eligible borrowers, even in a challenging economic environment. "Financing, overall, was consistent with the current economic growth rate of 4.9% in the second quarter of 2019," she said, adding that net financing in the second quarter of this year grew by 5.6% on an annual basis[1].

(Source: https://www.nst.com.my/news/nation/2019/08/514817/more-malaysians-can-now-own-their-own-homes)

Houses in Malaysia 'seriously unaffordable', says Bank Negara, Malaysian Central Bank

Houses in Malaysia are considered "seriously unaffordable" by international standards, a Bank Negara Malaysia official said. According to the median multiple methodology developed by Demographia International and recommended by the World Bank, United Nations and Harvard University, a house is deemed affordable if it is priced not more than three times the annual household income, said BNM's Financial Surveillance Department director Qaiser Iskandar Anwarudin. "The affordability in Malaysia has deteriorated with the median multiple affordability (the ratio of house price to households' annual income) rising to 4.8 times in 2016 from 3.9 times in 2012," he told reporters during a briefing here today. He said most Malaysians could not afford to buy newly built houses with the average price standing at RM417,262 while the maximum affordable house price nationwide was at RM282,000.

(Source: https://www.freemalaysiatoday.com/category/nation/2019/10/24/houses-in-malaysia-seriously-unaffordable-says-bank-negara/)

Government, BNM working to ease housing loan terms and conditions

The Government and Bank Negara Malaysia [BNM] are working to ease the terms and conditions for housing loans without affecting the stability of the financial system. Finance Minister Lim Guan Eng said the Ministry would take action if it receives any report from developers on housing loan applications being rejected without strong justification. "We will take action against banks if we receive reports that housing loan applications are rejected without any concrete justification," he said in his speech at the launch of the Home Ownership Campaign-Malaysia Property Expo [Mapex] here today. He added that the ministry would forward the reports to BNM to be investigated and for the central bank to assist those affected in obtaining housing loans.

(Source: https://www.freemalaysiatoday.com/category/highlight/2019/04/26/govt-bnm-working-to-ease-housing-loan-terms-and-conditions/)

Government mulls proposal to set up housing loan bank

The Government is considering a proposal to set up a special bank to ease the process of loans application for affordable and low-cost housing, the Dewan Rakyat was told today. However, Finance Minister Lim Guan Eng said the proposal would have to be in line with Bank Negara Malaysia's [BNM] requirement that such banks should have sufficient funds or capital to meet the loan demands.

"The proposal would be taken into consideration if BNM felt the need to enable more housing-related loans to be financed. It is not just about having the funds or the capital, it must be able to meet the challenges of the market especially in the digital age," he said. Lim said this in response to a supplementary question by Hassan Abdul Karim (PH-Pasir Gudang) who wanted to know if the government planned to set up a bank specifically to finance housing loans for low-income households (B40) to own homes.

(Source: https://www.housingwatch.my/doc/articles/bernama.com-Government%20mulls%20proposal%20to%20set%20up%20housing%20loan%20bank.pdf)

Maldives Islands

Bank of Maldives launches a new loan product

At a time when customers need a trusted and responsible financial institution providing housing finance, Bank of Maldives today launched a new home loan product. It's a specially designated secured loan offered for customers seeking to purchase or refinance apartments and flats located in Male' and Hulhumale'. The home loan offers customers an attractive amount ranging from MVR 300,000 to a maximum of MVR 15,000,000 with an interest rate of 11%. Loan repayment duration is fixed at 15 years offering customers a longer and flexible period. The launch of this home loan marks Bank of Maldives advancement to the home finance business with a product to complement the company's line of savings, lending and other direct banking products[2].

(Source: https://www.mynewsdesk.com/mv/bankofmaldives/pressreleases/bank-of-maldives-launches-a-new-loan-product-1044583)

Maldives [MLD]: equity investment and loan to the Housing Development Finance Corporation

The project consists of a loan of up to $7.5 million to, and an equity investment of up to$4.5 million in the Housing Development Finance Corporation [HDFC] located in the Maldives. HDFC is a specialized finance institution that was established to mobilize long-term financing for the provision of mortgage financing for affordable homes.

(Source: https://www.adb.org/projects/41914-014/main)

New Zealand

First home buying in New Zealand

A first-time buyer in New Zealand can have a government-assisted home buying facility if one has been making regular KiwiSaver contributions for at least 3 years. One may be able to apply for a First Home Grant (previously KiwiSaver HomeStart Grant) through Kāinga Ora.

If a first-time home buyer buys an existing home, he/she can get $1000 for each year he/she has paid into the scheme. The most one can get is $5000 for 5 years. If one buys a new home or land, he/she can get $2,000 for each year paid into the scheme. This makes $10,000 for 5 years. The eligibility for applying for the facility is 18 years of age or older; the applicant must have been contributing at least the minimum amount of his/her income (currently 3%) to the KiwiSaver scheme for 3 years; have had an income in the previous 12 months (before tax) of less than, $85,000 for 1 person, or $130,000 for 2 or more people, have a deposit of at least 5% of the purchase price, and agree to live in the property for at least 6 months from the date the property is purchased (the settlement date), or if the house is new, when the code compliance certificate is issued.

Kāinga Ora, New Zealand, announces 2020 issuance plan, following increased Borrowing Protocol limit Kāinga Ora, Homes and Communities, is the New Zealand government's primary housing and urban development delivery arm, focused on providing public housing principally for those most in need, and initiating or undertaking urban development. Kāinga Ora–Homes and Communities (Kāinga Ora) was established on 1 October 2019 as a new Crown agency to transform housing and urban development throughout New Zealand. (https://www.hud.govt.nz/urban-development/).

Kāinga Ora announced on 16 January 2020 that, its Borrowing Protocol limit has increased from $3.05 billion to $7.10 billion. The increased limit provides headroom for future debt issuance, helping to continue financing much-needed warm, dry and safe houses

[1] 1 Malaysian Ringgit equals 0.24 US$ as of 8 February 2020

[2] 1 Maldivian Rufiyaa [MVR] equals US$ 0.65 as of 8 February 2020

across New Zealand. To provide debt capital markets with greater certainty of supply, Kāinga Ora is announcing a bond programme of around $2.5 billion for the 2020 calendar year. Housing New Zealand Limited, a subsidiary of Kāinga Ora, plans to issue around $2.5 billion of Wellbeing Bonds in the 2020 calendar year under its Sustainability Financing Framework and New Zealand Dollar Medium Term Note Programme.

(Source: https://kaingaora.govt.nz/assets/Investors-Centre/Media-statements/Kainga-Ora-announces-bond-programme-following-borrowing-protocol-limit-increase-January-2020.pdf)

Nepal

Asian Development Bank [ADB] Project to Promote Rural Entrepreneurship in Nepal

The Asian Development Bank [ADB] has approved a $50 million loan for a project that will improve the livelihoods and increase incomes of small farmers in Nepal by helping them in the financing, development, and operations of rural enterprises.

"Rural enterprises have a huge potential in contributing to the economy of Nepal, but this potential has to be realized by providing them with the necessary boost they need, both financially and technically," said ADB Senior Portfolio Management Specialist Ms. Mayumi Ozaki. "The ADB project will help provide much-needed financing to subsistence farmers, through the Small Farmers Development Bank [SFDB], so they can develop their enterprises and improve their livelihoods."

Agriculture plays a significant role in Nepal's economy, contributing about 27% of the country's gross domestic product and employing about 70% of the population. However, the sector is largely subsistence in nature, with a heavy focus on primary production of crops and livestock, which is not enough to move rural households out of poverty. Shifting from current subsistence agricultural production to value-adding rural enterprises can help rural households improve their income stream.

(Source: https://www.adb.org/news/adb-project-promote-rural-entrepreneurship-nepal)

Pakistan

Rs25 bn allocated for Naya Pakistan Housing Project

Prime Minister Imran Khan said in Islamabad that a decision had been taken in principle to declare the construction sector an industry and directed for early measures to implement this decision, as he was told that Rs25 billion had been earmarked for the first phase of the Naya Pakistan Housing Project. The premier observed this while presiding over a meeting on the construction sector, which was attended by Adviser on Finance Dr Abdul Hafeez Sheikh, Chairman Naya Pakistan Housing Authority General (Rtd) Anwar Ali Haider, representative of the Association of Builders and Developers Muhammad Hasan Bakhshi and senior officers. The prime minister maintained that after having been given the status of an industry, the construction sector would also be provided with facilities enjoyed by other industries in Pakistan.

On this occasion, he called on the Competition Commission of Pakistan [CCP] to play a proactive role in combating the trends towards the emergence of cartels in the construction sector and the artificial price increases of raw material used in construction. The prime minister reiterated his government's commitment to promotion of the construction sector, being one of its top priorities. He expressed the hope that since over 40 sectors were associated with the construction sector, its promotion would help speed up economic activities in the country, besides job opportunities for people.

(Source: https://www.thenews.com.pk/print/599086-rs25-bn-allocated-for-naya-pakistan-housing-project)

Reforming Pakistan's mortgage rules to encourage home loans

The construction sector in Pakistan has the potential to reduce the unemployment quickly, but this sector is plagued with outdated rules and laws that are even impeding the public sector Naya Pakistan Housing Project. Having realized that the public sector banks do not have the capacity to fully finance the housing program, the government is urging private banks to fund these housing schemes. The private banks are willing to come forward but want the Government to change some laws so that they are secure about the return of their loans.

In fact, mortgages for housing have never picked up in Pakistan because of antiquated Foreclosure Laws. Under prevailing laws, the banks have to fight a long legal battle to get the possession of a mortgaged house whose owner has defaulted. In Pakistan, the provisions regarding the bank's right to foreclosure on a mortgage without recourse to the court are available in the Financial Institutions Recovery Ordinance [FIRO]. However, it remained practically ineffective because of years of long status quo orders by the courts against its implementation. There was a need to make the foreclosure laws stricter to encourage the banks to increase their exposure to the housing finance sector. Now an improved Foreclosure Law has been introduced in Pakistan, which supports a non-judicial process for foreclosure and loan recovery in housing.

(Source: https://www.thenews.com.pk/print/571332-reforming-pakistan-s-mortgage-rules-to-encourage-home-loans)

Pakistan: aligning housing finance with public demand

Reportedly, Pakistan is facing a severe housing crisis with a backlog of 11-12 million units, which covers both the rural and urban housing shortage. The situation is getting worse owing to a rising population and rapid urbanisation. About 40% of the housing backlog is in urban areas. In 2019 alone, the net population growth was 4.2 million. At a household size of 6 persons/household, this has created an additional need for 0.7 million new houses. A further decline in the size of a typical family and increased household formation rates are expected to further add to housing demand. Around 47% of urban households live in substandard housing often located in informal settlements and slums also called "katchi abdis", which lack basic urban infrastructure and provide poor health conditions. The existing housing stock is also extremely overcrowded.

With the support of UK Aid and the Department for International Development [DFID], the SBP conducted a study to understand customer preference in Pakistan. It said 94.55 of the respondents from low-income segments who have banking relationships believe in the prohibition of interest. In the unbanked segment, over 98% of the respondents believe in the prohibition of interest while over 93% considered the interest charged and paid by conventional banks as illegal. There is a pressing need for Islamic Housing Finance, and so Banks will have to prepare for this mode of housing finance. Experts think that, the role and structure of the House Building Finance Corporation [HBFC] is to be reviewed as it can play an active role for the promotion of low-cost housing. To increase its acceptability, the company must offer financing solutions that are based on Islamic financing modes.

(Source: https://www.dawn.com/news/1527904 Published in *Dawn, The Business and Finance Weekly,* January 13th, 2020)

Philippines

Social Housing Finance Corporation [SHFC] links socialized housing deal with Magalang, Pampanga

On January 23, the Social Housing Finance Corporation [SHFC], the lead government agency tasked to undertake socialized housing for low-income earners, entered into a partnership with the local government of Magalang, Pampanga for the provision of affordable and quality shelter for underprivileged families in the municipality.

The memorandum of understanding [MOU] was signed by SHFC President Atty. Arnolfo Ricardo Cabling and Mayor Romulo Pecson in a ceremony held at the Magalang Municipal Hall, with Department of Human Settlements and Urban Development Asec. Leira Buan and SHFC Pampanga Branch OIC-Manager Prandy Vergara witnessing the event. The signing of the MOU coincided with the 16th founding anniversary of SHFC, which is launching new schemes, including the socialized interest rates and the 12 Community Mortgage Program [CMP] modalities, which will help more poor families realize their dreams of owning a home. The CMP, SHFC's flagship program, has benefited more than 350,000 families through over P16 billion in loan assistance since its inception in 1988. It aims to improve the lives of informal settler families by providing them affordable financing in which they can borrow as a community to buy the land they occupy or would like to relocate to.

(Source: https://www.shfcph.com/SHFC_INKS_SOCIALIZED_HOUSING_DEAL_.html)

Philippines - housing finance, a World Bank report

This report focuses on three interrelated sets of issues:

(i) resource mobilization and the macroeconomic implications.

(ii) development of institutions and instruments for housing finance; and

(iii) the rationalization of the institutional structure.

The current system of housing finance in the Philippines provides access to only the upper strata of the income distribution. Also, both the quality and quantity of housing stock are inadequate. Possible changes in the system include consolidation and improvement to the primary mortgage market, strengthening and expansion of the secondary mortgage market, and facilitation of entry into homeownership. Use of alternative mortgage instruments, secondary market purchase of sites and services loans, and more liberal use of the Home Development Mutual Fund would improve access to housing for lower income families. All but the last of these measures would also increase savings. While streamlining the housing finance system is important, it cannot substitute for other aspects, like low-income housing programs and slum upgrading.

(Source: http://documents.worldbank.org/curated/en/332101468145149365/Philippines-Housing-finance)

Republic of Korea

Korea Housing Finance Corporation [HF] unveils 'Inclusive Relief Loan'

Korea Housing Finance Corporation [KHFC] CEO Lee Jung-Hwan announced the launch of the 'Inclusive Relief Loan' to ease the interest burden and costs of those on floating or semi-fixed rate home loans. The new loan is available to households owning a single home with a value of KRW 900 million or less and on floating or semi-fixed rate mortgage loans. If the combined annual income of the applying couple is KRW 85 million or less (for newlywed couples, or KRW 100 million or less for married couples with at least two children), KRW 500 million of their existing loan can be converted into the new loan. Those interested in the 'Inclusive Relief Loan' can submit an application either to their current home loan lender (14 commercial banks in the nation) or on the HF homepage or mobile app (Smart Housing Finance App).

Single home-owning applicants on a home loan offered by a non-bank lender, such as a mutual finance cooperative or mutual savings bank, or on two or more home loans offered by multiple financial institutions can submit an application by visiting the HF homepage. In particular, a 0.1%p rate discount is offered to those who submit a loan application on the HF homepage, sign a loan agreement online, and establish the security interest over the property online[3].

(Source: https://www.hf.go.kr/ehf/sub06/sub01.do?mode=view&articleNo=313009)

Social value of housing finance services to be measured in monetary terms

Korea Housing Finance Corporation [HF] is set to strengthen its social value management system. To this end, it will measure the social value generated from its housing finance business in monetary terms and reflect the results in its internal performance evaluation, thus reinforcing its social value management system. Korea Housing Finance Corporation CEO Lee Jung-Hwan has said that, to establish a system of quantifying social value in the housing welfare area, it signed a memorandum of understanding [MOU] with Korea Land and Housing Corporation [LH] and SK SPEX SV Committee [Social Value Committee]. The MOU aims to measure and promote the creation of social value.

(Source: https://www.hf.go.kr/ehf/sub06/sub01.do?mode=view&articleNo=313008)

Korea Housing Finance issues €500M of bonds

Korea Housing Finance Corp. issued €500 million of five-year covered bonds with a coupon of 0.107%. This was the South Korean policy lender's second euro-denominated social covered bond offering following a €500 million issuance in October 2018. A total of 78 institutional investors, including central banks, participated in the bond offering. Korea Housing Finance will use the proceeds to finance affordable mortgage loans.

(Source: https://www.spglobal.com/marketintelligence/en/news-insights/trending/nhE6Ighb4QZRaxPk-7gOrdA2)

Sri Lanka

Housing finance in Sri Lanka: opportunities and challenges

Sri Lanka has embarked on a gradual transition from a system of directed credit in a highly segmented market toward an integrated market-driven housing finance system. This transition has included an increased role for private universal banks in the immediate term and a functioning secondary mortgage market in the long term. An active system of housing finance provides real economic benefits and positively affects savings, investment, and household wealth. It provides an investment option for long-term funds in the economy as an alternative to investment in treasury bonds. In turn, each dollar invested in the housing sector catalyses economic activity in other sectors, exerting an indirect positive impact on employment levels, the retirement system, fiscal returns, and consumption. Housing finance enables households to accumulate assets that can provide the collateral for their investment needs, thus stimulating small business. Housing finance development boosts equitable economic growth and reduces poverty by improving living conditions, empowering the middle and lower-income population, and strengthening communities. Housing policy focuses on improving government land use and maximizing the use of the existing housing stock by providing basic public services and upgrades.

[3] 1 South Korean Won equals UD$ 0.00084 as of 8 February 2020

(Source: http://documents.worldbank.org/curated/en/701331468302497132/Housing-finance-in-Sri-Lanka-opportunities-and-challenges)

Affordable housing for Sri Lankans – myth or reality?

Out of the six million families living in Sri Lanka, only 5.2 million have some form of housing. Though steps have been taken to develop the housing sector in the country, such as the formulation of the National Housing Policy, there are issues that warrant attention. The Report for the Third United Nations Conference on Human Settlements – Habitat III highlights the key issues in the housing sector. According to it, one of the biggest challenges is providing adequate and affordable housing. Those who face this issue are mainly low-income earners, communities in the North and East, people living in disaster-prone areas, and the middle-income groups who migrate to peri-urban areas.

Another growing concern is the lack of access to formal finance options among the majority of low-income earners. According to *Housing and Sustainable Urban Development in Sri Lanka, the National Report for the Third United Nations Conference* – Habitat III, only 20% of them have the potential to access housing loans, due to financial constraints and irregular employment.

Furthermore, there are three overarching issues facing underserved settlements in urban areas. One is the redevelopment of establishments located in highly valued and strategically important land. The second challenge is the relocation of establishments on reservations, while the third is the consolidation of settlements which have adequate housing capacity but require improvements in infrastructure.

(Source: http://www.ips.lk/talkingeconomics/2019/07/09/affordable-housing-for-sri-lankans-or-castles-in-the-sky/)

Thailand

Thai Government Banks luring home buyers

To jump start a stagnant real estate housing market, Thai Government Banks have implemented a series of incentives to low-and-middle income home buyers. During the past year high mortgage rejection rates for this group of borrowers have partially been blamed for a moribund low-growth real estate market. Strict loan to value requirements were imposed on government financial institutions during this period. The following farther steps have been taken to stem the situation.

- Low interest rate mortgages:
- Three Thai Government banks are now offering low-interest rate mortgages to homebuyers.
- Government Housing Bank (GH Bank), Government Savings Bank (GSB) and Krungthai Bank (KTB) have recently launched these programs as an integral part of the government's property stimulus measures.

Both GH Bank and KTB offer fixed interest rates that average 2.5% for the first three years of a new mortgage loan. GH Bank is offering a 40-year amortization rate while KTB is offering 30 years. A GH Bank borrower under this program pays Bt3,300 ($US110) per month for a Bt1 million ($US33.333) mortgage. After the initial three years, GH Bank's interest increases to 4.625% for the fourth and fifth years, then to the minimum retail rate (MRR) minus 0.75% thereafter. Employees of companies with special agreements with the Bank will only pay MRR minus 1% for the remainder of the mortgage term. This special low-interest rate mortgage program is limited to purchases of homes priced at less than Bt3 million ($US100,000).

Government offering cash rebates:

To further stimulate the property sector, the Thai government is also offering cash rebates and lower property transfer fees for certain buyers. Under its Baan Dee Mee Down program, the initial 100,000 homebuyers receive Bt50,000 ($US1,666) rebates if they complete a new mortgage process from any financial institution between November 27, 2019 and March 31, 2020. They must also register at a specified website between December 11, 2019 and March 31, 2020. Qualifying home buyers under this program must have less than Bt100,000 ($US3,333) per month and must be registered taxpayers. Although only new homes can be purchased under the program, the program is not limited to first-time home buyers. Under this program, no ceiling is imposed on new home purchases. To further encourage new home purchases, the government has reduced property transfer taxes from 2 per cent to .01 per cent for homes priced at less than Bt3 million ($100,000) purchased before December 24, 2020.

GHB rewards New Year's Gifts to on-time mortgage customers

Mortgage customers with good payment records received a special New Year's gift of Bt1,000 ($33) from the Government Housing Bank. The gifts were transferred to the customers' GHB All mobile application accounts. "Following the Finance Ministry's policy of promoting good repayment discipline, we have launched this program," said Chatchai Sirilai, GH Bank's President. Eligible customers include those who borrowed Bt1,000,000 ($US100,000) or less and whose loans have never been non-performing. Their debt repayment records must have been sustained for the past 4 years and all payments must have paid on the due dates.

Fitch Affirms "AAA (tha) rating for GH Bank

Fitch Ratings has affirmed the National Long-Term Rating of Government Housing Bank (GH BANK) at 'AAA (tha)' with Stable Outlook. The National Short-Term Rating has also been affirmed at 'F1+(tha)'.

GH BANK's National Rating reflects Fitch's belief of a high probability of state support for the bank, if needed. This is based on its status as a bank, which provides state policy under specific legislation to fulfill government objectives. GHB has consistently maintained its key policy role of making home loans more accessible to people in the low and middle-income demographic who may not qualify for credit from commercial banks.

Fitch expects timely support to be given to the bank if needed, but GH BANK's earnings performance over the past several years has been sound and hence extraordinary capital support has not been required. The Stable Outlook reflects Fitch's expectations that the government's propensity to support the bank is unlikely to reduce in the medium term. (Source: https://www.ryt9.com/en/prg/233759)

Europe: trends in house prices and construction

By Mark Weinrich

House prices rose by 4.1% in both the euro area and the European Union in the third quarter of 2019 compared with the same quarter of the previous year. This is just 0.2% lower compared to the previous year which means that European housing markets are in their sixth consecutive year of growth. Although there are considerable regional differences in house price growth price growth, all countries reported positive growth rates. The strongest growth was recorded in Latvia (13.5%), Slovakia (11.5%), Luxembourg (11.3%) and Portugal (10.3%). Italy (0.4%), the United Kingdom (1.1%) and Finland (1.2%) had the lowest annual rates of change in the third quarter.[1]

In this column we have focused particular attention on house price changes in Sweden. House prices in Sweden had increased from the beginning of 2013 to the middle of 2017 by more than 60%. This boom had led the Swedish government to implement regulatory measures aimed at cooling the market. The summer 2018 edition of HFI featured an article on these regulatory measures. Presumably due to these measurers, prices fell at the end of 2017 quite sharply. They continued to decline in 2018 and stabilised towards the end of the year. Latest data reported by the Valueguard-KTH Housing Index, HOX Sweden, show that house prices in Sweden increased in 2019 by 4.5% on an annual base and experts expect that 2020 will see even a slightly stronger market. The stabilisation of the Swedish housing markets seems therefore to have been successful. There is further research needed on whether the Swedish case is a useful example of a “soft landing” in the housing market. With booming housing markets in many European countries, many residents are priced out of big cities, with real estate valuations demonstrating the risk of a bubble, causing concern among policymakers. Instruments that can mitigate the property boom despite extremely low interest rates are very sought after.

As well as house prices, construction output has also increased across the European Union in recent years. Between 2014 and 2019, construction output grew in the 19 countries of the Euroconstruct network[2] by a total of 15%.[3] Construction activity in 2019 has increased more strongly than predicted with an estimated increase of 2.3%. New residential construction which had a significant share in the growth in the past has lost momentum. It grew only by 1.3% in 2019, while non-residential construction grew by 1.9%, with civil engineering growing by 5.1%. However, the future development in all three sub-segments is being viewed with less optimism; in the case of new residential construction stagnation is expected for 2020 and 2021. According to estimates, construction volumes in the Euroconstruct area will grow by around 1% per year from 2020 to 2022. The reasons for the sluggish growth in new residential construction despite booming housing markets differ from country to country. In Finland and Sweden for example, new construction had seen record highs in earlier years and investment activity has now cooled down. In France, residential construction activity has been severely depressed, above all by less favourable subsidies for new construction. Meanwhile, the Dutch construction industry is plagued by the consequences of a decision by the highest administrative court at the end of May 2019 which declared the regulations for reducing nitrogen emissions in the vicinity of 108 nature reserves invalid due to their unsuitability. The new (and only temporary) rules include very restrictive requirements. In effect, construction projects – even those at a considerable distance from nature reserves – have little chance of being granted permits. This has massively reduced construction activity in the Netherlands. In other countries such as Germany, bottlenecks in the construction industry and the lack of availability of building land lead to significant delays in the completion of building projects.

In general, the steady rise in property prices in many places is having an inhibiting effect on construction activity. The high cost of land and construction work is making housing almost unaffordable for broad sections of the population. This then also sends negative signals to those property developers who in particular target lower and middle-income customers. Housing is in short supply in many places in Europe, in spite of increasing demand. Structural shortages are especially acute in large cities, and a further decrease in the level of housing construction will further worsen the situation. Unless governments in Europe step in to take decisive measures to turn back the tide, there is the risk that the scarcity of affordable housing will intensify and increase existing inequalities, exclusion, and segregation.

[1] All data on house prices are from Eurostat: https://ec.europa.eu/eurostat/documents/2995521/10159199/2-16012020-AP-EN.pdf/c438f3b6-5e66-8c24-eae1-2427e5c9fe42

[2] Countries which belong to the Euroconstruct network are France, Germany, Italy, Spain, United Kingdom, Denmark, Finland, Ireland, Norway, Sweden, Austria, Belgium, Netherlands, Portugal, Switzerland, Czech Republic, Hungary Poland, and Slovak Republic.

[3] For the following see: https://www.ifo.de/DocDL/sd-2020-02-2020-02-12.pdf pp 54-61.

Latin America and the Caribbean: The Mortgage Backed Securities – *Bursatilización, Securitización, Titularización*

By Claudia Magalhães Eloy*

Securitization of mortgages was introduced into Latin America during the 90s and is still stimulated as a means of expanding *funding* by connecting to capital markets as well as providing more investment options to institutional investors, notably pension funds, in order to tap into those vast resources. Commonly emphasized advantages other than the widening of the potential market for funding mortgages include:

- Liquidity,
- The transfer of credits out of banks' balance sheets,
- Freeing up capital for more loans and improved asset-liability term alignment when compared to other instruments.

Securities backed by mortgages [MBS] as well as other assets such as credit card payments have been developing across the LAC region amidst the development of local bond markets over the last two decades[1]. This is thanks to improvements to regulatory frameworks as well as macroeconomic conditions and tax incentives. Yet, as far as this author has been able to gather, their development in regard to the residential mortgage market has not been as successful as expected.

In Mexico, banks withdrew from mortgage lending[2] as a result of the financial crisis in the mid- 90s and the pension reform of 1997 helped boost the development of the local bond market – pension fund assets under management (AUM] grew from 1% of GDP in 1998 to around 6% of GDP in 2005. Private bonds managed by mandatory pension fund administrators [AFORES] represented 20% of total outstanding bonds[3]. The securities certificates (*Certificados Bursátiles*, CBs) were introduced in 2001 allowing different assets to be pooled for securitization, while RMBS (*Bonos Respaldados por Hipotecas*) started in 2003, including mainly[4]: BORHIS (*Bono Respaldado por Hipoteca*)[5], were issued between 2003 and 2009; CEDEVIS (*Certificados de Vivienda*) were issued by INFONAVIT[6] between 2004 and 2015; and TFOVIS, have been issued by FOVISSST since 2009. CEDEVIS and TFOVIS were the main securities, but there has been no issuance of the former since 2015. According to Banorte (2020), Infonavit does not need, this source of funding anymore. Outstanding CEDEVIS totaled $ 35,4 billion Mexican pesos (USD 1,6 billion)[7] in December, 2019[8]. While CEDEVIS were predominant up to 2008, TFOVIS have outgrown CEDEVIS since their introduction in 2009, with a total outstanding volume of $ 76,4 billion Mp (USD 3,4 billion)[9] and total issuances of $ 14 billion Mexican pesos in 2019 (USD 616 million)[10].

Though Mexican banks have not securitized much of their credit portfolios, partly because of significantly less credit extension following the financial crisis, some banks slowly began issuing plain vanilla bonds and issuing structured transactions, mainly against residential mortgages. In Mexico (a federal state) it is necessary that all states agree upon a common set of regulations, thus imposing a challenge in making sure that the entire legal system is integrated – for instance, ensuring that credit guarantees and foreclosure procedures can be exercised equally in all states – in order for the derivatives market to grow further[11]. An open dialogue with foreign investors was key to introducing new securities (they are the largest purchasers of long-term securities) and conversations with institutional investors, mainly pension funds, were also considered necessary to ensure a solid demand for securities. Finally, the market makers program ran by the Finance Ministry was considered useful in getting banks interested in securities.

In 2018 (most recent data available) total securities (*Certificados Bursátiles*) issuances through BMV were 580, amounting to $ 1,459 billion Mexican pesos (Mp], of which those backed by mortgages totaled 61 issuances and only $ 9.2 billion Mp – basically TFOVIS. This figure (as well as the one of 2019, $ 14 billion Mp, informed by FOVISSST, mentioned previously) is lower than those of previous years ($ 21 billion Mp over 65 issuances in 2017 and $ 22.8 billion Mp and 65 issuances in 2016)[12]. Considering that issuances peaked in 2009 and 2010, when they reached $ 36.8 billion Mp and $ 36.2 billion Mp, the

* The author would like to acknowledge the contribution of Juan José Cervantes to the parts regarding Mexico and to thank him for it. Nonetheless, the author takes full responsibility for the contents of this article.

1 Issuances of structured finance in general, fell by 40% across the region in 2018 in comparison with 2017, according to S&P. Yet, by March 2019, S&P´s overall annual outlook for the region was one of market growth due to the demand created by Fintechs and infrastructure investment, as well of a more dynamic market with the emergence of new asset classes. https://www.spratings.com/documents/20184/1491334/2019-03-25-Panorama-2019-para-Financiamiento-Estructurado-en-America-Latina-Emisiones-de-Brasil-en-ascenso-mientras-que-Mexico-y-Argentina-se-mantienen-sin-cambio/fea23f95-819c-7337-01f9-873d3527f5b6

2 The Sofols (Sociedades Financieras de Objeto Limitado) continued to lend to moderate-income households funded by Sociedad Hipotecaria Federal. This line of credit ended in 2013 when SHF turned to Sofomes (banks).

3 Castellanos, Sara and Martinez, Lorena: Development of the Mexican Bond Market. In Borensztein, Eduardo et all. Bond Markets in Latin America: On the Verge of a Big Bang. The MIT Press, 2008.

4 Hipotecaria Total [HITO] issued Bonhitos in 2007, 2008 and 2013. Other types are CDVITOT, INFOHIT, HITOTAL.

5 BORHIS are securities that comply with the criteria established by Sociedad Hipotecaria Federal [SHF].

6 Instituto del Fondo Nacional de Vivienda.

7 Exchange rate: 1 Mexican peso = 0.044 USD.

8 While this is the total provided by Infonavit, the paper by Banorte (Evolución CEDEVIS 4T19, 11.02.2020) reports an outstanding total of 24,4 billion Mp by the end of 2019.

9 Banorte (2020).

10 FOVISSSTE (2020).

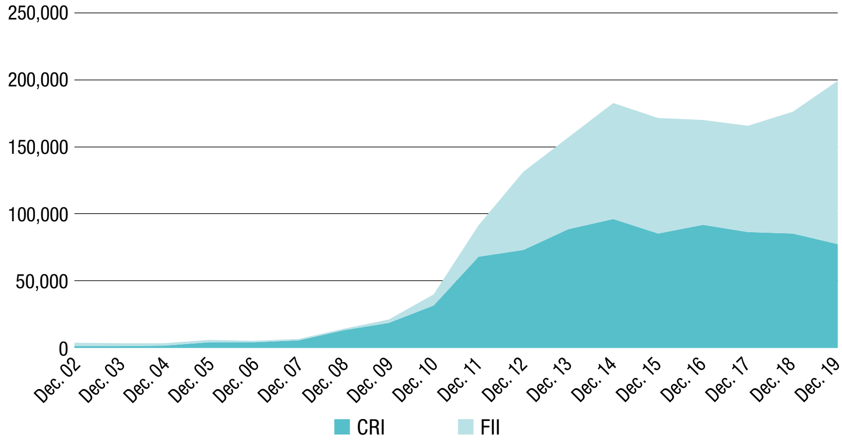
11 https://www.euromoney.com/article/b13225sj8xwdxx/latam-structured-finance-abs-growth-hampered-by-regulatory-holes?copyrightInfo=true

12 Informe Anual de Indeval, 2018 (p.50) https://www.bmv.com.mx/docs-pub/informeAnual/Informe%202018%20sf.pdf

mortgage securities market in Mexico seems to be losing strength.

In Brazil, the most asset diversified country in the region[13], domestic issuances in capital markets totaled BRL 396.1 billion (USD 80 billion)[14] in 2019, a 59.3% rise in comparison to 2018, with a decline in fixed income assets and a significant rise in stocks, mainly follow-ons (as the reference interest rate fell to a historical low of 4.25% nominal, real at around 1% – investments have gradually moved towards higher risk investment options) as well as, to Real Estate Investment Funds (*Fundos de Investimento Imobiliário* – FII or REITs). Issuances of REITs totaled BRL 35.8 billion (up from BRL 15.7 in 2018) yet the majority of investors are mainly individuals (54.6%) according to ANBIMA[15]. Outstanding REIT net assets reached BRL 119 billion (USD 24 billion), down from BRL 130.4 billion in 2018, distributed across over 400 funds[16].

FIGURE 1 Outstanding MBS (CRI)/Net Assets REITs (FII) in BRL million jan/2020



Brazilian MBS (locally named CRI – *Certificados de Recebíveis Imobiliários*) have been regulated since 1997. While in some countries securities were introduced in mortgage markets as a means of reducing credit costs, in Brazil, funding costs from CRI are more expensive than the traditional deposit sources (SBPE and FGTS) thus securities have been introduced with the intent of expanding existing funding. Yet, their development has been quite slow for more than a decade, picking up after 2010 and reaching BRL 70 billion (in real values) by the end of 2014, with a much-reduced growth rate since then, leading to a current outstanding total of BRL 77 billion (USD 15.6 billion). The limited development has been due in large part to the concentration of the banking system in a few well capitalized institutions that are part of the savings and loans [SBPE] system (total outstanding deposits of BRL 657 billion in December 2019), as well as to the higher funding costs involved and limited dynamics of the capital market.

More recently, higher demand from REITs has boosted CRI issuances – BRL 16.5 billion throughout 2019[17] (USD 3.3 billion) up from BRL 8.8 billion in 2018[18]: in 2019, REITs purchased 56.3% of those issuances and individuals, 25.1%, exhibiting a shift compared to 2018, when they were respectively 34.6% and 44.8%. While individual investors receive tax benefits, institutional investors and foreign investors are not significant participants within the MBS market, accounting for, respectively, 3.8% and 1.5% of 2019 issuances. Therefore, the broadening of the investor base remains a challenge for the Brazilian MBS market. Moreover, CRI is not yet a significant residential mortgage market instrument in the country, as CMBS (commercial mortgage backed securities) constitute the greater part of those issuances and total outstanding volumes. Residential land developers have grown among originators, yet RMBS backed by individual mortgages accounted for just 7.9% of CRI´s issuances in 2019 (down from 12.1% in 2018, according to UQBAR, 2020). Issuance is restricted to *Securitizadoras* – out of over 30 currently registered, 19 of them issued CRI in 2019, but 10 hold more than 90% of the market share.

The significant reduction of market interest rates in Brazil suggests a positive moment for the development of the securitization market. Nonetheless, the majority of the housing credit portfolio in banks (around BRL 650 billion, USD 131 billion) is indexed at the TR (Taxa Referencial), an index not acceptable to the market. Caixa (the state housing bank) recently began offering housing loans indexed at IPCA (official inflation index) and at a fixed rate in order to build a portfolio to be securitized. This will indeed be a litmus test for investors' appetite for RMBS.

In Argentina, while most issuances remain backed by credit card and consumer non-collateralized loans, the first issuances of RMBS occurred in 2018 backed by inflation indexed (UVA)[19] residential loans: S&P rated a USD 18.8 million[20] issuance originated by Banco Hipotecário. Back then, Argentinian banks were searching for alternative funding sources to deposits as a means to expand housing indexed loans and equate the asset liability mismatch. Yet, as previously discussed in the Autumn issue of this column; in August 2019, as inflation continued escalating, whilst incomes did not, and installments became increasingly difficult to meet, the then government announced a temporary (4 month) freeze in mortgage installments indexed at the UVA, affecting around 90 thousand loan contracts. The freezing was recently extended until February 2020 and economic deterioration poses worrying concerns for the mortgage market in general and, in particular, in relation to the mortgage securities issued. The implications for the further development of the mortgage securitization market in the country are yet to be determined.

Chile entirely transformed its pension system to a fully funded system in the 80s, allowing

[13] According to S&P, March 2019.

[14] Exchange rate: 1 USD = BRL 4.95.

[15] https://www.anbima.com.br/pt_br/informar/relatorios/mercado-de-capitais/boletim-de-mercado-de-capitais/emissoes-domesticas-registram-aumento-de-59-3-em-2019.htm

[16] FIDC (Fundos de Investimento em Direitos Creditórios – receivables investment funds) issuances also exhibited growth, with a total of BRL 31.1 billion in 2019 (BRL 23.4 billion in 2018) and outstanding net assets of BRL 193.2 billion, of which 50.3% correspond to agricultural, industrial and commercial investments. Real estate investments still constitute a very small part within the financial segment of FDICs (16.6% of total). The financial segment also includes consigned loans, personal loans and vehicle leasing. Anbima (2020). The World Bank (2007) observes that "FIDCs have proved a flexible financing mechanism for Brazilian companies, providing an alternative to scarce bank credit at lower interest rates through securitization of credit rights.".

[17] According to ANBIMA. UQBAR (2020) presents a total of BRL 21,8 billion of issuances in 2019.

[18] Issuances amounted to higher volumes in 2014 and 2016, respectively BRL 16.1 billion and BRL 16.9 billion, due to purchases by SBPE banks incentivized by regulatory benefits offered (extinguished in 2018), as well as by FGTS. Data from ANBIMA.

[19] Unidade de Valor Adquisitivo, equivalent to the construction cost of a square meter, adjustable by the CER, a consumer price index. In April 2016 1 UVA was equivalent to 14.06, in September 2018 to 25.9; 38.2 in July 2019 and 50.5 by the end of February 2020. http://www.bcra.gov.ar/PublicacionesEstadisticas/Principales_variables_datos.asp

[20] According to S&P, March 2019.

mortgage bonds (*Letras de Crédito Hipotecario*) – which had been available since the 1970s – to increase rapidly due to the demand of AFPs (Pension Fund Administrations). A liquidity facility for the *Letras* was created whilst insurance companies were allowed to sell annuities backed by those *Letras* as investments for the retirement accounts in the payout phase of the privatized pension system[21].

Off-balance sheet mortgage backed securities were introduced in 1994[22] with the institution of *Sociedads Securitizadoras*[23] and security investment funds (*fondos de inversión de créditos securitizados*). According to Carlos Pavez (2014)[24], after a period of testing and problem solving, during which issuances were rarely seen[25], securities entered a consolidation phase in Chile after 2000 – in 2001, USD 240 million *bonos securitizados* were issued. For some time, most of the mortgage securities were inflation-protected and a large proportion were held until maturity by insurance companies and pension funds, reducing levels of liquidity. In 2018, $24.5 billion Chilean pesos (around USD 30 million)[26] *bonos securitizados* were issued and in 2019 issuances doubled to $ 49.1 billion pesos (USD 60 million) at 2.5% issuance rate and on 23-year terms[27]. Only two *securitizadoras* participated: Securitizadora Security with 56% of issuances backed by residential mortgages and leasing contracts. The remainder were issued by Volcom Securitizadora backed by mortgages originated by a Chilean non-bank fintech, CrediTú: AAA 30-year term RMBS. Assets are mainly middle-class mortgages from CrediTu´s total USD 140 million housing loan portfolio with credit insurance which covers non-payment of outstanding mortgage debt. CrediTú is the second-largest non-banking institution in residential housing loans in the country, the first being Principal Financial Group[28].

Prospects remain uncertain. According to MINVU (January 2020)[29], the social crisis that began in October 2019 has generated a relevant change in the economic scenario in the country, resulting in a decline in general activity, notably in the construction sector and credit restrictions.

In 1998, amidst the financial crisis, the Colombian government passed legislation that facilitated mortgage securitization and soon afterwards (2002) created a centralized conduit company – Titularizadora Colombiana. The total housing credit portfolio was of $ 80.25 billion Colombian pesos (as of Oct/2019) of which 4.8 billion pesos (nearly 6% of total) is securitized[30], according to Titularizadora Colombiana (Mortgage Sector Report, 2020)[31]. This shows a growth of roughly 11% when compared to October 2018 figures of respectively $ 72,27 billion and $ 4,3 billion pesos[32]. Default rates (over 120 days delinquent) in the entire housing portfolio were of 3.3% and a bit higher, 3.8% in the securitized mortgage portfolio as of October 2019 (Superfinanciera and Banco de la República). In Colombia, mortgage-backed securities are eligible as collateral for repurchase agreements with an interest rate hedging facility run by the central bank (World Bank, 2007).

The development of robust and dynamic mortgage backed securities markets in the LA&C region proves to be far from a trivial task. Indeed, as with traditional savings and loans systems, RMBS demand stable macroeconomic conditions and much more, as pointed out by many researchers.

Chiquier, Hassler and Lea (2004)[33] note the important infrastructure requirements for mortgage security issuance, legal and regulatory pre-requisites, as well as primary market requirements:

> "it is highly unlikely that mortgage securities can be successfully issued in countries with weak and under-developed primary mortgage markets. There must be a modicum of standardization in mortgage instruments, documents and underwriting, reasonable standards of servicing on the part of lenders and issuers and professional standards of property appraisal. Capital market funding can provide a strong incentive to improve primary market standards in these areas, but there can be no substitute for a certain degree of market development preceding introduction of new funding vehicles."

White (2004)[34] observes that a well-functioning MBS system first needs the pre-requisites that are essential for any well-functioning housing finance system[35] and, in addition:

> "The institutional development of a set of specialized originators, servicers, and securities packagers; a legal and institutional framework that provides incentives and penalties to motivate these parties to perform their roles honestly and efficiently; a legal and tax framework that does not hinder the specific steps that are necessary to create securities and to structure securities so as to deal with credit risk and prepayment risk; a legal and institutional framework that does not hinder the standardization of mortgage arrangements, including terms and documentation; a legal and tax framework that does not discourage investors of all kinds – individuals, banks and other depositories, insurance companies, pension funds, mutual funds, finance companies, overseas investors, etc. – from buying and holding MBS; and a securities markets institutional framework (brokers, dealers, market makers, analysts, etc.) that facilitates the buying and selling of securities.

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21 According to the World Bank (2007) "in Chile, when the annuity-related assets of life insurance companies are added to the defined contribution pension system, the total exceeds 80% of GDP". The World Bank: Structured Finance in Latin America Channeling Pension Funds to Housing, Infrastructure, and Small Businesses. 2007. http://siteresources.worldbank.org/EXTECAREGTOPPRVSECDEV/Resources/StructuredFinanceinLAC.pdf

22 Law 19301/1994 and Law 19623/1999. https://www.svs.cl/portal/principal/605/articles-13944_Securitizacion_en_Chile.pdf

23 Both supervised by SVS http://www.iimv.org/iimv-wp-1-0/resources/uploads/2015/01/Panel4AMassarentes.pdf

24 Among the measures taken to stimulate securities: regulatory flexibilities including the authorization to include future flows and fiscal incentives, the elimination of stamp taxes on securitization and IVA tax exemption for Securitizadoras. http://www.iimv.org/iimv-wp-1-0/resources/uploads/2014/12/CarlosPavez1.pdf

25 Up to 2000, issuances were made only by Transa Securitizadora and Santander, with total yearly volumes ranging from USD 9.5 million to USD 31 million.

26 Exchange rate: 1 USD = 818,32 Chilean pesos.

27 http://www.svs.cl/portal/estadisticas/606/w3-propertyvalue-20154.html

28 Source: https://www.crowdfundinsider.com/2020/01/156574-chile-creditu-issues-aaa-long-term-mortgage-backed-bond/

29 https://www.minvu.cl/wp-content/uploads/2020/01/Desaf%C3%ADos-MINVU-en-el-nuevo-escenario-econ%C3%B3mico-vf-CBC2.pdf

30 Of the total housing credit portfolio, 60% comes from Banks and CFC, 24.3% from leasing schemes and 9.7% from the Fondo Nacional de Ahoro (FNA). https://www.titularizadora.com/

31 Issuances of RMBS can be denominated in pesos, UVR,Tech or IPC.

32 Exchange rate: 1 Colombian peso = 0.00025 USD.

33 Chiquier Loic; Hassler Olivier; Lea, Michael. Mortgage Securities in Emerging Markets. World Bank Policy Research Working Paper #3370, August 2004.

34 White, Lawrence. Mortgage-Backed Securities: Another Way to Finance Housing. Paper presented at the Joint Congress of UN-HABITAT and the European Federation of Building Societies Berlin, September 2004.

35 "A legal system of clear property rights in housing and clear reporting of title and of liens against the title, which also permits relatively rapid foreclosure by the lender in the event of borrower default, with well understood rights and procedures for all parties; a tax system that does not unduly tax the transactional steps that are necessary for the provision of finance; an institutional and legal framework that does not hinder the development of institutions and support personnel for efficient housing finance, neither the gathering of information about borrowers by lenders; and a functioning market in house sales that provides comparison-based housing value data that, supported by appraisals, provides the basis for lenders' valuations of the housing collateral that supports mortgage loans."

The appetite of local institutional and foreign investors is also a key factor. Amongst institutional investors, pension funds require a high level of creditworthiness and issuances of a size large enough to make these instruments appealing to fund managers[36]. As such, many potential domestic issuers in the LA&C cannot easily meet the institutional investors' criteria. Aligning regulatory incentives and yet enforcing a sound regulatory framework against pension fund managers could help boost this market.

Fostering regional integrated initiatives in terms of harmonization and issuances may be a path forward, notably for smaller Caribbean jurisdictions, but also quite complex due to policy, regulatory and interest rate disparities, requiring, among other things, trans-national supervisory systems and platforms[37].

In summary, while LA&C countries should not continue relying exclusively on deposit schemes (savings and loans systems and/or special provident/indemnity funds)[38] since these schemes have their limits, it is clear that developing mortgage backed securities markets will take more time than anticipated. As countries evolve in both macroeconomic and effective housing demand terms, it enables other instruments to bring more resources into the housing credit systems through capital markets. Nonetheless, despite the progress that has been made so far, a challenging road still lies ahead.

Weaker than expected growth of the region's economies in 2019 and further ahead due to the spread of the coronavirus and all of yet unforeseen consequences, coupled by the oil market price war between Saudi Arabia and Russia, will only pose greater pressure on local markets, particularly credit markets and sovereign ratings across the region.

[36] Please refer to this column in the Spring 2019 IUHF issue, for a piece on pension fund investments in the region.

[37] It would be interesting to look into the evolution of the Eastern Caribbean Regional Government Securities Market mentioned by Bauer, Andreas; Cashin, Paul; Panth, Sanjaya. The Caribbean: Enhancing economic integration. IMF, 2008..

[38] Such as Brazil´s FGTS; Mexico´s Infonavit and Fovissste; Jamaica´s National Housing Trust [NHT] and Colombia´s Fondo Nacional de Ahorro [FNA]. Please refer to this column in the Fall issue 2017 for a review of the region´s special housing funds.

US Housing Market Indicators

↳ By Edward Pinto

Introduction

This is the first of a series of articles to be published in HFI, setting out valuable data on the US housing and mortgage markets and identifying key trends. Much of the underlying data and analysis will be made available by the American Enterprise Institute [AEI]. This first article provides information about the AEI and the range of market data that is available.

About the American Enterprise Institute [AEI]

The American Enterprise Institute is a public policy think tank dedicated to defending human dignity, expanding human potential, and building a freer and safer world. The work of our scholars and staff advances ideas rooted in our belief in democracy, free enterprise, American strength and global leadership, solidarity with those at the periphery of our society, and a pluralistic, entrepreneurial culture.

The AEI Housing Center has three primary objectives:

- Provide transparent and objective mortgage and housing market trends at unprecedented levels of detail.
- Foster a stable system of mortgage finance that promotes sustainable homeownership; and
- Develop market-based solutions to the nation's shortage of economical housing.

We pursue these objectives through the use of the best available data and by producing rigorous research on important policy issues.

AEI Housing Market Indicators: An Introduction

- The indicators provide accurate and timely metrics for the housing market. These include:
  - → Mortgage Risk/Leverage
  - → Particular attention is paid to agency first-time buyer volume and risk
  - → House price appreciation trends
  - → Housing sales
  - → New and existing sales whether institutionally financed, cash, or other-financed
  - → Months' inventory
- The housing market is influenced by many different levers. Measuring and evaluating with the right metrics provides a clearer understanding of market trends.
  - → AEI HMI adds geography and price points to the broad set of metrics:
    - — Geography: national, state, and selected metros
      - > House prices down to the census tract level
    - — Price points: low, low-medium, medium-high, and high price tiers
      - > Price tiers are defined based on the availability of leverage for borrowers at the metro level.
- Expanded Housing Market Indicators use and connect many different datasets:
  - → HMDA
  - → Public Records Data
  - → National Mortgage Risk Index (agency MBS data)
  - → CoreLogic's LLMA and Black Knight's McDash (servicer data)
  - → Fannie Mae's Loan Performance data and Freddie Mac's Loan-Level Data (acquisition data)
  - → FHA {Federal Housing Administration) Snapshot data (endorsement data)
  - → Data from Zillow on existing home sales and unique listings
- Advantages of the AEI Housing Market Indicators:
  - → Most in-depth resource for key housing data and trends Accurate, timely, and in-depth coverage of purchase trends
  - → Connects the dots for many housing indicators, yielding the most comprehensive analysis of the housing market and boom/bust cycles

Housing Market Indicators (HMI) Key Takeaways

Credit tightening continues in November 2019:

- The Composite National Mortgage Risk Index (NMRI) for purchase loans declined 0.4 ppt year-over-year (yoy), the sixth month for this trend
- This trend has been led by Fannie and Freddie, but in Nov., FHA also declined 1.0 ppt yoy.
- Credit tightening has been larger for first-time buyers, with a decline of 0.5 ppt yoy, while repeat buyers have been largely unaffected.
- Despite these efforts, the share of high-risk loans remains very high in the entry-level segment.

High rate of home price appreciation [HPA] as housing boom continues:

- Preliminary numbers for Jan. 2020 indicate national HPA of 4.2% (yoy), unchanged from Dec. 2019.

Tracking the progress on housing finance reform under Treasury's September 2019 report pursuant to the Presidential Memo from 2019:

- Bottom line: the GSEs have taken some steps in the right direction, but lots of work remains.
- Rate lock data indicate that the GSEs have ended their efforts to reign in abnormally high DTIs.

FHAs has been picking up higher quality borrowers vacated by Fannie:

- FHA's average credit score has risen 7 points and its average loan amount has spiked.
- It remains unclear whether recent changes to the False Claims Act will have a big impact as nonbanks still have a large risk advantage over banks.

Rural America appears to be making a housing comeback:

- Since 2012, home sales and median purchase prices have increased as fast in rural American as in metropolitan regions.
- Rural areas, however, remain far more affordable than metro areas.

Market analysis and commentary

Purchase Loan National Mortgage Risk Index [NMRI]: Credit tightening continues for first-time buyers [FTBs]

The First-time Buyer MRI continued to decrease (y-o-y) led by Fannie Mae, which has been tightening since March 2019. FHA's First-time Buyer MRI stood at 27.6% in November, down 1.2 ppt from a year earlier. While this change is encouraging, the decrease is coming off of very high-risk levels and more needs to be done. The Repeat Buyer MRI has been fairly unchanged for quite some time. (Figure 1)

National Mortgage Risk Index for agency home purchase loans

Due to credit tightening by Fannie and FHA, the composite index has fallen from its high of 13.4% in March 2018 to 12.6% in November. Fannie has led the way as its index is down from 7.8% to 6.9%. FHA's March 2019 Total Scorecard changes also appear to have brought down FHA's risk index, although remaining at a high level. (Figure 2)

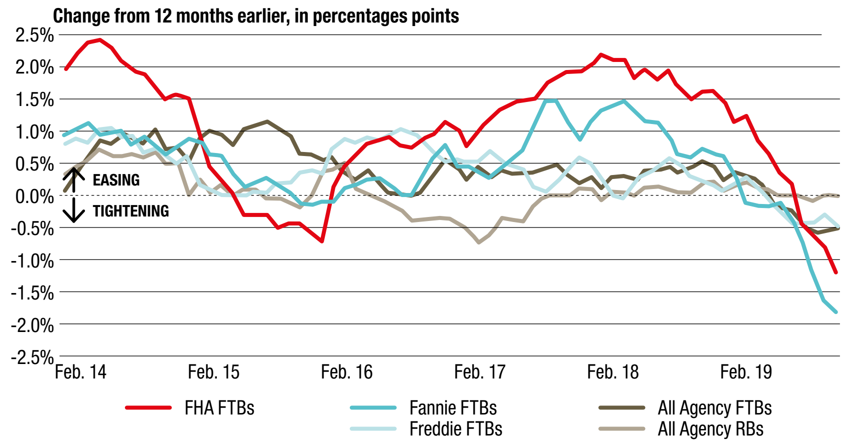
Agency purchase counts

Agency purchase loan volume was up 3% in November 2019 compared to a year ago and is only 3% below the series' high set in November 2017. Overall, purchase volume in 2019 has rebounded from the decline that began in the second half of 2018, when interest rates started to rise. (Figure 3)

Agency first-time buyer [FTB] loan share

The Agency FTB loan share was 57.6% in November 2019. This is down from 58.7% in November 2018 and represents a significant trend reversal from the last 5 years, during which the FTB share continuously marched up. The decline in FTB volume has helped reduce the overall level of mortgage risk. This is evidence of counter-cyclical policies, especially appropriate at this point in the 8-year long home price boom. (Figure 4)

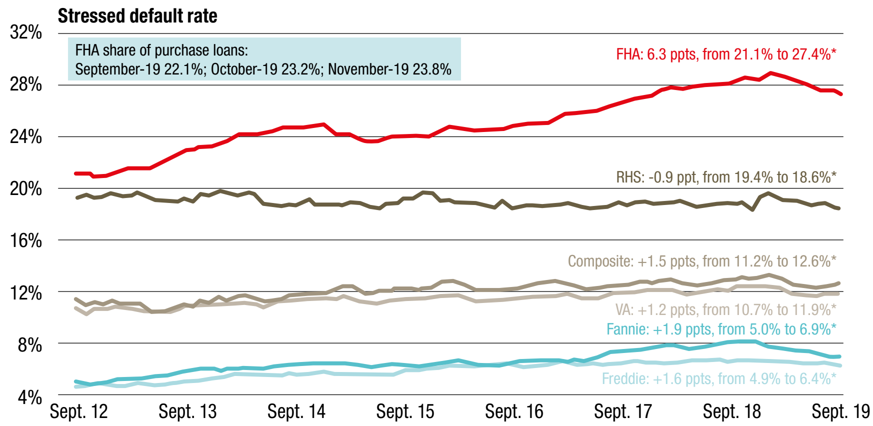
FIGURE 1



Note: Includes all types of NMRI purchase loans (primary owner-occupied, second home, and investor loans).

Source: AEI Housing Center, www.AEI.org/housing

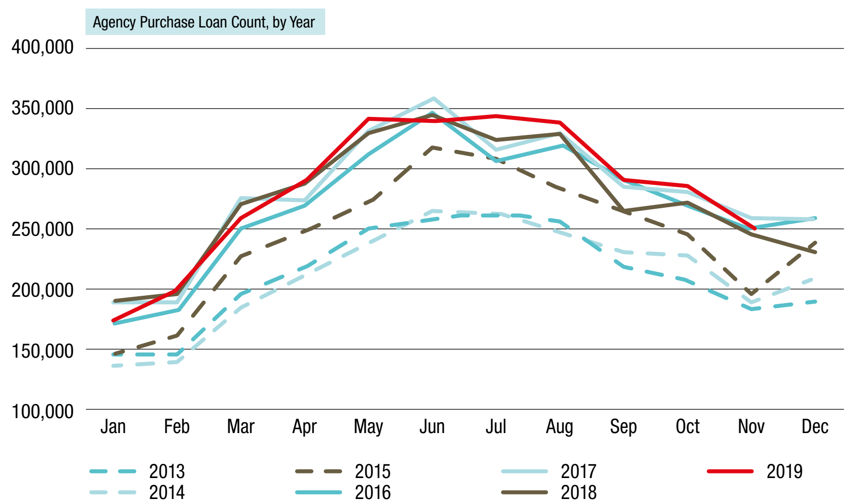
FIGURE 2



* Change from November 2012 to November 2019. / RHS is Rural Housing Service.

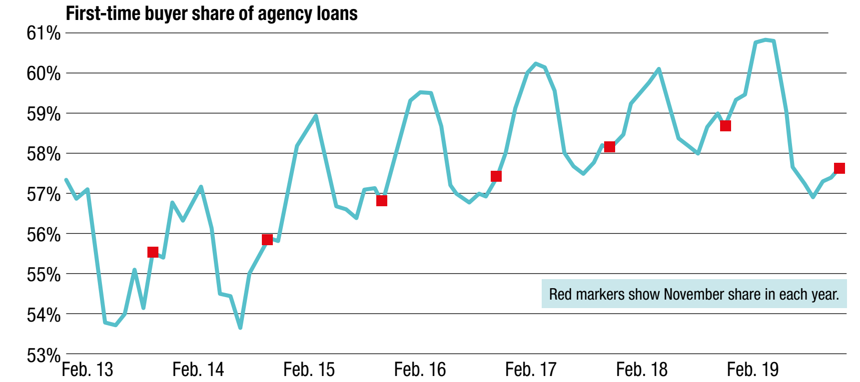
Source: AEI Housing Center, www.AEI.org/housing

FIGURE 3



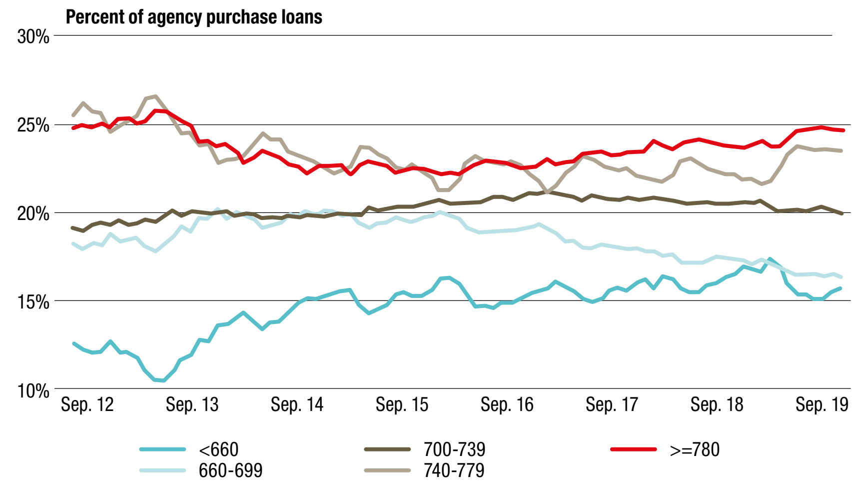
Source: AEI Housing Center, www.AEI.org/housing

FIGURE 4



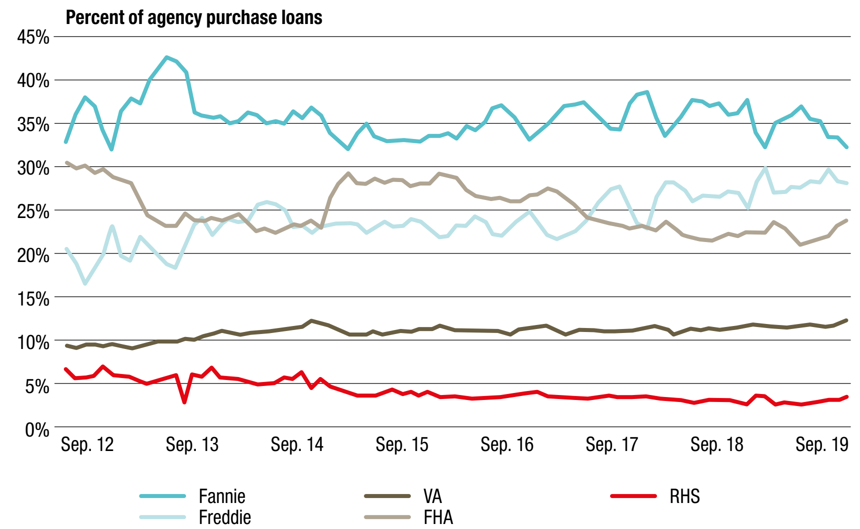
Note: Data are for primary owner-occupied agency purchase loans.
Source: AEI Housing Center, www.AEI.org/housing

FIGURE 5



Source: AEI Housing Center, www.AEI.org/housing

FIGURE 6



Source: AEI Housing Center, www.AEI.org/housing

Origination shares by credit score bin, purchase loans

Credit scores have been declining. However, since March 2019, higher quality borrowers have entered the market, while lower quality borrowers have exited it. This development has coincided with efforts by Fannie and FHA to reign in some of its riskiest lending practices. (Figure 5)

Agency origination shares, purchase loans

Despite this shift towards higher quality borrowers, FHA's agency purchase market share has recovered from a series' low of 20.9% in June 2019 to 23.8% in November 2019. Fannie's and Freddie's shares have bounced around more, but Freddie has consistently been gaining share since mid-2017. (Figure 6)

Tracking housing finance reform

The Treasury's report from September 2019 pursuant the Presidential Memo from March 2019, stated that:

Pending legislation, FHFA should assess whether each of the current products, services, and other single-family activities of each GSE is consistent with its statutory mission and should continue to benefit from support under Treasury's Senior Preferred Stock Purchase Agreement (SPSPA) commitment (with appropriate amendments to the SPSPA), and in particular, FHFA should solicit information on whether to tailor support for cash-out refinancing, investor loans, vacation home loans, higher principal balance loans, or other subsets of GSE-acquired mortgage loans.

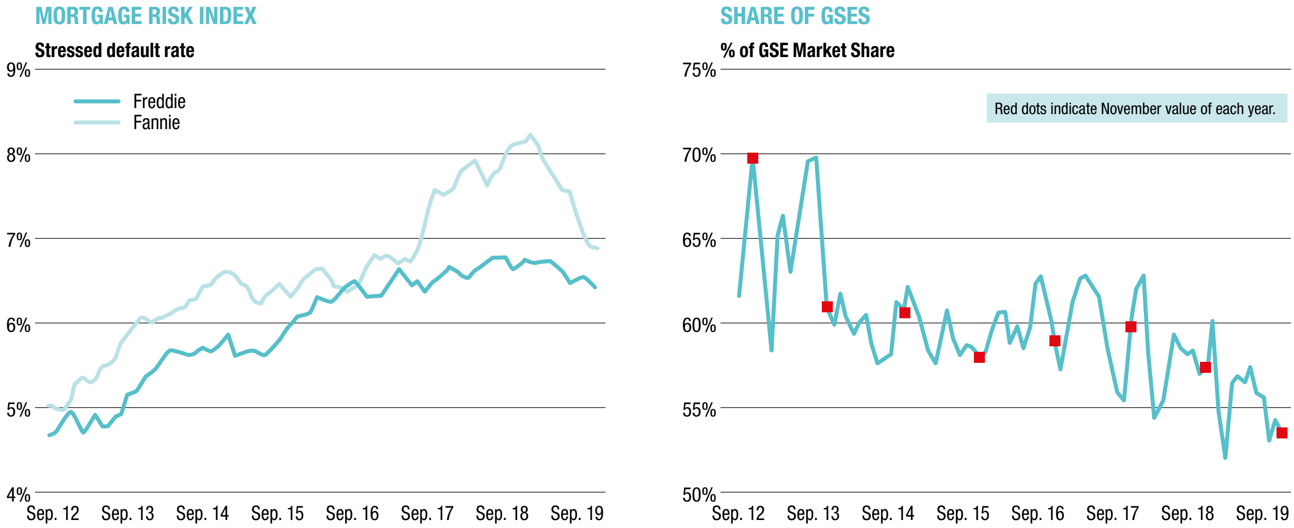
The GSEs core mission should be to assist low and moderate-income homebuyers in acquiring a primary residence.

Each month we cover a few areas helpful in tracking housing finance reform from the GSEs' and FHA's perspective with regard to the progress being made on the steps outlined in the Treasury report.

Fannie's de-risking and market share: purchase loans

Fannie's Mortgage Risk Index has traditionally been higher than Freddie's. This gap increased when Fannie eliminated compensating factors allowing Debt-to-Income Ratios (DTIs) to go as high as 50% in July 2017. Since Jan. 2019,

FIGURE 7



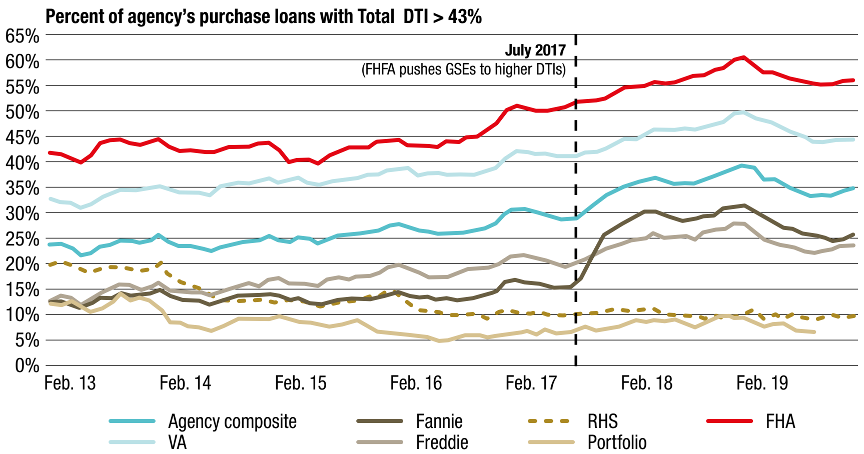
Source: AEI Housing Center, www.AEI.org/housing

the gap in the MRI between both agencies has again narrowed, due to the de-risking efforts of FHFA. A much smaller gap between Fannie and Freddie remains. As this gap has narrowed, Fannie's market share of the GSEs has been declining and now stands at 53%, down from 60% in November 2017. (Figure 7)

Agency purchase loans with total debt-to-income ratio (DTI) > 43%

Fannie's share of loans with a DTI > 43 jumped quite dramatically after its policy change in July 2017. Freddie expanded this share more gradually. From the data, July 2017 appears to be the last month entirely unaffected by the expansion in DTIs. This will allow us to compare outcomes pre and post this date. (Figure 8)

FIGURE 8



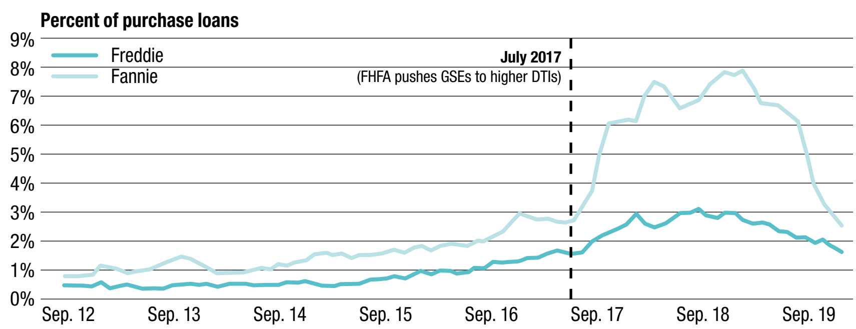
Note: Data pertain to purchase loans for primary owner-occupied properties. Date for the portfolio line come from LLMA and McDash after removing duplicative loans. The data are unweighted to extend the series beyond 2018. Weighting by loan amount buckets and organisation year using HMDA yields very similar results. The portfolio series is not shown for the most recent months to allow sufficient time for portfolio lenders to sell loans to the GSEs.

Source: AEI Housing Center, www.AEI.org/housing, CoreLogic, and Black Knight.

GSE Purchase Loan Risk Layering

Risk layering occurs when at least three of four risk factors are present at origination. Risk factors include: Credit score < 660, DTI > 43, Combined Loan-to-Value ratio (CLTV) > 95%, and 30-year loan term. The number of risk-layered loans rose dramatically beginning in July 2017 as FHFA pushed the GSEs towards higher DTIs. A new policy initiative by the FHFA has led to the reduction in high DTI and CLTV shares and a reversing of the upward trend. As of November 2019, the GSEs are back to their levels before they started extending DTIs. However, more work remains to be done. (Figure 9)

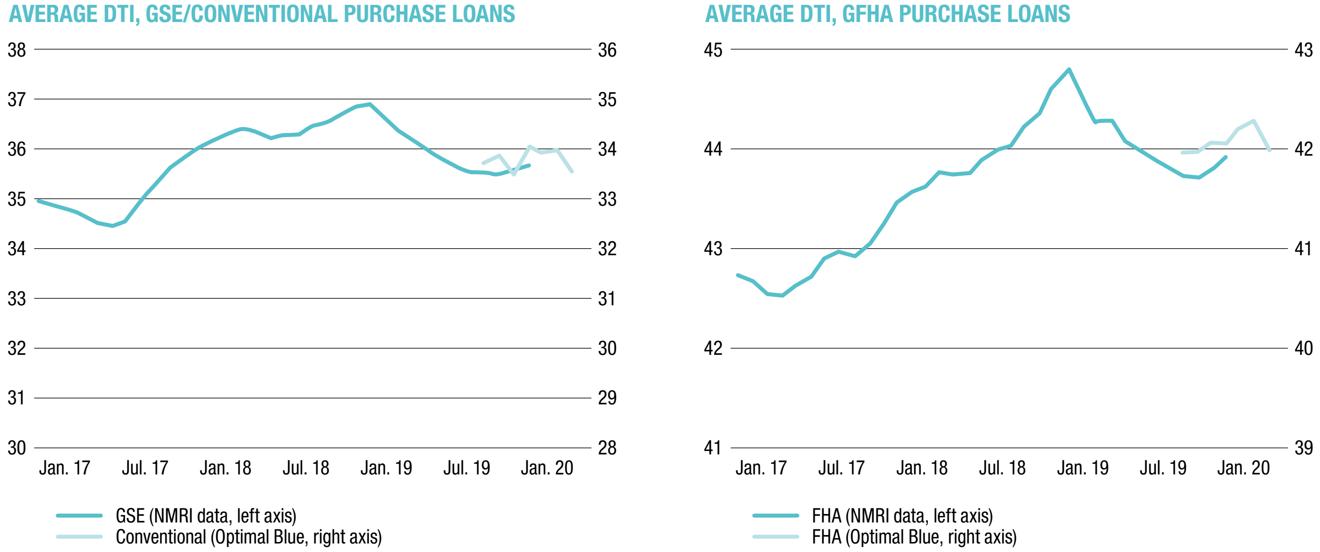
FIGURE 9



Note: Risk layering is defined as having at least 3 of 4 of the following features: Credit score < 660, DTI > 43, CLTV > 95%, 30 year loan term. Data for December 2019 are preliminary.

Source: AEI Housing Center, www.AEI.org/housing

FIGURE 10



Note: Rate lock data are lagged one month to account for time lapse until closing. The rate lock data cannot distinguish GSE from Conventional loans. Not all rate locks will eventually be originated and the rate lock data are a bit noisier the the NMRI data. Nevertheless, these data provide a useful glance 3 months into the future.

Source: AEI Housing Center, www.AEI.org/housing, and Optimal Blue.

Outlook on DTIs

Overlaying rate lock data from Optimal Blue with National Mortgage Risk Index (NMRI) data for FHA and the GSEs/Conventional lending show that the GSEs appear to have ended their efforts to reign in abnormally high DTIs. For FHA, the data indicate that this effort has also ended and may even be reversing. (Figure 10)

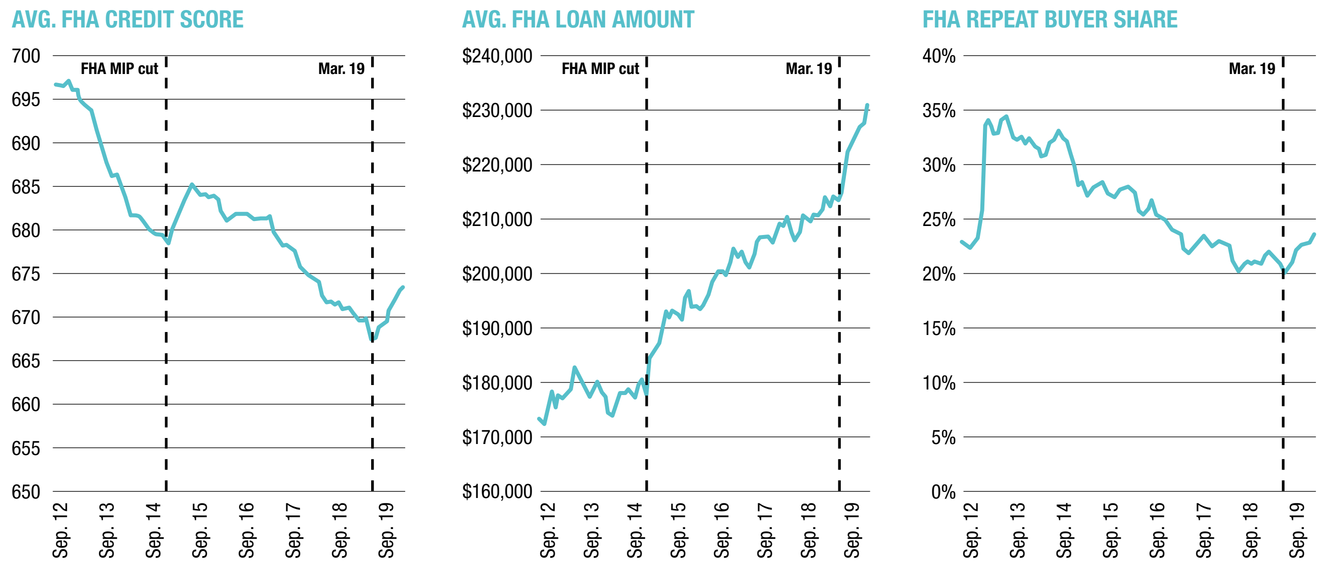
FHA share of Purchase Loans with CLTV > 95%

The GSEs, and mostly Fannie in May 2019, have started to vacate the > 95% CLTV business, which has allowed them to de-risk their lending. The > 95% CLTV business had traditionally been reserved for FHA until both agencies were forced by their regulator to aggressively reenter this market. While Fannie has reduced its footprint, the overall size of this segment has remained unchanged.

The Changing FHA business

Over the past 6 months, FHA's business has been picking up higher quality borrowers vacated by Fannie. This is a significant trend reversal. A similar trend reversal happened when FHA cut its mortgage insurance premium (MIP) in Jan. 2015 and poached massively form the GSEs. Once again FHA's average credit score and loan amounts are up, as is its share of repeat buyers. (Figure 11)

FIGURE 11



Source: AEI Housing Center, www.AEI.org/housing, and FHA Production Report.

FHA origination shares by lender type

FHA also announced changes to the False Claims Act at the end of October. While JP Morgan is considering returning to the FHA business, it and other banks will have a high hill to climb before they are competitive with nonbanks. On the purchase side, the large bank MRI remains about 5 bps below the nonbank's MRI. On the refi side, banks have entirely vacated the FHA sphere.

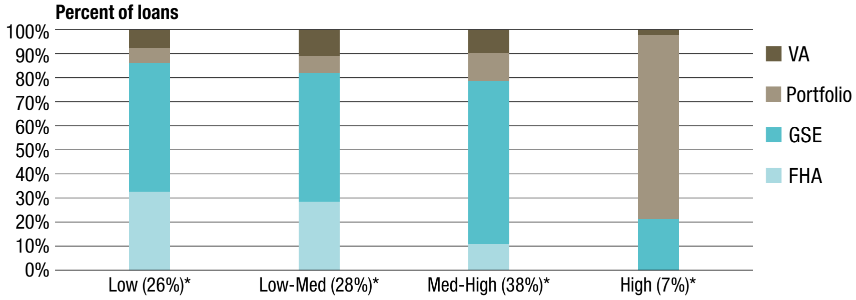
Market shares by guarantor type and price tier: 2018 purchase loans

To better track house price trends, we divide the market into 4 leverage-based price tiers. In the low and low-medium price tiers, FHA accounts for over a quarter share in each, while together FHA and the GSEs have a combined share of over 80%. The battle for market share between FHA and the GSEs is therefore largely taking place in these price tiers. Unsustainable constant-quality house price increases are the unfortunate consequence of this taxpayer backed battle. (Figure 12)

Share of high-risk lending by price tier

While the efforts of FHA and Fannie have led to a reduction in the share of high-risk loans in the low and low-medium price tiers, these shares remain elevated. Our other research has found that a high-risk share of 30% in a census tract is associated with faster home price appreciation than the county average. (Figure 13)

FIGURE 12



	PRICE TIER			
	Entry-level		Move-up	
2018	Low	Low-Med	Med-High	High
Mortgage Risk Index	16.0%	14.6%	8.8%	3.2%
Market Share*	26%	28%	38%	7%

* Market share of all institutionally financed home sales in 2018 by tier.

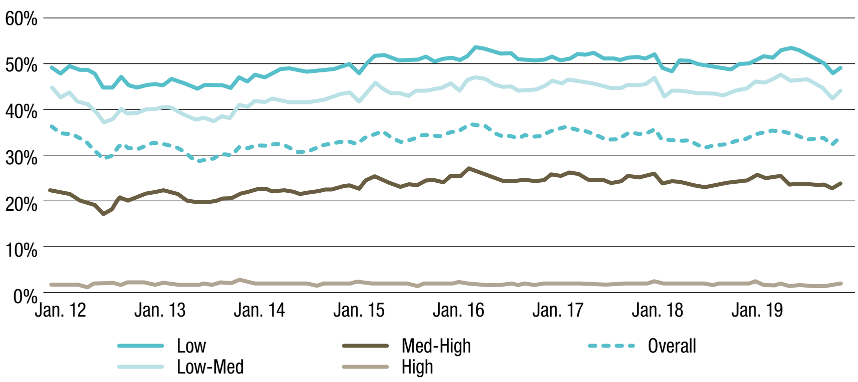
Note: Data excludes Rural Housing Service. In 2017, Rural Housing Service loans made up 3% of the low tier, 2% of the low-medium tier, and a negligible amount of the two upper tiers.

Price tiers are set at the metro level and are defined as follows: Low: all sales at or below the 40th percentile of FHA sales prices; Low-medium: all sales at or below the 80th percentile of FHA sales prices; Medium-high: all sales at or below the 125% of the GSE loan limit; and High: all other sales.

Source: AEI Housing Center, www.AEI.org/housing

FIGURE 13

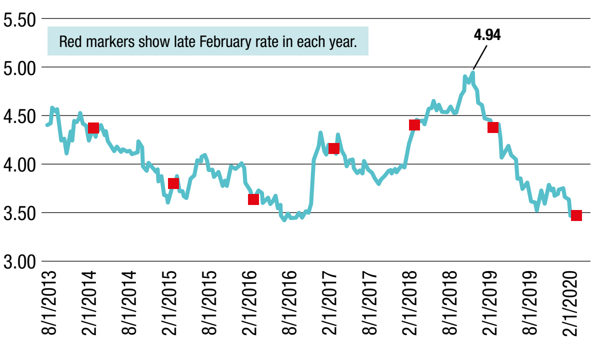
SHARE OF HIGH RISK LOANS BY TIER



Source: AEI Housing Center, www.AEI.org/housing, and Zillow.

FIGURE 14

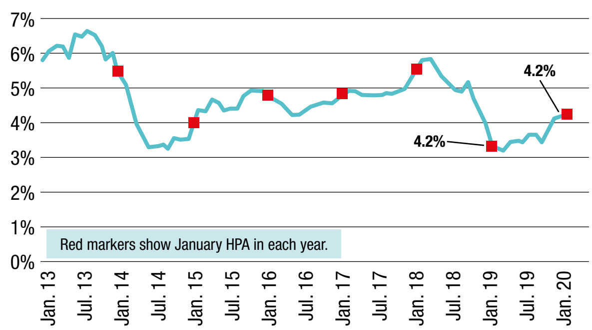
30-YEAR FIXED RATE MORTGAGE



Note: Data are for 30-year fixed-rate prime conventional conforming home purchase mortgages with a loan-to-value of 80 percent.

Source: Freddie Mac.

YEAR-OVER-YEAR RATE OF HOUSE PRICE APPRECIATION



Note: Data are the entire country. Data for January 2020 are preliminary.

Source: AEI Housing Center, www.AEI.org/housing

Dovish Fed = monetary punchbowl getting spiked again

The national rate of HPA for January 2020 was 4.2%. This is down from its recent peak of 5.8% in March 2018, but up from 3.3% in January 2019. Nationally, HPA is ticking up again due to faster HPA in traditionally more affordable metros. Rates, after having increased by 116 basis points from September 2017 to early November 2018, have since declined by 149 basis points. (Figure 14)

National house price appreciation [HPA] by price tier

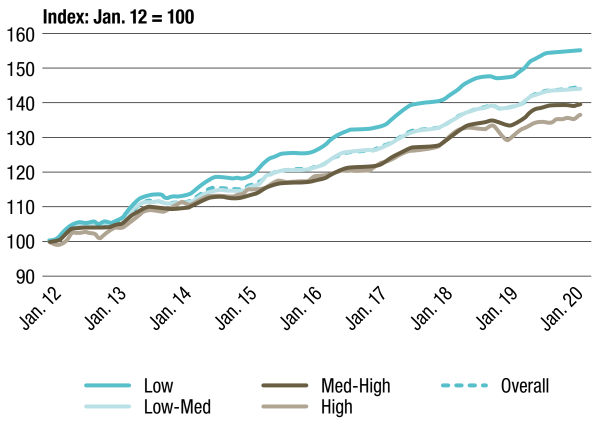
In January 2020, overheating of the low-price tier continued (right panel). HPA in the low-price tier was 5.2% year-over-year. In the low-medium and medium-high tiers, HPA was 4.0% and 4.5%, respectively. HPA in the high tier (about 7% share) increased significantly to 4.8% compared to a year ago. This tier was first hit by the Fed's tightening and is now buoyed by the Fed's loosening. (Figure 15)

Supply-demand imbalance is greatest in the low-price tier

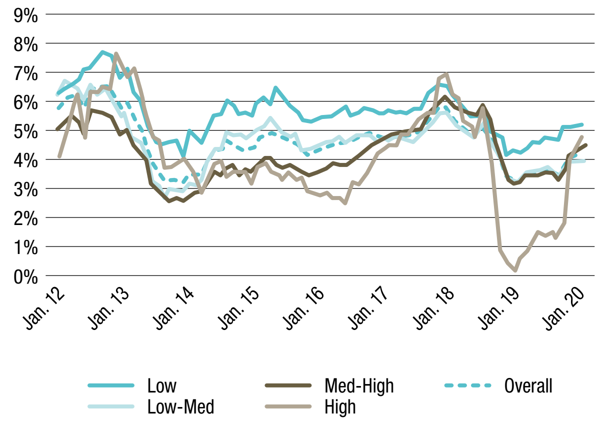
Months of remaining supply (available inventory of homes for sale at the end of a month divided by number of homes sold during the same month) in the market remains bifurcated between the entry-level (low and low-med) and the move-up (med-high and high) segments. From a year ago, months' supply has decreased at all price points except the low tier, and inventories remain historically tight, especially at the

FIGURE 15

HOME PRICE APPRECIATION BY PRICE TIER



YEAR-OVER-YEAR HOME PRICE APPRECIATION BY PRICE TIER

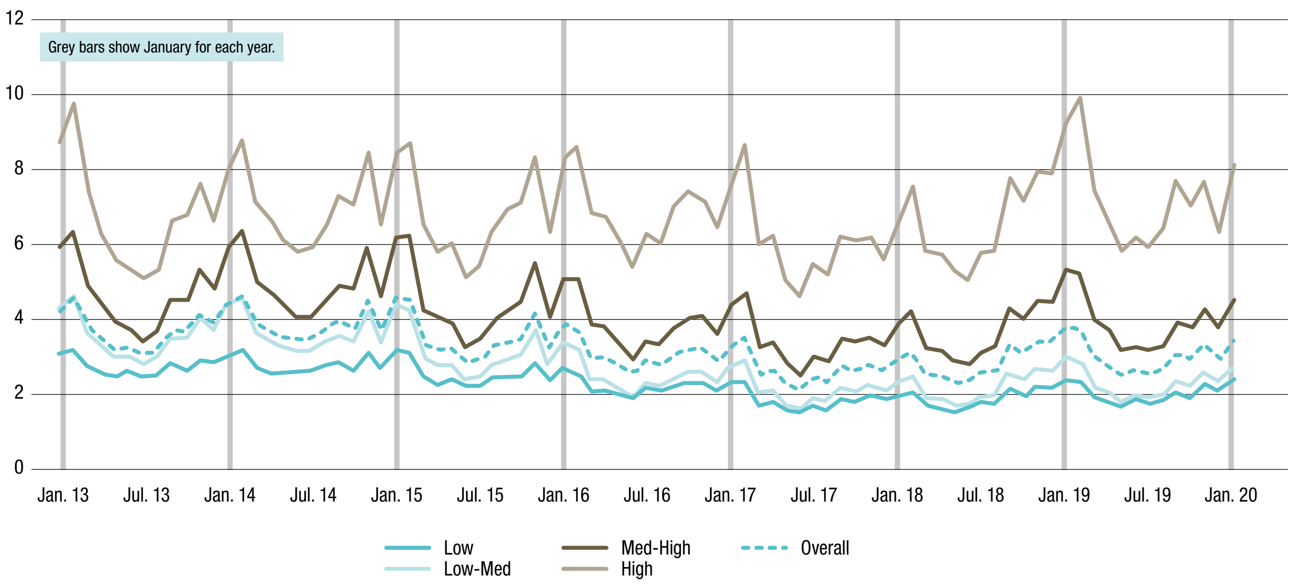


Note: Data for January 2020 are preliminary. Price tiers are set at the metro level and are defined as follows: Low: all sales at or below the 40th percentile of FHA sales prices; Low-Medium: all sales at or below the 80th percentile of FHA sales prices; Medium-High: all sales at or below the 125% of the GSE loan limit; and High: all orther sales. HPAs are smoothed around the times of FHFA loan limit changes.

Source: AEI Housing Center, www.AEI.org/housing

FIGURE 16

MONTH'S SUPPLY BY PRICE TIER



Note: Data are for over 2,200 counties representing approximately 95% of sales.

Source: AEI Housing Center, www.AEI.org/housing, and Zillow.

lower end. Therefore, the strong seller's market will continue, which implies that house prices will continue to increase and affordability to worsen. (Figure 16)

Comparing the supply-demand imbalance: 100 largest metros

Compared to December 2018, supply across the largest 100 metros has begun to tighten again. This applies to at all price points, which augurs further home price appreciation over the coming months.

Rural areas making a comeback

Since 2012, home sales and median purchase prices have increased as fast in rural American as in metropolitan regions. On average however, rural areas remain far more affordable/lower priced than metro areas. Increases in sales counts have also been similar for rural areas. Rural areas have consistently accounted for 11% of total sales. (Figure 17)

Rural areas making a comeback (cont.)

Rural America has traditionally had more available month's supply of inventory compared to metro areas. As a consequence, home price appreciation (HPA) in rural America has lagged HPA in metro America since 2012. However, since 2015 when market conditions started to tighten in rural America, the rate of HPA has been identical for both areas. (Figure 18)

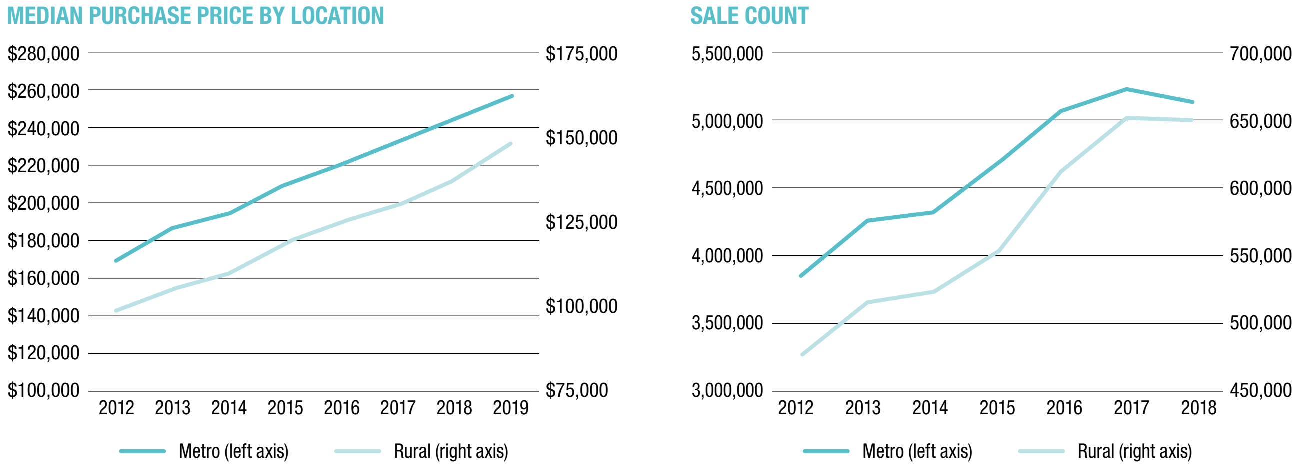
Measuring housing affordability: The Carpenter Index

The AEI Housing Center's measure of housing affordability, the Carpenter Index, was cited in this year's Economic Report of the President.

In Chapter 8, Expanding Affordable Housing, the report suggested that the Carpenter Index could be used to measure the nation's housing affordability problem, and goes on to outline several of our key findings.

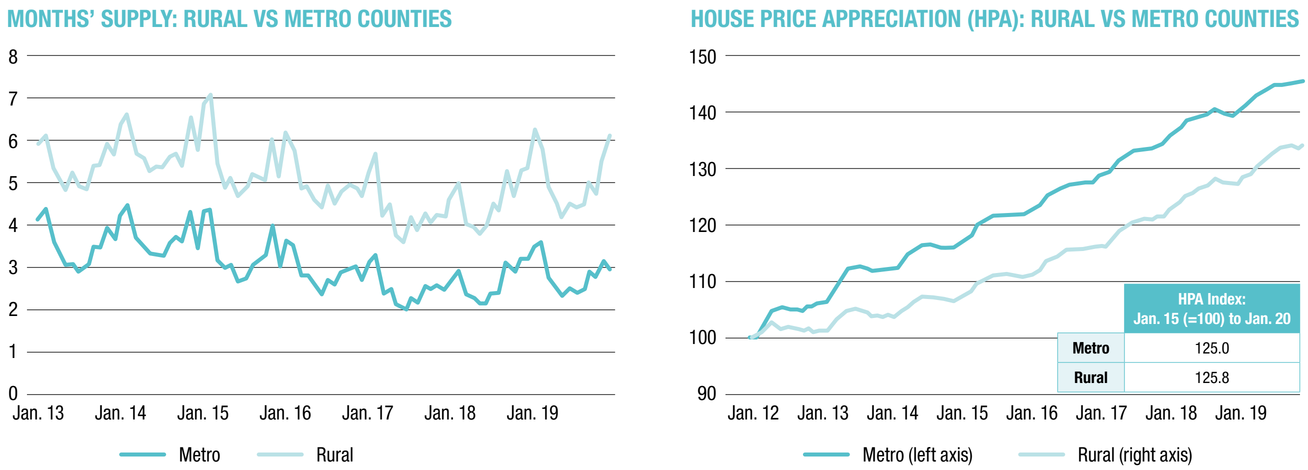
One way to assess the affordability of housing is to ask whether the people who build homes can afford to buy them. The American Enterprise Institute's Carpenter Index compares the average income of households headed by carpenters to home prices in a given area.

FIGURE 17



Source: AEI Housing Center, www.AEI.org/housing

FIGURE 18

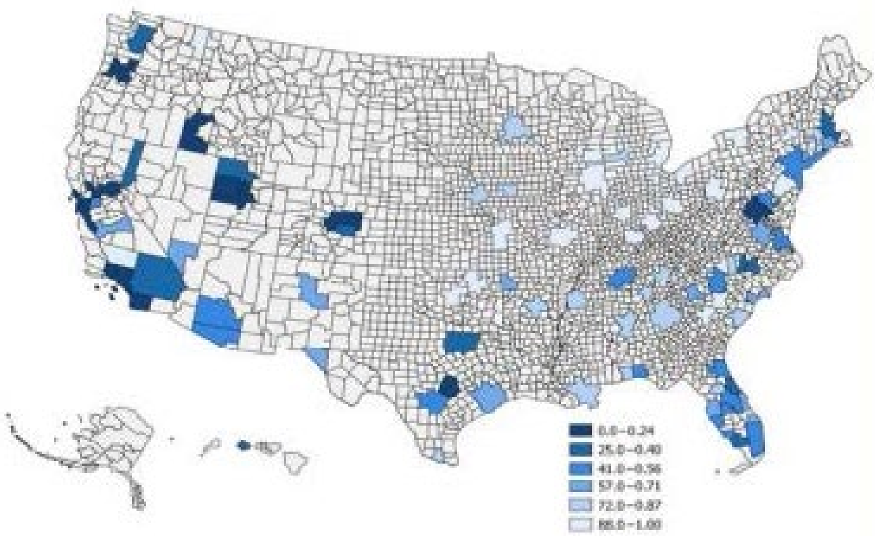


Source: AEI Housing Center, www.AEI.org/housing

If the price of a home is less than three times the carpenter's household income, then that home is deemed "affordable." For each metropolitan area, the index calculates the share of entry-level homes that are affordable to the carpenter.

Figure 8-i shows the share of the entry-level housing stock that is affordable for the 100 largest CBSAs, with the darker shades illustrating areas where housing is less affordable to the average carpenter. The average carpenter can afford only 6.5 percent of entry-level homes built in the San Diego–Carlsbad, California, CBSA; 8.2 percent in the Oxnard–Thousand Oaks–Ventura, California, CBSA; 10.3 percent in the Los Angeles–Long Beach–Anaheim, California, CBSA; 10.7 percent in the San Jose–Sunnyvale–Santa Clara, California, CBSA; and 11.8 percent in the San Francisco–Oakland–Hayward, California, CBSA–the five least affordable areas in the country. By contrast, the average carpenter can afford 100 percent of entry-level homes in the Chicago–Naperville–Elgin, Illinois–Indiana–Wisconsin, CBSA; the Pittsburgh, Pennsylvania, CBSA; the Saint Louis, Missouri–Illinois, CBSA; and a number of other areas in the Midwest. The index signals that the most expensive metropolitan areas are located in California and to a lesser extent the rest of the West Coast and the Northeast, while most of the affordable metropolitan areas are located in the Midwest.

FIGURE 8-I The Carpenter Index by CBSA, 2018



Note: CBSA = core-based statistical area

Source: American Enterprise Institute

Appendix 1: Indicators and Data

Mortgage Risk Index [MRI] – based on 41m purchase & refi loans

- MRI is a stress test, similar to a car crash safety rating or hurricane rating for buildings.
- MRI assesses default risk based on the performance of the 2007 vintage loans with similar characteristics.
- Goal: Monitor market stability through accurate, real-time tracking of leverage
- Series begins in September 2012.
- Data are for government guaranteed loans.

Historical MRI – based on 92m purchase loans

- Covers a quarter century of mortgage risk

Home sales – based on 37m home sales

- Data measure home sales for entire nation and include property and borrower level data.
- Series begins in January 2012.

Supply/Demand – based on over 2,200 counties

- Data measure months' supply at metro and county level.
- Series begins in 2013:Q1.

New Construction Sales – based on 3.8m new construction sales

- Data identify newly constructed home sales.
- Series begins in January 2012.

House Price Appreciation – based on 16m sales of existing homes

- Using a "quasi" repeat sales index
- Series begins in January 2012.

Appendix 2: Links to AEI data

Link to AEI National and Metro Housing Market Indicators to obtain metro reports

Link to AEI Mortgage Risk Interactive to create your own risk charts

Link to AEI State of the Nation's Housing Market, which provides local housing data

Link to House Prices and Supply Interactive with house price appreciation and supply data

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AEI Housing Center, www.aei.org/housing

Global perspectives on the affordability challenge: where is the innovation?

By Anaclaúdia Marinheiro Centeno Rossbach

1. Global commitments leading towards innovation?

In a scenario of increasing global pressures, the housing agenda cannot be addressed in isolation, it is fundamental that its interrelation with the habitat, the city, the society and the natural environment is not only understood but becomes common sense among housing developers, policy makers and practitioners in general.

Addressing housing in a holistic manner will have implications in terms of affordability but will require even greater attention to limitations and opportunities as observed by researchers and practitioners. It might imply that new business models and niches have to be explored and a deviation from the "traditional" way of providing housing will be the only way to address issues of affordability and convert the real needs of the majority of the population into effective market demand.

The road map for a more sustainable expansion of housing supply is given by a set of global commitments that were agreed upon by the world's nations during the years 2015 - 2016, as follows:

(i) The 2030 Agenda, or the Sustainable Development Goals, commonly known as the "SDG's;

(ii) The Paris Agreement, establishing a new course in the global climate effort; and

(iii) finally, the New Urban Agenda, or "NUA".

While the climate agenda is of more widely understood, awareness of the two other agendas is still limited within society, additionally the interconnections among environmental issues, housing and cities are still under-explored and deserve more attention in the short term. The World Cities Report reveals that there is a need to build 96,150 housing units daily through to 2030 – costing an estimated $650 billion per year, or US$ 9-11 trillion overall (UN Habitat, 2016). Even assuming a scenario of economic robustness to face this challenge, with all affordability issues well managed, this massive housing task will have a permanent impact on our planet. Its footprint needs to be carefully calculated and considered, therefore.

The Paris agreement doesn't show us the way out, but rather sets the alarm clock and calls for action among housing practitioners. On the other hand, the 2030 Agenda sets clear goals and targets and the NUA a robust road map of principles and mechanisms that if adopted by the public, private and social sectors will lead towards more sustainable development with

(i) housing at the centre of cities and its rural surroundings (urban-rural linkages);

(ii) and urban areas recognized as social and economic engines for long-term development.

There is a specific goal within the 2030 Agenda focusing on urban settlements and housing issues, despite all possible interconnection among housing and most of the 17 Sustainable Development Goals. The central goal to be observed is **SDG 11:** ***Make cities inclusive, safe, resilient and sustainable***; with **target 11.1:** ***By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums***.

According to the United Nations[1] the main facts and figures that supports this goal and target are:

- Half of humanity – 3.5 billion people – lives in cities today and 5 billion people are projected to live in cities by 2030.
- 95% of urban expansion in the next decades will take place in the developing world.
- 883 million people live in slums today and most them are found in Eastern and South-Eastern Asia.

Nonetheless, as mentioned, one could argue that an adequate global housing provision will help substantially to address the main planetary concerns such as poverty, access to water and clean energy, public health and hunger, education, gender equality, decent work and economic growth, peace and human rights, all reflected in the 17 SDG's.

A guide on how to implement the SDG 11, the New Urban Agenda builds on the experience and lessons provided by the most urbanized regions of the world. As the agreement was finally signed off in Quito, Ecuador during the Habitat III Conference, it carries strong baggage from Latin America and reflects the trajectory of the most urbanized region in the world (80%). It reflects the region's struggle to build institutions to deal with all interrelated challenges brought by the rapid urbanization process it went through in the last decades; and also, how the region took advantage of the opportunities inherent in migration dynamics and the expansion of urban settlements.

The New Urban Agenda makes the case for the local protagonist, not only the public local authority but also non-governmental and private sector stakeholders, as leaders of the development process; in a sense of co-responsibility in leveraging not only innovation and change, but also as key actors in building national urban frameworks of laws, policies, subsidies, investment programmes and institutions that will enable the environment at country level for local action. The NUA is people centred and concerned with human rights and the right to the city. It highlights principles such as the "social function of the land, property and city"; participatory multilevel governance; people at the centre; and "leave no one behind".

The combination of the three global agendas sets the basis for a new major trend, which takes housing beyond housing, towards a demand driven process with transformative

[1] Source: https://www.un.org/sustainabledevelopment/cities/.

effects for the traditional housing supply, adding a new perspective and integrating additional components with the traditional physical construction and housing finance framework. These are: socioeconomic development, urban integration and accessibility, availability of public and democratic spaces, gender equality & human rights, plus increased but balanced densities, within more compact but people and human-centred cities.

2. Some regional challenges

Putting aside the global and planetary pressures, which add an emergency stimulus to promote innovations in housing finance and supply, one must be aware of the heterogeneity of regional challenges, which innovation will inevitably have to follow.

Overall, there is an ironic imbalance between the availability of buildings and land in our cities versus the current housing needs and limited financial means of most of the population. Phenomena such as shrinking cities, and underutilized land and properties in urban areas, can frequently be observed, while almost 1 billion people live in slums, a number that is being debated but leaves no one in doubt as to its magnitude and urgent relevance. The dynamics of migration and effects of climate change are changing the shape of many cities and countries, requiring innovative and more sophisticated responses, adding a heavier weight to a chronic and dysfunctional housing picture and a conjuncture of major affordability concerns.

In North America and Europe vulnerability is expanding, with alarming growth in the figures for homelessness in cities, in which is a clear sign that subsidies and financial systems designed to push and leverage private sector companies are becoming obsolete, as they are failing to meet the affordability needs of the most impoverished citizens, and even more: there are perverse economic incentives to privatize public housing at municipality level. City planning culture and household formation is pressuring the natural environment and generating an increase of housing and land needs. Trends such as short-term tourism-oriented rental schemes are promoting gentrification and even evictions as permanent housing supply shrinks and prices increase, whether for rent of acquisition.

In Eastern Europe, due to directions and economic incentives from the European Union, there is a focus on the renovation of the housing stock, to make it more energy efficient and sustainable. However, the balance between individual ownership and collective maintenance efforts is still to be achieved.

China went through a transition between welfare and market housing in the 1990's, betting on housing as a main driver of economic growth, and as a key element in the design of a new financial system and architecture. This process was supported by a wide range of PPP schemes within a highly competitive environment among local and regional governments, which led to a trend of building "new cities" that would shelter resettled families (either removed from dilapidated settlements, or to make room for new infrastructure development). While resettlement took place on a large scale in China, the challenge of occupying new towns with mixed income households and overcoming the affordability gap in respect of market provisioned houses is still present.

Scandinavian countries and Japan are having to deal with their aging populations and the particular housing needs that these entail; how to provide adequate shelter options for beneficiaries of housing policies in their seventies with improved conditions of accessibility and sociability. In Japan whole cities are shrinking, with the younger sections of the population preferring to live in cosmopolitan and metropolitan areas; this is forcing the government to review its strategies and policies, creating incentives for the reoccupation of these settlements, but also paying more attention to the new challenges in the urban centres, where homelessness is emerging in new forms such as the net café refugees also known as the cyber-homeless.

In Eastern, Southern and Southern East Asia action to meet the challenge of urban poverty and slums is long overdue. Obsolete and centralized policies that focus on the provision of new greenfield housing are not able to provide an effective response, and the informal sector remains neglected and still growing in absolute numbers with approximately half a million people living in slums.[2] Despite some pilot and innovative efforts from private entrepreneurs, social organizations, development agencies and public institutions, large scale and effective systemic change is hard to achieve.

Equally, in Sub-Saharan Africa which is still going through a rural-urban transition, the challenge of addressing urban poverty and slums is considerable, within a context of a poor enabling environment at national level. There is still a long way to go to move from evictions and culturally accept informality as an important matter to be addressed instead of confining it to illegality. Nevertheless, there is growing interest from the private sector in responding to these needs and identifying ways of transforming need into effective demand, while some governments are setting housing and informal settlements as a political priority.

In Latin America and the Caribbean there are two clear faces to the housing picture. On one hand more urbanized countries have established an institutional framework that was only able to limit the general increase of slums but with large heterogeneity in the region (from the 1990s the number of slum dwellers by UN Habitat is floating around 110,000[3]), also reinforced spatial segregation through subsidized home ownership. On the other hand, Central American and Caribbean countries while still facing their (diverse) urbanization process, are still building institutions and suffering acutely the effects of natural disasters and climate change, plus the impact of new cross-border migration trends. Without doubt, Latin American cities are still the most divided, unequal and violent places on the planet, with increasing and new (different) housing needs.

The combination of the chronic and historically not addressed housing needs and new global trends such as climate change, migration and affordability issues will establish the background scenario for financial and housing innovation from now on.

3. More about affordability

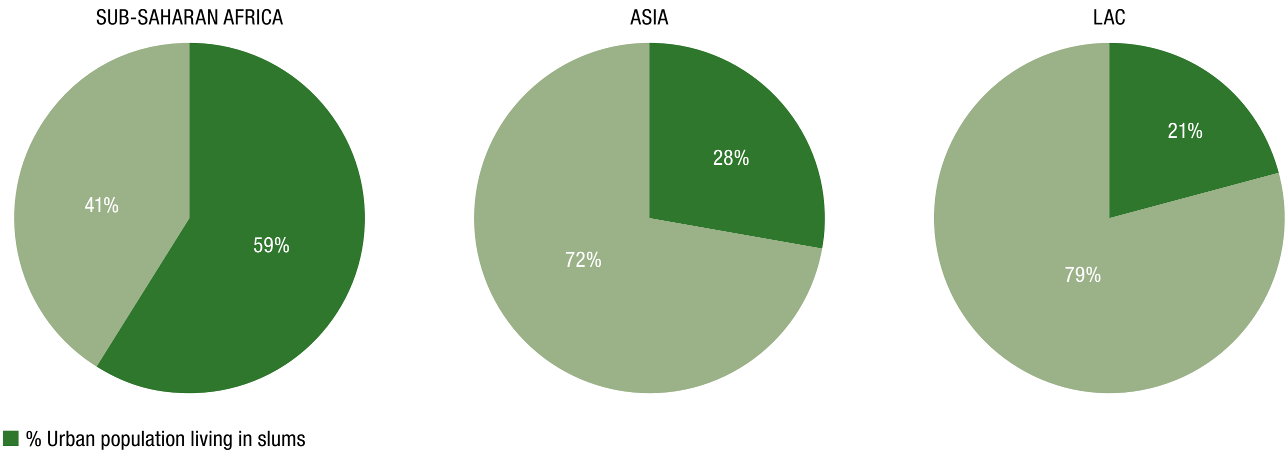
More voices are joining a chorus claiming that we are facing a housing crisis on a global scale, many researchers, scholars and activists are claiming that there is a mismatch in supply and demand generated through speculation led by the financialization of housing. Provision is targeted increasingly as investment and is not necessarily fulfilling its "social function", mainly in international cities in the global north, but also in other types of cities in both the northern and southern hemispheres as argued by Florida & Schneider (2018).

Urban poverty and informality are the new "normal" and despite their strong manifestation in the global south, even in the north they can be more and more perceived with the increase in informal dwelling situations and informal labour. Although the impact of migration has been of

[2] UN Habitat – World Cities Report 2016.

[3] UIdem above.

FIGURE 1 % Urban population living in slums



Source: UN Habitat, World Cities Report, 2016

great concern in the countries of North America and Europe, less is known about major issues which are emerging in Africa and Latin America, such as the expansion of precarious settlements and occupation of empty buildings and public spaces in urban centres. Johannesburg, São Paulo and Quito provide examples.

Informality affects affordability in many ways but at the bottom-line, without an address and a formal income it is very difficult for individuals, collectives and families to access the financial markets, ultimately to find a job and/or improve business and income. The big numbers that claim our attention are:

(i) almost 1 billion slum dwellers, and

(ii) 2 billion informally employed, corresponding to 61% of the population.[4]

Another face of urban poverty, the "visual homelessness" present in urban public spaces is being ratified by statistics. As an example, in the city of São Paulo in Brazil, the number of individuals approached in the streets by the municipality (a proxy for the actual number of homeless people) increased 66% in three years, going from approximately 63 to 105 thousand people between 2016 and 2019[5]. This situation also reflects the macroeconomic conjuncture and unemployment rates that might be of high impact in a city or country, nevertheless inequality at global level has been researched intensively in recent years, in terms of its roots and the impacts on economic growth and development.

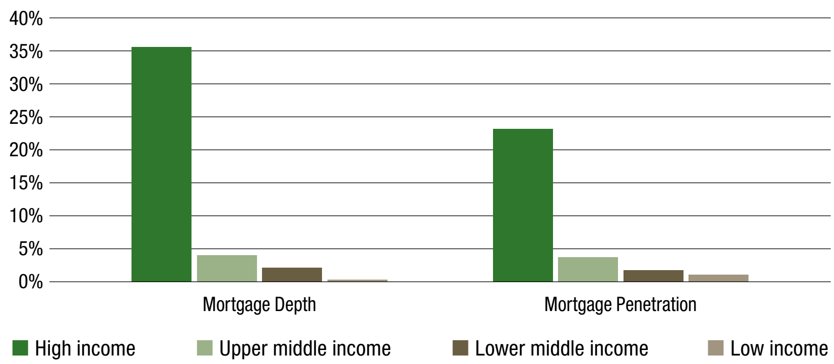
According to the World Bank, the challenge is stated starkly: 33% of the urban population (1.6 billion) will face the housing affordability challenge by 2025 (Cira, 2019). This becomes evident when looking at the data on the poverty headcount ratio set at $1.90 a day for the IDA[6] countries: 30.8% of total population. If one increases this threshold to $5.50 a day the percentage of the population in IDA countries reaches 83.3%.[7] The $5.50 figure equates to an average monthly income of USD 165, or an annual income of less than USD 2,000, equivalent to less than 7% of the price of the cheapest newly built house in half of all African countries; approximately USD 30,000 (CAHF, 2019).

These figures expose the economic fragility of the world's poorest countries located in Africa, Latin America, East and South Asia, Europe and Central Asia, Middle East and North Africa. The average growth rates of real per capita income of the bottom 40% was 1.7% during 2010-15[8]; the perspectives are not optimistic in terms of increasing effective demand.

There is also a clear mismatch in terms of housing needs and development of housing finance markets, meaning that depth of mortgage markets does not necessarily follow urban growth rates.

While mortgage depth averaged 40% in high income countries (2006- 2010), it averaged 5%-10% for middle income nations and less than 1% for low income economies, In contrast, projected urban growth rates between 2015 and 2050 are highest for low and lower middle income countries (Walley, 2014).

FIGURE 2 Mortgage depth and penetration across income groups



Source: Walley et al. World Bank, 2014

[4] Source: Slum Almanac 2015-16-UN Habitat & ILO

[5] https://www1.folha.uol.com.br/cotidiano/2019/06/em-dois-anos-sp-ve-salto-de-66-de-pessoas-abordadas-nas-ruas.html

[6] IDA is one of the largest sources of assistance for the world's 76 poorest countries and is the single largest source of donor funds for basic social services in these countries. Source: http://ida.worldbank.org/about/what-is-ida.

[7] Calculated from https://data.worldbank.org. Data for 2015 % population, 2011 PPP.

[8] Source: https://ida.worldbank.org/results/rms/tier1

In summary, we are facing a double affordability challenge in relation to housing, especially if we have to solely rely on traditional and market driven housing supply: there is an insufficiency of both

(i) financial systems capacity and outreach; and

(ii) income at household level.

4. Addressing the housing agenda: systemic innovation

Housing finance innovations to address affordability challenges are expected and welcome. In fact, financial products capable of expanding the whole system downmarket are required, and there are several examples of institutions that have managed to develop mechanisms to capture the financial capacity of low-income households, plus informally and self-employed individuals. CAIXA in Brazil is one good example. While its main source of funding is a worker's provident fund (contributions from the formally employed), loans and operations also include non-contributors, self-employed and informal workers, expanding significantly the outreach of mortgage loans.

INFONAVIT in Mexico operates a similar housing finance system also based on a worker's provident fund. INFONAVIT loans are target and restricted only to those who are formally employed. Nevertheless, the past trajectory of housing policies in Mexico clearly demonstrates the limitation of this model, with a significant percentage of the population left out of the housing finance systems and not able to get a loan and pursue home acquisition. Currently, as a result of a new political view, Mexico is experiencing a re-shifting of the financial model from individual and new houses towards urban renovation and home improvements. A progressive conceptual shift from traditional households of "nuclear families" towards 'non-family", "extended families", mixed situations, co-residents and individuals, outlines a whole different market niche and will most likely enable "non-traditional" housing arrangements. Also, loans will enable not only new housing acquisition, but also legal and technical assistance; progressive housing; home improvements; recognizing different types of properties, including "social and public estates".

The Mexican shift reflects an evolutionary process that went from massive housing production and deep changes in the financial model leveraging and calibrating subsidies in the 1990's towards new institutional arrangements, initially in 2006 with the creation of CONAVI[9] a national institution, strengthening and reviewing INFONAVIT's[10] role throughout the years and creating SEDATU[11] with a review of CONAVI's role in 2013. Finally, the legal frameworks were improved with the institutionalization of the "Right to the City" through new human settlements legislation[12] which was first approved in 2016.

Slum upgrading program at Community of Silvina Audi, Bernardo do Campo, Brazil. Photo:Fabio Knoll

The Mexican example is a good demonstration of systemic innovation, an evolutionary process of learning that leads to new approaches to delivering and improving access to housing through changes in institutions, policies, laws, programmes, plans, and ultimately cultural paradigms. At the core is what is believed to be essential key principles in relation to housing: its recognition as a human right; its intrinsic relation to the urban environment and the social function of the city; the need to provide an adequate level of subsidies and appropriate financial products to reach the bottom of the pyramid; and finally respect for the natural environment.

In the global south, examples of innovations that reflects systemic changes are the review of legal frameworks with the introduction of the "Right to the City" or the element of social function of the land, property and city. Examples are the City Statute in Brazil, Law 388 in Colombia, and the Territorial Development Law in Ecuador. Also, countries like Paraguay, Indonesia and Mexico have recently developed new housing policies resulting from participatory processes. Slum upgrading and land regularization programmes at city and national level were introduced and have been progressively improved and institutionalized in Brazil, Kenya, Indonesia, South Africa, Argentina, Colombia, El Salvador, and Jamaica. Alternative housing solutions such as rental vouchers and assisted rental programmes have been piloted and are evolving in Chile, Brazil (São Paulo), Colombia, South Africa and Ethiopia. Cooperatives and collective housing schemes are a key mechanism of the housing policy in Uruguay, El Salvador, the Philippines.

In the global north there are interesting innovations at subnational levels aiming to expand housing supply downmarket: rent control mechanisms and security against evictions have been put in place in the city of Berlin and in the state of California; and in Barcelona the municipal authority established a reserve of 30% for social housing for both greenfield and urban renovation projects.

5. Land is key

It is certain that land represents the most significant factor in the provision of low-income housing, being simultaneously the biggest bottleneck and the enabler for improving both quality and scale. According to the MacKinsey Global Institute analysis, unlocking land supply is one of the four levers[13] that can narrow

9 Comision Nacional de Vivienda, launched in 2006.

10 Instituto de la Vivienda para los Trabajadores, established in 1972.

11 Secretaria de Desarrollo Agrario, Territorial y Urbano (Secretary for Agrarian, Territorial and Urban Development), created in 2013.

12 LEY General de Asentamientos Humanos, Ordenamiento Territorial y Desarrollo Urbano, approved in 2016 and reviewed in 2020.

13 Other levers are development (taking an industrial approach), operations & maintenance (achieving scale efficiency), financing (reducing cost, expanding access).

the affordability gap, with 8 to 23% impact on the total cost of the housing (McKinsey Global Institute, 2014). However, it is almost certain that in well located urban areas provided with adequate levels of services, public spaces and infrastructure, this percentage increases exponentially, making the production of low-income housing not feasible at all due to the high and unaffordable land prices.

In order to tackle the land challenge, making effective its "social function", governments at city and national levels are rethinking planning and policies that aim to promote the use of empty and underutilized properties in urban areas, with strategies to achieve densification and compactness. In the Latin American region, a series of debates among key stakeholders generated a conceptual narrative in favour of densification considering the different territories in the city: Informal & precarious settlements, Urban Centres, Peri-urban centres, Urban peripheric zones (Lab oratorio de Vivienda, 2019).

In Chile, the National Urban Development Council (multi-stakeholder governance mechanism) has recently put into debate the issue of balanced densification which resulted in a new policy framework orienting cities on adequate densification levels (understanding there is no right or wrong) in relation to the surrounding urban, social, historic and natural environments.

Balanced densification policy – Chile

An **efficient densification**, avoids underutilization of infrastructure, controls the levels of densification in areas where infrastructure is already overloaded, and promotes mixed uses of urban land.

An **equitable densification**, promotes access to the opportunities of the city in an affordable way to all its inhabitants, considering the socioeconomic and demographic characteristics of the families that demand well located housing.

A **harmonic densification**, which drives the sustainable use of urban land and public space through the urban form and its mechanisms of design and interaction with the neighbourhood in which it is inserted.

A **cohesive densification**, one that puts people at the centre and encourages good relationships between communities – both among those who live in densification projects, and with the residents receiving these projects – reduces conflict situations and strengthens social capital.

Within this framework, the definition of **Balanced Densification** is proposed by the **National Urban Development Council** (governance mechanism) as "a process of urban growth that increases the intensity of land use and that is both efficient, equitable, harmonious and cohesive". (Consejo Nacional de Desarrollo Urbino, 2019).

The City of São Paulo introduced a series of elements in its participatory master plan in 2014 combining densification strategies with mechanisms to expand low income housing supply.

São Paulo – participatory city Master Plan (2014)

Densification around medium and high capacity public transport axes were promoted. In these areas, private developers can build high rise buildings, with mixed uses and smaller apartments, in order to leverage densities in areas well served by public transport. In return, developers must pay fees to an urbanization fund that allocates 30% of the resources for the purchase of well-located land – and classified as ZEIS (social interest zoning) – for the construction of social housing. Additionally, in those areas and, mainly, in the city centre, empty or underutilized buildings were notified that they were at risk of progressive increases of property taxes (2,000 properties were notified, about 2 million square meters of built area),some redirected to social housing (Lab oratorio de Vivienda, 2019).

6. More on innovation

The concept of systemic innovation requires changes and new approaches in several areas, the New Urban Agenda highlights the principle of "co-responsibility", meaning that all sectors, social and private, have a share of the responsibility to promote change and address the world's serious and emergent urban challenges. Going from pilots to policy and the other way around plus scaling up is necessary and no agent should be discarded when adding resources to tackle the pressing housing need.

By way of example, in Argentina, Habitat for Humanity (NGO) made the case for social rental areas in central and underutilized urban areas of Buenos Aires (Laboratorio de Vivienda, 2018). From a pilot project the NGO initiated a broader advocacy effort that involved other social organizations, development agencies, researchers and experts addressing public policy at city and national level with significant progress in

(i) mapping underutilized and empty estates;

(ii) developing a business model;

(iii) collect inputs for public policy and programming based on other experiences in Latin America; and finally

(iv) build societal and collective awareness, promoting a cultural change.

New building and approval standards: The Municipality of Guatemala approved in 2019 new regulations with lower standards in central urban areas for housing construction, such as dropping requirements for parking spaces and elevators (until 6 floors), promoting mixed use, among others. The main objective is decreasing initial construction costs, reducing therefore final housing prices to levels more tuned to available subsidies and the financial capacity of the majority.[14]

Another front of high expectations and innovations are the housing PPP's, which up to now only demonstrated a limited outreach with some initiatives in Mumbai, India and São Paulo, Brazil. In both cases land was demonstrated to be the key factor, nevertheless examples of success are limited to well-located areas and/or public land with a high level of subsidies and incentives. Additionally, robust guarantee schemes are required to capture the interest of market developers.

7. Conclusions

Integration and sustainability are, or at least should be, at the top of the housing agenda. As we are currently living in a world with pressing environmental and social challenges, innovation needs to be supportive of global commitments. Nevertheless, new approaches in business and policies promoting housing must be accompanied by and integrated with systemic innovation, otherwise impact and scale will be limited.

In order to advance, the housing agenda must be pushed at all levels of government and should be legitimately reflected in a real cultural shift at private and social levels, properly informed by practice-oriented research. Innovations at project (pilot) level need to be inserted in a broader evolving and improving

[14] http://www.muniguate.com/blog/2019/05/30/reglamento-construccion-vivienda-prioritaria/

Cantinho do Céu, slum upgrading project in São Paulo, Brazil.

scenario that includes policy, investment, subsidies & guarantees, financial systems and city-wide planning & social support.

The social function of land is a key factor in the enabling environment that must be addressed: regulations at national and city level are required, such as requirements for and land zoning for social housing, realistic building standards, and instruments to maximize the use of empty and vacant land in urban served areas. Land can also be a source of finance, as some successful land-based finance instruments were able to demonstrate, such as selling developers the right to build higher than regulation would normally permit, urban operations and taxation, among others.

In the global south slum upgrading that encompasses land regularization and home improvements is a big agenda to be tackled and can leverage innovative business models for all sizes of private sector and social enterprises, as well as public programs and policies. But overall, new housing is needed, and strategies for compactness and densification are being developed and should be encouraged, aiming to preserve the surrounding urban environment and rural areas.

Finally, it is nevertheless important to point out that the housing affordability gap is linked to limited household financial capacity. Innovations in housing finance linked to an enabling environment with adequate policies and regulations can help to reduce this gap; however if there is no change in income distribution, if poverty and inequality persist, this gap will necessarily have to be addressed by a robust subsidy model, which heavily affects countries fiscal capacities and increases the probability that the housing challenge will remain and continue to be present over the long term.

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NOTE FROM THE AUTHOR: This paper was conceptualized and written before the outbreak of covid19 was declared a global pandemic, which consequences are still not measurable. Under this scenario of severe public health threats, the effective adoption of global commitments became even more urgent in order to overcome the long overdue structural housing and infrastructure gaps.

Addressing the affordable housing conundrum: what role can pension funds play?

↳ **By Fiona Stewart**

1. Why is affordable housing supply a problem?

Providing affordable housing has always been a key development goal. But the need to close housing deficits has become more urgent and acute as upswings in demographic trends like urbanization and global inequality are posing an increasing challenge for policy makers around the world. It has been estimated that by 2025, one billion new homes will be needed worldwide at an estimated cost of US$ 16 trillion and in the same period a further 440 million households (or 1.6 billion people) would occupy crowded, inadequate and unsafe housing, or would be financially stretched.[1] 90% of global urban growth by 2030 will come from Africa, Asia, Latin America and the Caribbean. The challenge cannot be overlooked, and policy makers must seek ways to boost capital allocations to housing.[2]

2. Are public resources adequate?

The scale of the challenge indicates that governments cannot be left to cater to all housing funding needs alone and are now looking for private sector partners that can invest in the affordable housing supply. With increasing capital flows of US $1.1 trillion annually to developing markets since the global financial crisis [GFC] – and with the numbers expected to triple by 2030,[3] there is an opportunity to link these capital flows to affordable housing supply. In addition, domestic resources are available. By investing in housing, private sector investors can channel their investments to assets that help achieve their social goals whilst earning the risk adjusted returns which their members need.

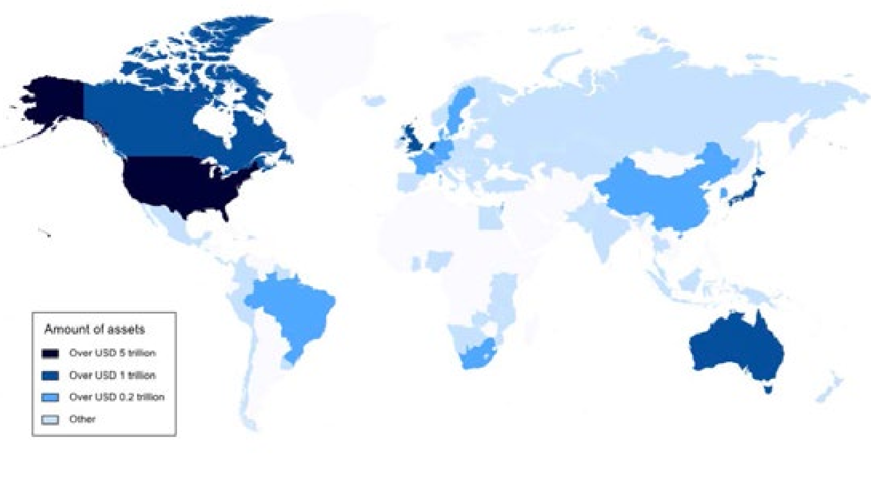
3. Where role can pension funds play?

With global assets under management [AUM] estimated at over USD $40 trillion as of 2018[4], pension funds have become an increasingly highlighted potential private sector source for financing housing needs. Besides the fact that the industry growth necessitates the need for stable, longer-term productive investments, the maturity profile of pension fund assets makes them potentially well suited to finance housing needs. Developing countries can also use this opportunity to mobilize domestic pension savings and mitigate the foreign exchange risk associated with foreign capital flows.

4. How sustainable is the availability of pension assets in the medium-to-long term?

OECD countries with a long history of pensions savings- such as USA, Canada, Australia, UK, Japan and the Netherlands – have the largest share of global pension assets. However, South Africa, Brazil and Chile are emerging countries with very significant pension markets. National pension reforms targeted at enhancing coverage, adequacy, efficiency, sustainability and diversification of pension systems globally will support expected asset growth.

FIGURE 1 Size of assets in funded and private pension plans in reporting jurisdictions, 2018 or latest year available, USD $ trillion



Source: OECD[5]

[1] Woetzel, J., Ram, S., Mischke, J. Garemo, N. & Sankhe, S. 2014. A blueprint for addressing the global affordable housing challenge. McKinsey Global Institute, October 2014

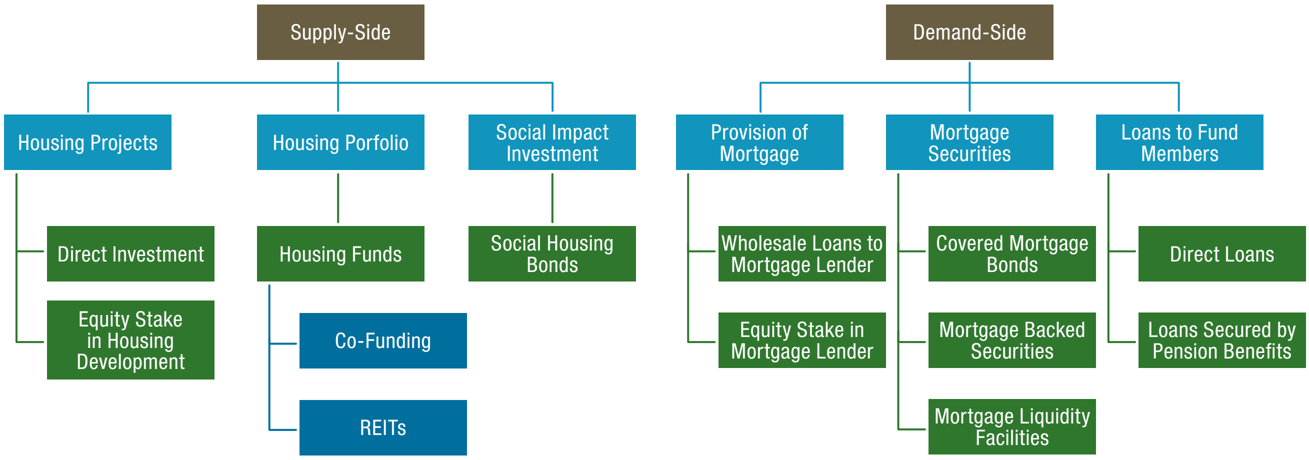
[2] UN-Habitat. 2015. *Housing at the Centre of the New Urban Agenda*. United Nations Human Settlements Program, Position paper, October 2015

[3] OECD 2016 https://www.oecd-ilibrary.org/blending-public-and-private-funds-for-sustainable-development_5jlwlqccrpjj.pdf

[4] OECD 2019, 'Pension Markets in Focus' http://www.oecd.org/daf/fin/private-pensions/Pension-Markets-in-Focus-2019.pdf

[5] OECD Pensions At A Glance data available via following link: http://www.oecd.org/finance/private-pensions/pensionmarketsinfocus.htm

FIGURE 2 Investment Opportunities for Pension Funds



Source: (Sing, Stewart, Whalley 2018) [7]

5. How accessible is housing investment to pension funds?

In some cases, there is a misconception that housing investments are inaccessible or inappropriate for pension funds. In practice, there are multiple avenues through which pension funds can invest in the housing sector. 'Supply side' investment opportunities range from direct investments in housing projects or investments in housing developers, to investments in housing funds or social housing bonds. For example, pension funds in the UK have been active financers of social housing projects through housing associations. 'Demand side' investment opportunities include a range of investments in mortgage securities - whether covered bonds, mortgage-backed securities or via bonds issued by mortgage-liquidity facilities. The pension funds in Nigeria have been active purchasers of the bonds issued by the Nigeria Mortgage Refinance Company (NMRC).[6]

6. How much do pension funds invest in housing?

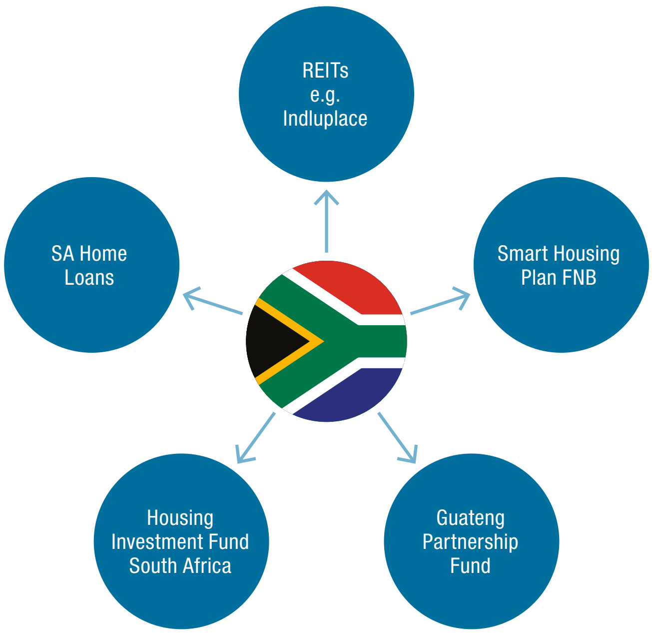
However, the supply and demand sides of the equation do not fit together as neatly in practice as on paper. Given they are a natural fit for the type of investment instrument pension funds need, it is surprising to find how little investment in housing pension funds actually undertake. Most pension funds, quite rightly, still invest the majority of their assets in traditional asset classes such as equity and bonds.

Allocations to alternative, real assets, such as land and real estate are often limited – even more so when it comes specifically to housing – though data on actual amount of pension investments in housing is still rather opaque.

That said, there are a number of countries which have actively and successfully unlocked private capital to boost affordable housing supply – South Africa being one. The country has taken giant strides in creating and using instruments including Mortgage Bonds, Wholesale loan, Securitization, Housing funds, Direct Investment, Equity stake and Pension Backed Loans to provide affordable housing.

It appears as though some inroads are already being made in linking invested pension fund assets with investments in housing developments in specific developing economies. Nevertheless, it is also evident that there remains significant potential for more

FIGURE 3 Housing investment by South African pension funds



Source: (Sing, Stewart, Whalley 2018)

[6] Pension fund members in various countries may also use their own pension savings to underwrite housing loans to finance their own home purchase.

[7] Sing, L., Stewart, F., Walley, S. (2018), *'Housing Finance: Investment Opportunities for Pension Funds'*, World Bank publication

investment by pension funds in housing-related instruments.

There are, therefore, several critical observations as to when the 'stars are aligned' and pension funds can invest in the housing sector.

7. Pension system considerations

A fundamental requirement determining whether pension funds invest in housing is the prevailing legislative and regulatory framework in a jurisdiction. An inadequate legal and regulatory framework governing alternative investments has been cited as one of the major reasons for a lack of pension fund investment in housing. Special purpose vehicles and other specific investment instruments had to be created in Latin American countries such as Mexico, Peru and Chile to enable domestic pension funds to invest in the sector. [8 and 9]

Furthermore, the generally accepted and commonly applied investment mandates adopted by pension funds' board of trustees, also play an important role in determining the acceptability of investing in housing. The nature of the mandates that are ultimately adopted as common practice are often shaped by national policies, the quality of the information available to pension funds about housing investments or directed by the needs (for example, for access to housing finance) articulated by the fund membership. Pension fund trustees are also conservative and generally prefer to invest in commonly accepted vehicles and sectors. In the case of housing, there is often a dearth of knowledge about housing markets. This lack of familiarity with the vagaries and risks associated with housing investment either persuades funds to avoid investment in housing altogether or to make housing investments without fully appreciating the associated risks. Therefore, the need to expand information flows to inform and educate both funds and their members is an area that requires attention. Most information, training and partnerships for trustees will be needed the riskier the housing instrument they move into.

8. Size of the pension fund industry and of individual pension schemes

Many economies with the greatest housing needs are not supported by a sufficiently large or robust pension fund sector that could drive meaningful investment in housing. Low pension coverage of the workforce constrains overall involvement in housing. At a scheme level, some funds may not have the capacity to evaluate and manage housing investments or may not be in a position to withstand the sometimes-uneven performance of housing investments, or to manage any inherent risks that may arise from housing investments.

The typology and liquidity requirements of the pension scheme. Thus, key considerations when defining the regulatory framework and designing investment instruments are:

- How the benefits are determined, i.e. whether the fund is defined benefit [DB], defined contribution [DC] or a hybrid arrangement. DB schemes are usually large, have a closed membership and have to manage their liabilities over decades. This means that they are better placed to provide long-term, illiquid funding than DC schemes. Other factors, such as the average age of participants in the pension scheme.
- How the benefits are financed, i.e. whether on a full or partial pay-as-you-go [PAYG] basis or if they are fully funded (or capitalized) in advance.
- How free participants are to switch from one provider to another, i.e. whether the pension fund is open or closed.

Certain pension funds have a stated developmental mandate to contribute to broader social objectives or have a policy of impact investing[10], and these would be ideal institutions to approach to provide financing for housing. However, for the majority of pension funds, the primary objective of trustees and management is to maximise members' returns. Therefore, a 'carrot and stick' approach is required to either attract investment through incentives that promise some up-side or to use 'moral suasion' to actively persuade funds to participate. Whether the scheme is a public- or private- pension fund determines the monitoring environment within which it operates.[11] Typically, monitoring is more stringent for private schemes, as trustees are individually liable. Monitoring and regulation of public funds tend to be relatively lax and politically driven.[12] Therefore, the investment behaviour of public and private schemes differs. For instance, if there is a national policy to promote investment in housing, public schemes could be persuaded to direct investment to housing through political pressure, while a private scheme would be more reluctant to bow to political pressure.

For many emerging markets, the present demographic dividend[13] is an opportune time to invest more aggressively in housing. If the age profile of the fund tends towards a larger proportion of younger members, the fund is able to tolerate a higher risk investment strategy as the time to pay-out is further into the future, whereas funds with an older membership base tend to be more conservative. In addition, it is more likely that countries with a larger, younger population also have a relatively greater demand for affordable housing.

Employment volatility and mobility in firms or in an industry have an impact on pension funds' investment approach. The higher the likelihood of staff turnover, the more liquidity required by the scheme. Therefore, investments in housing (a more illiquid asset class) would better suit pension schemes catering to firms or industries with lower levels of staff turnover.[14]

In addition to taking into account the typology and liquidity requirements of pension schemes, they need to deliberate on, evaluate, manage and mitigate for the following investment risks:

- *Solvency risks* related to instrument issuers, be they companies or corporations developing projects, or financial agencies or banks that act as financial intermediaries,

8 Mutero, J., Bishota, M., Kalema, W. & Kaiira, D. 2010. *Mobilising pension assets for housing finance needs in Africa – Experiences and prospects in East Africa.* Finmark Trust, December 2010. Available online at https://housingfinanceafrica.org/app/uploads/Pension_assets_and_housing_Eastern_Africa.pdf

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10 Impact investing refers to investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.

11 Pallares-Miralles, M., Romero, C. and Whitehouse, E. 2012. *International Patterns of Pension Provision II – A Worldvide Overview of Facts and Figures.* The World Bank, Discussion paper 1211, June 2012. Available online at http://documents.worldbank.org/curated/en/143611468168560687/pdf/703190NWP0SPL000Box370035B00PUBLIC0.pdf

12 (Mutero et al, 2010).

13 Demographic dividend, as defined by the United Nations Population Fund [UNFPA] refers to "the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older). It is assumed that there is a boost in economic productivity when there are growing numbers of people in the workforce relative to the number of dependents.

14 *Ibid*

as in the case of securitized instruments or bonds or mortgage certificates.

- *Interest rate risks* in the case of fixed income instruments.
- *Market risks* associated with the intrinsic and specific risks of the housing sectors.
- *Liquidity risks* related to financing projects through debt instruments, which are usually long-term.[15]

9. Country-specific considerations

Proposals for accessing pension funds to finance the development of housing must be designed to mimic the pension fund savings profile of the specific country (and not see such investment as a generic panacea for all economies). Country-specific challenges, for instance, high levels of unemployment or where there is a high degree of informal business, must be factored into any decision to look to pension funds to finance housing development. As such, there is a need to develop innovative retirement products that could cater to this market. For example, 'pay-as-you-go' pension contributions for the unemployed or informally employed.

In jurisdictions where the need for large-scale and urgent housing developments is greatest, policymakers should strongly consider putting in place preconditions that attract foreign pension fund investment (because domestic markets would not be able to provide the required quantum of financing).

The existence of a well-developed capital market is an important precondition for the level of investment in housing, as capital markets facilitate the ease of financial flows and are better situated to match long-term funding requirements with the long-term profile of housing investments. Furthermore, the level of sophistication of capital markets also generally determines the range of investment instruments available and the pace of new investment product development.

To support housing investment, there is also a need for a well-developed housing sector. This would include role-players in the end-to-end housing value chain and depending on the market conditions would include, amongst other things – stable macroeconomic fundamentals, strong financial institutions active in capital markets and in the mortgage lending space, established developers and construction companies, vibrant home ownership and/or rental markets, robust registration, titling and administrative processes, political will and supporting policies to advocate for investment in housing.

10. What can be done to scale up pension investments in housing?

As urbanization increases, the potential magnitude of housing shortage suggests the importance of attracting and mobilizing private sector funding to support government backed schemes. It is understandable that housing and pension markets are at varying developmental stages and some countries with the largest housing gaps are yet to catch up with the growth in global pension markets. To scale up pension investments, policy makers can take numerous steps to help create an enabling environment – including:

- Developing robust pension markets that expand pension coverage across formal and informal sector workers to help boost available domestic savings.
- Flexible regulatory and legislative framework to support pension investments in alternative investments such as housing.
- Creating deep and liquid financial systems, capable of facilitating investments in housing products that meet the fiduciary duties of pension funds.
- Macro-economic policies that engender capital flows where domestic savings are inadequate.
- Housing sector development – including development of primary and secondary mortgage markets as well as institution of robust registration, titling and administrative processes.
- Creating an awareness of the benefits of housing assets amongst pension managers and trustees.
- Improving the availability of reliable data on housing investments.

Housing investment instruments could offer pension funds a, longer term asset class, which could complement and enhance existing investment strategies. However, for many emerging markets, significant work still needs to be done to create the ideal investment environment and lessons from practical experience (both good and bad) should be examined further.

Future research on this topic is warranted, including:

- The need for accurate and consistent quantification of the housing shortage.
- A more detailed breakdown of the types of investments being made by pension funds in what is currently categorized as 'land and would prove extremely helpful.
- Further quantitative data on how the different housing instruments have performed in different regions would be enlightening.
- A set of generic policies and guidelines for each of the housing finance instruments.

[15] (Philipps, 2011).

Green innovation for long-term affordability

By Lenore Cairncross and Eloshan Naicker

1. Introduction

The world's urban population is expected to grow by 2.5 billion people between now and 2050 with 68% of the global population to be urbanized by then, and much of this growth will be concentrated in emerging markets, particularly in Africa and Asia[1]. This influx of people into cities has the potential to improve the quality of their lives through access to economic opportunities, healthcare, education and other basic human needs. On the other hand, this also results in increased pressure on the environment, existing electrical, water, transport and waste management infrastructure, and the risk of creating slums and furthering the divide between rich and poor.

Growing economic challenges and pressures mean that fewer people have access to sufficient disposable income or can afford to own property. As urbanization expands, finding ways to provide accessibility to improved social facilities and standards and enabling property ownership is key to progress. To achieve long-term affordability, property developers and financial institutions must relook at their approach. There are numerous examples in emerging markets that demonstrate innovative and new methods to deliver housing and financial products. Improving affordability can be achieved in two ways: creating an enabling environment to make it more feasible for people to purchase or rent homes and reducing the operational costs of homes to increase access to disposable income.

According to IFC's report, *Green Buildings: A Financial and Policy Blueprint for Emerging Markets*, these interventions, which are already actionable today, lead to tremendous investment potential. Green buildings are a $24.7 trillion investment opportunity in emerging markets until 2030, with residential buildings accounting for the largest potential, with $15.7 trillion across all regions.[2]

The green building space is an ecosystem of innovation: be it through advancements in building technologies, legislative adaptation or creative financing models, the sector continues to rethink its typical approach and find answers to important questions as to how to house the masses, minimize impact on the environment and improve the accessibility and social standing of citizens. In the future, investors will look for assets that are climate-smart, efficient and sustainable, with green financial products opening the market to long-term economic, environmental and social benefits. Green financial products such as green bonds and green loans have enabled investors to match their investments with green assets, which include certified green buildings.

IFC, a member of the World Bank Group, is a multilateral development finance institution with a focus on engaging the private sector in emerging markets. Using over six decades of experience and working with over 2,000 businesses worldwide, IFC leverages its capital, expertise and influence to help the private sector end extreme poverty and boost shared prosperity. One of IFC's key focus areas is to promote climate adaptation and mitigation with a target of 35% of all investments to be climate related. IFC developed EDGE ("Excellence in Design for Greater Efficiencies"), a green building design software, standard, and certification system to support the expansion of resource-efficient buildings in emerging markets, which is now available in more than 160 countries.

The free EDGE software helps to determine the most cost-effective options for designing green within a local climate context. The standard can be applied to many building typologies and either new construction, major retrofits or existing buildings. To achieve the EDGE standard, a project must reach a minimum reduction of 20% in its energy consumption, water use and embodied energy in materials. EDGE certification has many advantages: ensuring that buildings are designed to deliver lower utility bills, improving the marketability and accountability of developers, and stimulating the financial sector to create innovative financial products that focus on greening the built environment. EDGE is an example of IFC's commitment to creating markets that are competitive, sustainable, inclusive and resilient.

2. Case Study: South Africa

South Africa has the second largest economy on the African continent with extreme levels of inequality and poverty. The backlog for housing is estimated at about 2.3 million and is growing by 178 000 a year[3]. Coupled with a growing middle class and urbanization, this gap has an impact on an already weakened energy production and supply system and recent drought scares reinforce the need to rethink the way housing should be delivered in the country.

In November 2015, IFC launched the EDGE program in South Africa with the Green Building Council South Africa [GBCSA], which is its local certification provider for homes. South Africa was one of the first countries where the EDGE program was launched and the first in Africa to promote the EDGE standard. Prior to the launch of EDGE, GBCSA had certified less than a handful of residential projects under their existing Green Star standard and saw the opportunity to promote the adoption of green building design methods in the residential sector through EDGE.

[1] World Urbanization Prospects, The 2018 Revision, (Department of Economic and Social Affairs (UN), 2019).

[2] IFC (2019) Green Bonds: A Financial and Policy Blueprint for Emerging Markets

[3] EDGE Green Building Market Transformation global program is generously supported by State Secretariat for Economic Affairs (SECO) and Government of United Kingdom

2.1. Green Property Fund Catalyzes Green Affordable Housing Projects

To help catalyze the first EDGE housing projects, IFC invested $25 million in the Green Property Fund of International Housing Solutions [IHS] for the construction of 6,000, EDGE-certified affordable housing units. As part of the transaction, IHS implemented smart meters in its residences and has been gathering data on energy and water consumption.

IHS, a private equity fund manager, has been financing and developing affordable housing projects across South Africa and is expanding into other African countries including Namibia, Botswana and Kenya. To date, the IHS has certified 5,491 affordable housing units through EDGE with another 1,568 units in the certification pipeline. Rentals start from R5,500 ($316) for a one-bedroom unit to R7,500 ($474) for a three-bedroom unit, with units comprised of a combination of rental stock and sectional title deeds. Energy and water-saving initiatives include solar water heaters, low-flow sanitaryware, reduced window to wall ratio, smart meters and construction materials with low embodied energy. Green improvements increased constructions costs by only 0.25 to 0.8%[4] and reduced operational costs by between 30 and 35% for energy and water consumption.

By using data from their smart meters for energy and water, IHS conducted a study on three EDGE-certified developments (Ravenswood, Candlewood and Goedeberg) that compared the results to a previous, non-certified development. The EDGE-certified units demonstrate how practical, sustainable building choices reduce energy and water consumption, which can be used to improve the marketability of residences to homeowners and renters. The EDGE-certified homes demonstrate the impactful cost savings for residents, which in some instances have translated to nearly one month of rent over the course of a year.

2.2. Green Social Housing through PPP Investment Model

The first example of EDGE certification being implemented in a social housing project in South Africa was Belhar Gardens Rental Estate, which was developed by the Madulammolo Housing Association [MHA] in the Cape Town Municipality of the Western Cape. The project was developed to bring low-income communities into major urban economic areas, and to promote spatial access to economic and job creation opportunities. The City of Cape Town made land available for development through a public-private partnership [PPP] model which included MHA, Nedbank, the South African Green Fund, Social Housing Regulatory Authority [SHRA] and the City of Cape Town. The project was financed through R120 million from the Affordable Housing Development Finance division of Nedbank Corporate and Investment Banking [NCIB] and South Africa's Green Fund. The Green Fund originated out of a PPP between the Development Bank of South Africa and the government's Department of Environmental Affairs.

	EDGE	CANDLEWOOD	GOEDEBERG
Energy Statistics			
EDGE Consumption Predictions (kWh)	200	321	422
Actuel Consumption Figures (kWh)	107	219	175
Savings (kWh)	93	102	247
	54%	68%	41%
Cost of Electricity (ZAR/kWh)	107	219	175
Average saving per month (ZAR)	**133**	**173**	**378**
Water Statistics			
EDGE Consumption Predictions (kL)	9	12	12
Actuel Consumption Figures (kL)	6	7	7
Savings (kL)	3	5	5
	69%	60%	56%
Cost of Water (ZAR/kL)	13.24	13.54	12.68
Average saving per month (ZAR)	**35**	**66**	**68**
Total saving per month (ZAR)	**168**	**239**	**446**
Total saving per year (ZAR)	**2,022 ($128)**	**2,872 ($181)**	**5,352 ($338)**

Source: IHS, 2020

TABLE 1 Belhar Gardens Development Costs

Development Costs	
ITEM	**COST (ZAR)**
Land Cost	15,000,000
Bulk Services and Infrastructure	41,593,445
Top Structure (Walls, floors, roofin, fittings and finishes)	151,620,000
Total Cost	208,213,445

Source: MHA, 2020

The project was developed to ensure delivery of affordable housing while ensuring high quality construction and resource efficiency standards with EDGE certification. The 629-unit Belhar Gardens project consists of 189 studio units, 230 one-bedroom units and 210 two-bedroom units. The studio units are aimed at residents with a monthly household income of between R2,713 and R5,500 and rented out at a cost of between R841 and R934. The one and two-bedroom units are targeted at residents with a minimum monthly household income of R6,032 or R8,105 consecutively, to a maximum of R15,000. On average, residents pay about R200 per month for electricity and R100 per month for water and sewerage.

TABLE 2 Belhar Gardens Rental and Utility Costs

Bachelor Unit	
Required Salary / month	R2,713 - R5,500 ($171 - $348)
Rental / month	R841 - R934 ($53 - $59)
1 Bed Unit	
Required Salary / month	R6,032 - R15,000 ($381 - $948)
Rental / month	R1,870 - R1,928 ($118 - $124)
2 Bed Unit	
Required Salary / month	R8,105 - R15,000 ($512 - $948)
Rental / month	R2,454 - R2,513 ($155 - $158)
Unity Costs	
Electricity	R200 ($12)
Water & Sewer	R100 ($6)

Source: MHA, 2020

[4] Green Buildings: A Finance and Policy Blueprint for Emerging Markets, IFC, 2019

Through implementing EDGE certification, the development has achieved a 41% improvement in energy savings, 30% improvement in water savings, and 36% savings in embodied energy in the materials. The resulting utility savings translate to increased affordability for residents. Some of the unique features of the estate include heat pumps for hot water, water flow restrictors and water meters. The estate is the first social housing project to receive EDGE certification from the Green Building Council of South Africa (GBCSA), IFC's local EDGE certifier.

2.3. Innovative Building Technology for Green Student Accommodation

The need for student accommodation in South Africa requires innovative thinking to house the growing population. Not only are students demanding safer, more cost-effective accommodation closer to their institutions, but environmental awareness is also starting to build into the consciousness. STAG African has responded to the need for efficient and lower-cost student accommodation by focusing on the actual needs of the students and creating innovative solutions. The Tygerberg 3 Student Residence has 200 bedrooms made up of 25 pods of 8 bedrooms and 2 bathrooms, connected to a common kitchen area and social room. It was constructed using Light Steel Frame [LSF] building methods which reduces construction time and maintenance costs without compromising on quality or the key needs of students.

The green design features and orientation of the student residences have led to an 89% reduction in heating and cooling costs. LSF walls use recycled steel and are 90% lighter than traditional brick and mortar construction, resulting in significantly reduced emissions caused by transporting material to the construction site. The energy demand has been reduced through the installation of LED light fittings throughout and a combination of heat pumps and solar heaters for hot water production. Timers have been installed on all showers and there is even a student food garden. The project is the first student housing development to achieve EDGE certification from the GBCSA.

In a government study, the cost of student accommodation was estimated at around R240,000[5] per bed and STAG African's Tygerberg Student Housing project shows that finding alternative building methods is key to reducing costs and construction times.

FIGURE 1 Belhar Gardens Rental Estate, Green Social Housing Project, Cape Town, South Africa

FIGURE 2 Nkosi Johnson, Tygerberg Student Accommodation developed by Stag African, Cape Town, South Africa

3. Case Study: Kenya

Kenya's potential cannot be overlooked: the country's GDP is projected to rise by 5.9% in 2020 with a stable economic outlook into the future. Within this positive context, the Acorn Group was formed in 2001 to provide project management and property development services across East Africa. Financed by-Helios, a private equity firm, Acorn's strategy focuses on developing and managing purpose-built rental accommodation for young people in Nairobi. Acorn issued a green bond that was the first in Kenya, dedicating the use of proceeds to EDGE-certified buildings. The government is now considering making the interest from green bonds tax exempt, which should further stimulate the market in this growing financial mechanism.

In 2018, the Acorn Project Two LLP was established as a limited liability partnership, with the purpose of issuing notes under the Medium-Term Note [MTN] programme transaction. The green bond follows the Green Bonds Principles and Social Bonds Principles as promulgated by the International Capital Markets Authority. The bond has issued its first MTN of 4.3 billion shillings ($42.5 million) to fund green student accommodation that will be certified with EDGE.

The continent has seen the issuance of five other certified climate bonds in South Africa, Morocco and Nigeria, which have been focused on renewable energy production and transport, water and waste infrastructure and minimal issuance to the building sector. Kenya is the first country to issue a bond dedicated to greening buildings and since then there is a growing interest in

[5] Report of the Ministerial Committee for the Review of the Provision of Student Housing at South African Universities, Department of Higher Education and Training, 2011

other African countries. Kenya's green bond intended for green buildings echoes the interest in similar structures from Colombia, Indonesia and Mexico. IFC is collaborating with the Climate Bonds Initiative, a leading NGO in the green bonds space, to bring even more awareness to the investment possibility.

4. Case Study: Philippines

The Philippines has a housing backlog of 3.9 million units and even with the current housing delivery figures of 200,000 units per year, this backlog is still predicted to exist beyond 2030.[6] To address the backlog, numerous policies and programs have been developed and implemented. The Social Housing Finance Corporation [SHFC] is an administrative body created by the government and mandated to uplift the living conditions of underprivileged communities through providing resilient and quality housing solutions in partnership with the national and local government, as well as civil society organizations and the private sector. By 2022, SHFC aims to provide 530,000 organized homeless and low-income families with Flexible, Affordable, Innovative, and Responsive [FAIR] shelter solutions for their housing needs.

One example of successful housing delivery is the partnership between Imperial Homes Corporation [IHC] and Connovate Philippines Incorporated. The Connovate construction system was developed in Denmark to allow two-bedroom units to be constructed in half a day. It uses a high-performance, concrete building technology with the benefits of improved insulation properties, quicker construction times and a lower carbon footprint. The collaboration with IHC resulted in the development of the Imperial Lifetime Home, which boasts a 100-year lifespan for materials and is solar powered. The applications for the homes are administered by the SHFC to ensure that housing goes to the neediest applicants.

FIGURE 3 Imperial homes builds low-income solar-powered homes in Philippines using Connovate technology

The EDGE-certified units have been designed to deliver a 32% reduction in energy use, 28% reduction in water consumption and 38% reduction in embodied energy in construction materials. In addition, the units are earthquake and fire resistant and the PV system produces more than enough electricity for the home, allowing the homeowner to sell electricity back to the grid. This is one of 10 communities that have been developed by IHC and are influencing other big players in the Philippine residential sector.

The collaboration of the public and private sectors in the Philippines has opened accessibility to affordable, quality housing at all income levels and most importantly at the lowest income levels which is where the majority of the housing backlog sits. Through innovative building technologies, construction times and cost are reduced, and the country can actively respond to the housing backlog while ensuring that future generations have access to quality homes that are self-sufficient and can withstand natural disasters.

TABLE 3 Climate bond issuance

COUNTRY	TOTAL CERTIFIED CLIMATE BOND AMOUNT ($)	USE
Kenya	41m	Buildings
Nigeria	71m	Energy, Transport, Water, Land Use
Morocco	117m	Energy and Buildings
South Africa	193m	Energy, Buildings, Transport, Water, Waste

Source: First Green Bond from Kenya: Acorn USD40m - Climate Bonds Certified, financing green buildings, Climate Bonds Initiative, Louise Patzdorf, 2019

5. Case Study: Vietnam

Vietnam has been one of the fastest growing economies in the world over the past two decades and as urbanization increases, 50% of the population is projected to be urbanized by 2040.[7] This rapid urbanization will require an additional 374,000 household units in the cities and increase pressure on existing infrastructure and resources.

In response to this, developers in Vietnam are evolving their approach to housing delivery. For example, Capital House Group [CHG] is leading the housing sector with sustainable, innovative and affordable housing projects. The Ecohome Phuc Loi Project consists of two 22-story residential towers made up of 646 EDGE-certified, three-bedroom apartments in Hanoi. The units are designed to reduce energy consumption by 29%, water consumption by 30% and embodied energy in materials by 39%. The upfront increase in capital expenditures was only 1% of the total construction cost. The towers include kindergarten, retail, sports and recreation facilities for residents, improving accessibility and quality of life.

In addition to emphasizing the importance of sustainable design, CHG has also included a stimulus program for prospective home buyers by offering them a 0% interest rate on their bank loan. This innovative approach won CHG

[6] Securing the Future of Philippine (CAHF, 2019) Industries: Housing, Government of the Philippines, Viewed: 11 February 2020

[7] IFC (2019) Green Bonds: A Financial and Policy Blueprint for Emerging Markets

the prize in the green building category of the IFC/Financial Times' Transformational Business Awards in 2018. The award honors businesses that have made a substantial, long-term impact on the way financial and non-financial organizations approach sustainable development, in line with the United Nations' Sustainable Development Goals.

6. Case Study: Peru

Established in 1983, San Borja is a rapidly developing residential district in Lima. The city has a population of over 110,000 and is expected to reach over 120,000 by 2021.[8] With an awareness of its impact on the environment and resource consumption, the city has developed and implemented a series of low carbon targets relating to the building sector, energy planning, transportation, urban function planning and environmental planning.

The city has passed an ordinance focused on building design that allows property developers to build two or three stories higher depending on the town planning requirements in specific zones. The buildings must be set back from the curb and planted with green roofs and gardens that must be at least 50% visible to pedestrians and EDGE or LEED certified. Developers must submit their proposed developments to the building control office and an assessment is completed to determine the extent of the relaxation of the town planning requirements; the greener the development the higher the relaxation.

The ordinance is transforming the housing market in San Borja. Over 1000 homes have been certified with another 800 units registered for certification. Densifying and greening the city means that more people can have access to efficient homes and improved access to amenities plus financial savings from reduced energy and water consumption. In addition, developers are seeing improved marketability of homes certified to internationally recognized standards. This innovative approach has resulted in the district winning the Creatividad Empresarial award from Mayor Marco Álvarez.

A similar height bonus ordinance has been adopted outside Lima in Arequipa and Cusco. Other districts of Lima, like Miraflores and Surco, have adopted a floor area ratio [FAR] incentive, whereby developers receive an additional 15 to 25% extra FAR if they certify with EDGE or LEED and include transparent fencing, waste segregation and bicycle racks. At a city level, innovative green regulatory practices result in inclusive development to ensure that all people at all income levels can have the benefits of urbanization without the detrimental impact of unsustainable resource consumption. IFC is tracking both fiscal and non-fiscal incentives by local and national governments on the EDGE website[9], while the Green Buildings Report showcases additional actions governments have taken for greater green adoption.

FIGURE 4 Municipal Governments in Peru Provide Height Bonus Incentives for Green Construction

FIGURE 5 Mexico's VINTE Creates Communities of Green-Certified Buildings, Financed by Green Bonds

7. Case Study: Mexico

Mexico has a population of approximately 120 million people with 80% of them living in urban areas, which is predicted to increase to 140 million people by 2050.[10] There has been a significant housing crisis in the major city centers which accommodate over 50% of all employment, as housing is available to only 19% of the population. These urban centers are densely populated, and the poorest people live in two-room units 12 m^2 in size, that are made of cardboard and planks.

As a response to the crisis, Vinte, one of the largest housing construction companies in Mexico, has developed a model that is technologically and financially sustainable. These

[8] Policy Review for APEC Low Carbon Model Town Phase 4 Final Report San Borja, Lima, Peru, Asia Pacific Economic Cooperation, January 2016

[9] https://www.edgebuildings.com/market-players/governments/

[10] Mexico, OECD Economic Surveys, January 2017

units are aimed at young working adults and first-time home buyers who grew up in informal housing conditions. Vinte has committed to certify 4,000 homes through EDGE and has issued an $800 million peso ($38,810,139) green bond as part of their commitment. The bond was 50% oversubscribed when it listed on the Mexican Stock Exchange, demonstrating the growing demand for green investments. The most interested parties were institutional investors, including Afores (Retirement Funds Administrators), development banks, insurance agencies, debt funds and private banks.

Private sector leaders in green building finance include Paladin Realty, a real estate investment fund manager that has been the source of over 1,900 EDGE-certified homes, as well as HSBC Mexico and Sabadell México, who are developing financial products to benefit both the developer and resident. In the public sector, INFONAVIT's Hipoteca Verde and the KfW-funded EcoCasa by Sociedad Hipotecaria Federal [SHF] have also developed financial products focused on financing green technologies. INFONAVIT includes a Green Mortgage Simulator, which at a high level, demonstrates the savings from green technologies as well as a database of approved suppliers and installers of green technologies.

8. Case Study: Colombia

Bancolombia, the largest commercial bank in Colombia, now finances certified green construction projects at rates of 0.5% to 1%, which is significantly below the typical 7 to 9% levels. The bank has seen so much interest that it has supplemented proceeds from an initial $117 million green bond with $175 million of its own capital, then issued a second green bond for $100 million, for a total investment program of nearly $400 million.

In launching its green construction finance product, Bancolombia engaged with over 300 property developers in 17 cities throughout the country. The aim was to create awareness through one-on-one meetings, digital marketing and an online knowledge platform offered to clients. In addition to new construction projects, the bank also offers green mortgages to home buyers who purchase EDGE-certified properties with a discounted rate of 65 basis points for the first 7 years of the loan. The Bancolombia model demonstrates how financial products and greening buildings can become the norm, given the right education and incentives. They plan to roll out the product in Panama and El Salvador, where they also operate.

9. Conclusion

Throughout the developing world, innovative and sustainable instruments and tools are transforming markets and industries.

The South African market is seeing a shift with respect to how affordable homes are delivered. Developers are understanding the benefits of sustainable design, making their developments more marketable for sale or rental. The awareness of end users is growing which in turn puts pressure on other developers to deliver to an equal or better standard. Similarly, the Philippines is embracing technological innovation and delivering low-cost, quality homes at a fast pace that are designed for longevity and can sell electricity back to the grid. Financial stimulus programs in Vietnam are opening affordability to new homeowners and developments are designed to be resource efficient and create communities. These developments show the cost of greening is getting more and more affordable.

The city of San Borja is applying non-fiscal incentives to direct developers toward more sustainable developments that are certified, in part to relieve the demands placed on water and power grids. In Mexico, people who once lived in informal and dangerous conditions can now afford to live in safety and reap the benefits of resource-efficient design through lower utility bills. Innovative financial products are opening the market to those that could never dream of owning a property before. Colombia's leading private sector lender is pricing the lower risk profile of green buildings into their green mortgages and construction finance.

These case studies represent the adaptation of an industry to global economic and environmental changes where climate-smart technology and innovative construction have demonstrated how they can increase affordability and access to housing. Green building design and construction technology, can be linked to investors, including Development Financial Institutions [DFIs] and those in the capital markets that are seeking to promote climate adaptation through their investment in green financial products, such as green bonds, and green loans. Financial institutions are passing on these benefits to home buyers through green mortgage products and to developers through green financial products. Public sector incentives and legislative adaptation are creating an enabling environment that further promotes these benefits across the entire housing supply chain and in the long term will deliver on the vision of a higher standard of housing, that is accessible, affordable and will contribute positively to climate resilience.

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The bushfires in Australia and housing

↪ By Alan Morris

1. Introduction

In the past few months Australia has been in the grip of a fire emergency. Besides the tragic loss of life, huge areas of the country have been burnt, thousands of properties have been damaged or destroyed and in Sydney and Melbourne, Australia's largest cities, residents have had to endure days of hazardous air quality. In 2019, Sydney had 81 days of hazardous, very poor or poor air quality. This was more than the combined total for the previous ten years. The article examines the implications of the fires for housing. First the context is presented. I then examine the question of rebuilding the housing destroyed or badly damaged. Next, I map out the impact of the fires on the housing market. This is followed by a brief analysis of the situation of tenants and it concludes with a review of the government's response.

2. The context: unprecedented heat and drought

Climate change is having a profound impact on Australia. Already in 2013, the Climate Council of Australia, an independent body, released a report titled, "Be prepared: Climate change and the Australian bushfire threat". Written by leading climate scientists, it concluded, "In the future, Australia is very likely to experience an increased number of days with extreme fire danger" (Hughes and Steffen, 2013). In March 2019, climatologists at the Australian Bureau of Meteorology reported that the national mean temperature for summer was 2.14 degrees centigrade above the 1961 to 1990 average and one degree above the summer of 2012-213, the previous hottest summer on record (Jones et al. 2019). The mean temperature in January 2019 was 2.91 degrees centigrade above the 1961-1990 January average. The last five summers have each been the hottest on record.

The extreme heat was accompanied by serious drought. The Bureau of Meteorology declared that 2019 was "Australia's warmest year on record … [and] Australia's driest year on record" (Australian Government, 2020a). Nationally, the total summer rain was 30% below average and was the lowest for summer since 1982-83 (Jones et al. 2019).

3. The fires

The heat combined with the drought meant that by the end of the 2019 summer (February), huge areas were extremely combustible. The former commissioner of Fire and Rescue in New South Wales [NSW] was adamant that the "unprecedented" conditions were due to climate change:

> Unprecedented dryness; reductions in long-term rainfall; low humidity; high temperatures; wind velocities; fire danger indices; fire spread and ferocity; instances of pyro-convective fires (fire storms – making their own weather); early starts and late finishes to bushfire seasons. An established long-term trend driven by a warming, drying climate. The numbers don't lie, and the science is clear. If anyone tells you, "This is part of a normal cycle" or "We've had fires like this before", smile politely and walk away, because they don't know what they're talking about (Mullins, 2019).

Remarkably, the first serious bushfire started in July, mid-winter, on the north coast of New South Wales (Australia's most populous state). By mid-August, fires were threatening homes in three towns in New South Wales [NSW] and by mid-September, 26 fires were burning out of control and homes were being lost. On the 8 October, the first tragic deaths occurred. A retired couple were killed when fire raced through their isolated farmhouse. In the second week of November, another six people died, caught in their homes or vehicles. On the 10 November, the NSW premier declared a state of emergency and by New Year's Eve, 666 fires were burning in NSW and thousands of local residents and holidaymakers had had to take shelter on beaches (see Snow, 2020a).

By the beginning of February, nation-wide 33 people had died and about 10.7 million hectares (an area the size of South Korea) had been burnt. In NSW, the most affected state, 2439 homes had been destroyed and 1024 damaged. About 6.7% of the land surface, 5.3 million hectares, of the state had been burnt, including 2.7 million hectares in national parks: "It is estimated that two thirds of the 251 parks managed by National Parks and Wildlife Services in NSW, were at least half-burnt and 55 were at least 99% burnt " (NSW Government, 2020). Across Australia, at least one billion animals have been killed. This figure excludes fish, frogs, bats and insects (Cox, 2020). The NSW government described the fires as "unprecedented in their extent and intensity" (NSW Government, 2020). A recent nation-wide survey of 3,000 Australian adults found that about 80% of Australians were affected in some way by the fires; 14.4% experienced direct exposure either through property damage or having to be evacuated (Biddle et al. 2020). By the end of January, "13,750 bushfire catastrophe-related claims had been lodged, with losses exceeding $1.34bn" (in Caisley and Chambers, 2020).

4. The fires and rebuilding housing

In relation to rebuilding there are three key questions that require scrutiny. A highly contentious question is whether households be allowed to rebuild in affected areas? Secondly, what are the insurance implications and thirdly, should building standards be revised? These are discussed in turn.

4.1. Should affected areas be allowed to rebuild?

A touchy question is whether individuals / households should be allowed to rebuild in the affected areas. Climate change has made many of these areas extremely vulnerable leading environmental scientists and architects to conclude,

> there's a risk that rebuilding the same buildings in the same areas may not mitigate the current risks or any future risks under new climate scenarios – existing

and new communities will be vulnerable (Maund et al., 2020).

Several planners have also questioned whether homes should be rebuilt in certain areas. Roz Hansen, a planner who gave evidence at the Royal Commission into the Black Saturday fires in Victoria in 2009 that killed 173 people, is of the opinion that in many of the fire affected areas it is too risky to rebuild:

> With some of the places that have been affected by bushfires, the geography of the place is such that the fire will come to the ridge line and then sweep down the valley and then really, there's nothing you can do to stop it (in Henriques-Gomes, 2020).

She recommended that if people are allowed to rebuild in dangerous areas, a condition of the rebuild is that bunkers should be mandatory. Shane Fitzsimmons, the present head of the Rural Fire Service in New South Wales, had a similar view:

> Look at some of the most beautiful, picturesque areas where people can live, in amongst the trees, up on the tops of ridgelines overlooking valleys, and through some of the most scenic and beautiful places: the tranquillity, the wildlife, it's a lovely place to live but inherent with that lifestyle is extraordinary risk (in Snow, 2020).

The Royal Commission into the Victoria Black Saturday fires recommended that the government buy back housing in fire affected areas. The government rejected a wholesale buyback and ultimately the owners of 138 properties in heavily wooded areas were deemed eligible for a buyback.

4.2. Rebuilding and insurance

A major factor determining whether households who have lost their homes rebuild, is their level of insurance. Research has found that in previous disasters homeowners tended to be under-insured. Lucas et al. (2020) established that after the fires in 2013 in the Blue Mountains, an area 80 kilometres west of Sydney, in which almost 200 homes were destroyed, 65% of households were under-insured. A study by the Victorian government found that only 46% of households were adequately insured. The level of insurance is a crucial determinant of whether a community will recover. The Royal Commission into the Black Saturday fires concluded,

> Community recovery after a disaster is impacted by the adequacy of insurance cover … When insurance cover is insufficient to allow for rebuilding, the recovery process will be stifled (Victorian Government, 2017).

The issue of insurance and rebuilding has a significant class component. Affluent households are far more likely to be adequately insured and have the means to rebuild. Many of the fire-affected areas are populated by low-income households who are likely to have inadequate or no insurance. Susan Templeton, a member of the NSW Parliament, lost her home in the fires in the Blue Mountains in 2013. She recounted the impact of unintentional under-insurance on rebuilding.

> As a result of unintentional under-insurance, six years on, I have vacant blocks either side of my rebuilt home. My guesstimate is that about a third of homeowners found the extra costs too heavy a burden, and, rather than rebuild, bought an older home in the same or nearby suburb. Another third moved away completely, and only about a third of us rebuilt on the same block (Templeton, 2019).

After the 2017 fires in California, wealthier areas were far more likely to bounce back. Thus, in Sonoma County households "had relatively high insurance rates, and families were able to pay for the reconstruction of their homes …" (Mazzacurati, 2020). In contrast, in Paradise, a much poorer area, where insurance penetration was much lower, the population plummeted mainly due to low-income households not having adequate insurance and thus being unable to rebuild (Mazzacurati, 2020).

4.3. Building standards

Besides these locations often having a high proportion of low-income households who cannot afford home insurance, a key reason why households in these fire-affected areas are generally under-insured, is because the cost of rebuilding is extremely high. Rebuilding in a fire prone area is far more expensive than a conventional home as homeowners will have to comply with tough building regulations. They will have to pay a premium to install metal shutters, door screens, toughened windows, roof protection, and non-combustible materials.

The vice-president of the Australian Institute of Building Surveyors commented that replacement homes "near bushland would have to undergo a bushfire-attack-level assessment. The assessment … would measure the building's potential exposure to ember attack and radiant heat … [and consider] the Fire Danger Index" (in Caisley and Chambers, 2020). The Fire Danger Index takes account of the "slope of the land and types of surrounding vegetation and the type of construction and building materials required to obtain a building permit" (in Caisley and Chambers, 2020). The NSW guidelines also include rules around access, buffer zones and the availability of water supply.

Kate Cotter, the chief executive of the Bushfire Building Council of Australia, estimated that a million homes in Australia are in a "flame zone" and that "over 90% of our building stock is not built to bushfire building standards" (in Florance and Hermant, 2020).

Climate change means that the fires are far more intense and there is concern that however rigorous the building standards, homes will not be able to withstand the ferocity of bushfires in the present period. Peter Georgia, an architect who has a holiday home on Kangaroo Island off the coast of South Australia, (about half of Kangaroo Island, 215.000 hectares, was scorched by the recent bushfires), questioned whether stringent building standards would be adequate in light of the intensity of the fires, he responded, "It's taken away that confidence that, as an architect, I could assist people in an absolute way to prevent loss. I just don't know that that's an achievable aim anymore" (in Florance and Hermant, 2020).

5. Impact on the housing market

Businesses in the affected areas, particularly tourism and agriculture, have been severely affected, resulting in substantial lay-offs of staff. This in turn has meant that farmers, small business owners and their staff are struggling to cope with mortgage repayments (Eyers, 2020). In a report on the impact of the fires on the housing market, the rating agency, Standard & Poor's stated that they expected mortgage arrears to increase over the coming months and property prices in the affected areas to probably drop. Prices will also be affected by a drop in demand:

> Following a natural peril event, housing prices might drop and the ability to sell property could be adversely affected should the area be deemed less desirable or of higher risk to buyers, as occurred after the recent California wildfires and the flooding of the Brisbane River in Queensland in 2011(in Eyers, 2020).

A property valuer commented,

> The market will shy away from bushfire-prone property for six to 12 months after

> a major fire incident [and that] [t]his is even more so the case in the metro or suburban areas than the country as people have more choices to buy away from the bush in metro areas.

She was also concerned that property prices would be affected by the response of banks and insurance companies.

> Insurance companies and banks can shy away from lending money or providing cover to those areas at a reasonable price and they either won't provide lending or insurance cover or they will premium load it … "So you might only be able to borrow up to a certain loan-to-value ratio, or you might pay a higher interest rate (in Fuary-Wagner and Schlesinger, 2020).

Although the area burnt is extensive, and house prices are almost certain to drop in the areas burnt, the absolute number of people affected is small relative to the Australian population. About 2% of Australia's population has been directly affected. In the metropolitan areas, especially Sydney and Melbourne, the fires have had no impact on property prices. Both Sydney and Melbourne recorded significant gains in house prices over the last quarter of 2019 and the beginning of 2020 (Wright, 2020).

6. Renters

It is unclear how many tenants have been affected by the fires. The rights of tenants who have been forced to evacuate are limited. If the property they have been living in has been destroyed or is uninhabitable, the landlord is under no obligation to assist the tenant find alternative accommodation or compensate them for lost possessions. However, the tenant does have the right to terminate the lease immediately as does the landlord. In the case of properties that are habitable, but damaged, the tenant has the right to request any urgent repairs and seek a rent reduction. If urgent repairs are not carried out, and the tenant incurs costs as a result, for example they have to reside in a hotel for several nights, they can seek compensation from the landlord (see Tenants' Union of New South Wales, 2020).

7. The Government's response

People who have lost their homes or been seriously affected by the fires, can claim a one-off payment from the federal government of $1,000 for every adult and $400 for every child. The amounts offered by the conservative Coalition government[1] has been described as "seriously inadequate" by the CEO of the Australian Council of Social Services. If individuals have lost their source of income, they can claim the unemployment benefit for a maximum of 13 weeks.

The NSW state government has established a Bushfire Housing Assistance Service. People in the affected areas can use it to get interest free loans for rental bonds and rental payments. However, they are still forcing households who have lost their homes and have purchased a new home to pay stamp duty. A person whose home was destroyed in the recent fires wrote a plaintive letter to the *Sydney Morning Herald*:

> After losing our home in the recent bushfires in Conjola Park, and given our advanced age, we made the decision not to rebuild in that area. So, we found a neat, clean cottage in Ulladulla and, with our adequate insurance payout, bought it. The estate agent informed us that we would have to pay just over $18,000 in stamp duty … We and many other older bushfire refugees would have had no intention of buying a new property prior to the fires. Does the NSW government really want to make a profit out of our loss? (Parris, 2020).

In relation to climate change policy, the fires have forced the conservative Coalition government to half-heartedly acknowledge that there is a link between the fires and climate change. However, within the Coalition there are several MPS who are still climate denialists and sceptics who have substantial political clout. Also, in order to win government, it almost essential that the numerous seats in the coal-mining areas are won. Thus, both major parties are refusing to phase out coal and there has been no call by the government or the main opposition Labor Party for a moratorium on new coal and gas mining. A Royal Commission has been established to look at land management practices, national coordination and ways of "improving resilience and adapting to changing climate conditions". However, the Commission has not been asked to look at the government's derisory carbon reduction policies.

8. Conclusions

It is apparent climate change is creating unprecedented issues and challenges. In respect to housing, there are now vast tracts of Australia which are no longer safe habitats and it is likely that as warming continues more areas will become unsafe. Many of these areas are occupied mainly by low-income households who are not able to afford housing in the metropolitan areas. This is especially true for people dependent on government benefits for their income.

The one silver lining is that the fires have renewed calls for the government and the Labor Party to be more proactive in relation to cutting emissions. The opposition Labor Party has pledged zero-carbon emissions by 2050. The right of centre Coalition in power at present, reading the public's mood, may decide to follow suit. However, for the moment, the governing Coalition party has vigorously attacked the Labor Party for not costing its zero-carbon emission policy (Remeikis, 2020).

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The UK Housing Market stuck in a rut; is self-build one of the answers?

By Andrew Baddeley-Chappell

1. Introduction

To those in the UK at least, the mortgage market has historically been viewed as relatively sophisticated and competitive. At the same time the UK housing market as a whole is relatively open and transparent. One area where the UK appears to be behind rather than ahead of the curve is in the way in which new homes are delivered. The UK continues to face the consequences of a long term shortfall in the delivery of new homes, the most obvious of which is a long-term increase in the price to earnings ratio. This is particularly true around London but is common throughout the UK. Whilst this can in part be attributed to land availability, this is not the whole story.

This paper highlights one key difference between the UK and almost every other developed economy and asks whether addressing this difference could be the key that unlocks some of the problems with the UK housing market and considers what other benefits it may bring. That key difference is the low proportion of self-commissioned homes within the UK new build market.

2. Setting the scene

2.1. Defining self-commissioned homes

Self commissioned homes are defined by legislation. The definition within the Housing and Planning Act 2016 is:

> "The building or completion by individuals or persons working for individuals of houses to be occupied as homes by those individuals. But it does not include the building of a house on a plot acquired from a person who builds the house wholly or mainly to plans or specifications decided by that person."

In other words, a home that is built to the plans or specifications of the occupants.

By comparison most new homes are built by speculative builders who do not have a specific occupant in mind when determining the house to be built. Many builders in the UK do provide choices to a home-buyer but these are largely cosmetic elements of interior finish.

Some provide greater choice and in practice there is a spectrum. However, in the UK at least there is very little overlap and they effectively serve different markets. Most speculative new builds offer very limited customer choice and most self-commissioned homes are one-off designs on individual plots designed by an architect, on land found by the home-owner and built by a third party builder. In the UK this is typically referred to as a self-build although the individual does not typically undertake the building themselves.

There are two other main constituents of self-commissioned homes within the UK. Both are currently small in scale. These are:

Custom build homes: This typically involves buying a pre-prepared plot of land and then engaging with a specialist design and build contractor to deliver your chosen design. In some cases, this may involve restricting choice to a single provider, in others being able to select from across the market.

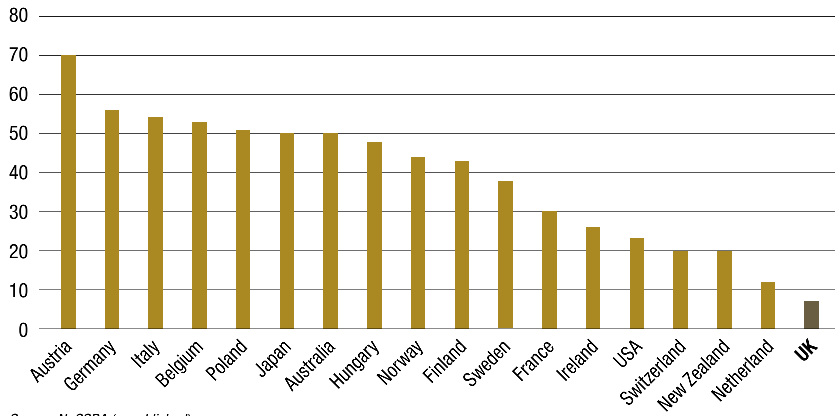
Community led housing: A broad term that includes group builds often including affordable housing provision developed with the active participation of the occupants, and the community.

FIGURE 1 New home completions by country: UK

COUNTRY	NEW HOME COMPLETIONS	SHARE OF NEW HOMES
England	213,360	88.0%
Scotland	21,292	8.8%
Wales	5,777	2.4%
Nothern Ireland	1,961	0.8%
Total	**242,390**	**100.0%**
Of which: Self commissioned	13,210	5.5%

Source: MHCLG, Scottish Government, Welsh Government, NI Government, NaCSBA.

FIGURE 2 International comparison of Self-Build & Custom Housebuilding



Source: NaCSBA (unpublished)

There are no official statistics for the number of self-commissioned homes that are built in the UK each year. The National Custom & Self Build Association (NaCSBA) estimates this number from other data to be 13,210 homes in the UK in the tax year 2018/19, a number that is broadly unchanged year on year.

2.2. International comparison

It appears that there are similar challenges in establishing the proportion of self commissioned homes across the rest of the world. In many of the world's poorest countries the vast majority of homes will be self commissioned With increased economic wealth there is a shift away from self-commissioning, in particular with urbanisation, yet the data that is available suggests that even in the most developed countries with mature housing markets self-commissioning remains a significant part of housing delivery. The average excluding the UK is 41% of new homes.

This difference is stark and significant. Either the UK knows something that the rest of the world does not or it is us that is out of step. Furthermore, whilst the difference may be easier to explain in countries where land is more plentiful, the figures indicate that self-commissioning is not restricted only to lower density countries but is a more global feature.

The closest country to the UK in terms of the proportion of self commissioning is the Netherlands. This too had a market dominated by speculative housebuilders however their hold on the market has diminished post the credit crunch when the slowdown in activity promoted a move towards work on an individual plot basis alongside greater customer choice. By contrast in the UK the tougher market conditions have actively favoured the larger speculative builders.

2.3. The success of large speculative builders in the UK

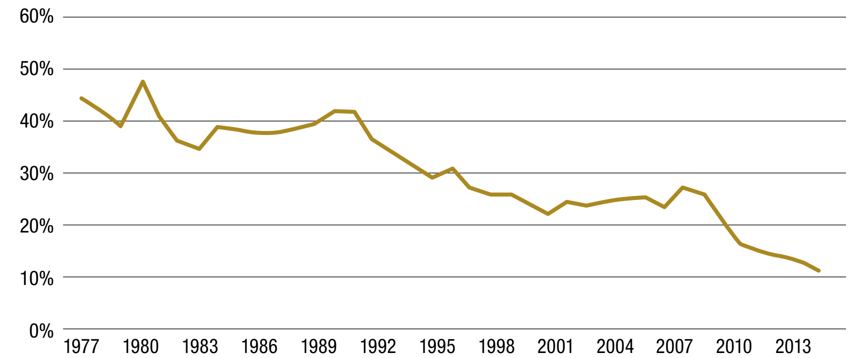
It is maybe not surprising that, like most consumer markets, the UK housing market is dominated by a small number of large providers.

Volume building brings economies of scale and also offer a particular advantage in relation to the planning system (see also below). Housebuilding is increasingly concentrated on a smaller number of larger sites that are typically developed by a single large developer and built out over a number of years. Rather than create an environment of intense competition the result is effectively a number of local monopolies which enable the large developers to develop at a rate to maximise return on capital.

This is further enhanced by Help to Buy Equity loan (see below) which has given the large builders a competitive advantage over all other housing markets.

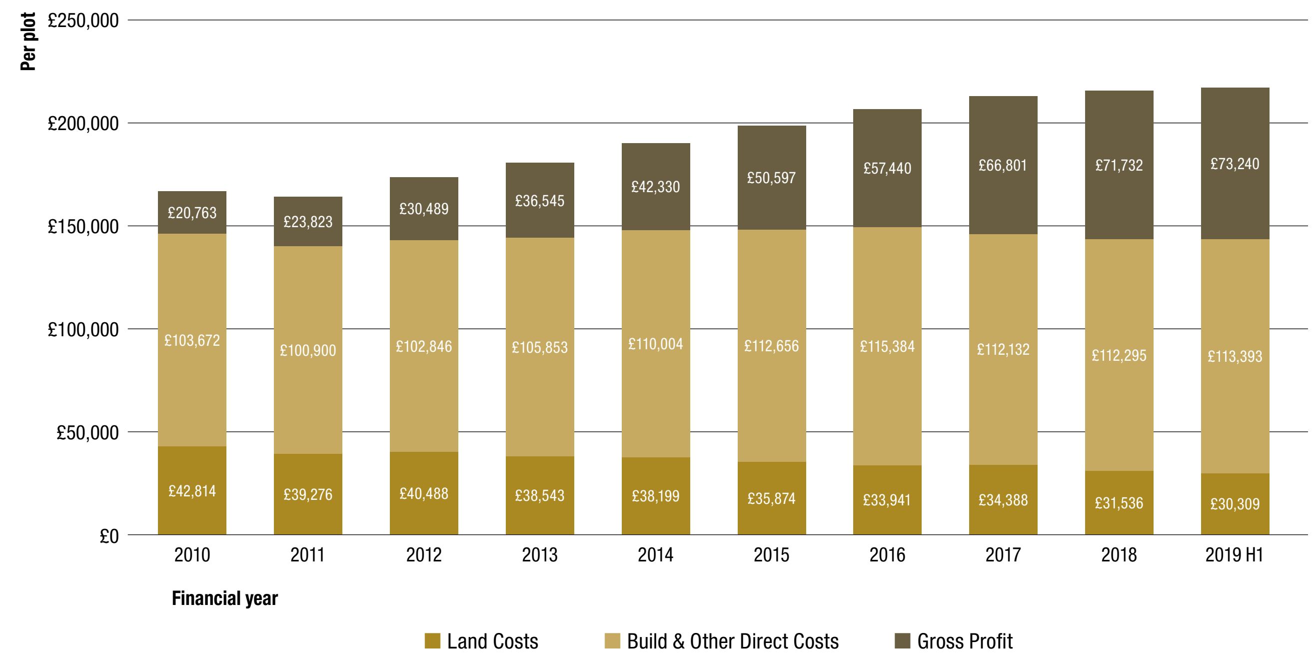
The performance of the second largest housebuilder Persimmon in recent years highlights the strong financial performance.

FIGURE 3 Percentage of new homes built by SMEs (1-100 units), UK, 1977-2015



Source: Home Builders Federation

FIGURE 4 Persimmon Financial Performance per plot

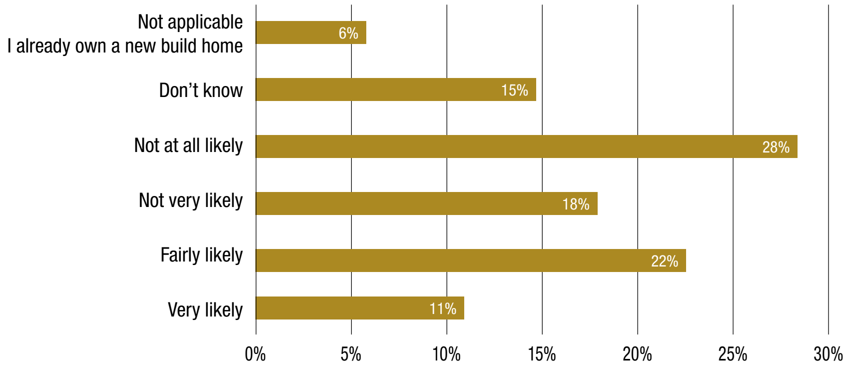


Source: Resi Analysts

FIGURE 5 Extract: Why Buy new: Home Buyer Intentions and Opinions

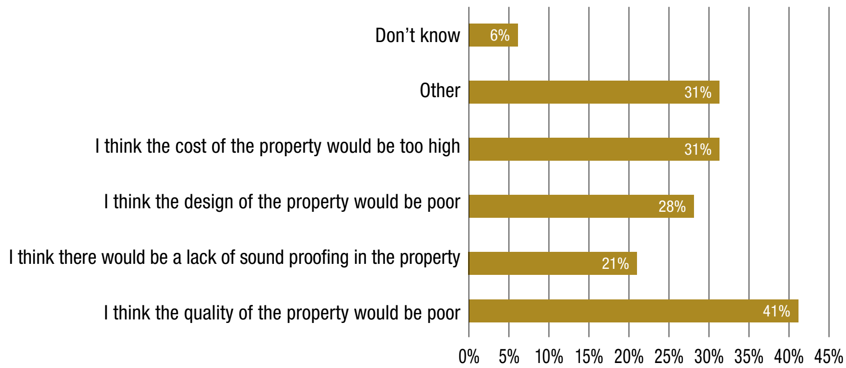
HOW LIKELY, IF AT ALL, WOULD YOU BE TO EVER CONSIDER BUYING A NEW BUILD HOME?
(Unweighted base: All GB adults 2,017)

LIKELIHOOD TO CONSIDER NEW BUILD…



YOU SAID THAT YOU WOULD NOT BE LIKELY TO EVER CONSIDER BUYING A NEW BUILD HOME, WHICH, IF ANY, OF THE FOLLOWING ARE REASONS FOR THIS?
(Unweighted base: All GB adults who are unlikely to consider a new build home 991)

REASONS FOR NOT CONSIDERING NEW BUILD…



Source: Home Builders Federation

These profits are despite and not because of a limited demand for their products, as demonstrated by their own industry survey (Figure 5).

3. The need for housing diversification

In 2017 the Government produced a policy (white) paper on "Fixing our Broken Housing Market". Diversification was a key strand of that policy. The Government noted:

> "The way in which the house-building market operates constrains the supply of new homes, because there is insufficient competition and innovation. We want to diversify the market to achieve the amount, quality and choice of housing that people want."
>
> "The business model for many commercial developers limits the number of homes that are built. The 2007 recession reinforced cautious behaviours at all stages of the house-building process. Major builders rely on sub-contracting, which pushes innovation and risk down the supply chain to those least equipped to respond. House-building methods have barely changed in over 100 years; productivity in the construction sector is lower than most other sectors of the economy."
>
> "The Government wants to support the growth of custom built homes. These enable people to choose the design and layout of their home, while a developer finds the site, secures planning permission and builds the property. Custom built homes are generally built more quickly and to a higher quality than other homes, and tend to use more productive, modern methods of construction."[1]

The Government also created an Independent Review of Build out to investigate the apparently low rate of construction on larger sites. The report concluded that:

> "The homogeneity of the types and tenures of the homes on offer on these sites, and the limits on the rate at which the market will absorb such homogenous products, are the fundamental drivers of the slow rate of build out."[2]

4. The constraints to housing

The key constraints to housing supply in the UK are planning land and finance.

4.1. Planning

Planning powers in England are delegated to local authorities (and national parks) with on average 200,000 people. They range in population from over 1 million in Birmingham to under 2,000 in Northumberland National Park. These authorities are highly varied in physical size and nature ranging from inner London boroughs to national parks. They are covered by a single planning framework that is designed to ensure that the authority meets its strategic needs including housing. In practice however the flexibility means that every decision is contested with one of two groups emerging as winners, either:

(1) Those who are keen to retain the status quo (NIMBYs) and who have the time and energy and economic imperative to oppose all new housing, or

(2) large developers who build on larger plots where the overall return is larger and where the numbers of nearby households impacted is relatively fewer.

A new accelerated planning paper is expected shortly in the UK that it is hoped will create greater balance in the system. The government has stated:

> "…we will publish an ambitious Planning White Paper which offers creative solutions to establish a planning system that works for the next century. We will take a fresh and sensible look at planning rules to support local areas to plan, especially in the urban areas where they are most needed.

[1] Fixing our Broken Housing Market 2017 – HM Government.

[2] Independent Review of Build Out Final Report – Sir Oliver Letwin

We will also modernise the system, accelerate planning decisions and make it easier for communities to engage and play a role in decisions which affect them."[3]

4.2. Land

The UK is a densely populated country and England is the most densely populated part of it.

Land which can be built upon is a relatively scarce not least as the largest population areas are surrounded by protected land (known as green belt) – which makes up 13% of all land in England and which can only be developed in exceptional circumstances.

FIGURE 6 Green Belt areas within England

Source: BBC

Whilst land is in short supply the demand is not equal in different regions. House prices vary widely by region, largely due to scarcity of land. The high margins earned by the larger developers mean that they are selective about where they build and the rate at which they build. In particular areas of low land values may not create sufficient value uplift to meet the hurdle rates of these developers. The result is that in low land values areas, even where there is demand for housing, homes may not be built. Yet it is these areas where the homes (due to low land values) are most likely to be affordable.

5. Finance

With constrained supply house prices are relatively high in the UK. The UK is also seen as historically having had a relatively volatile housing market. This is linked in part to the nature of UK mortgages. Historically UK mortgage lending was broadly matched by and effectively funded by retail savings. Mortgage lending was typically for a 25 year term (although this has more recently increased beyond 25 years in part in response to higher house prices and longer terms allowing greater borrowing) and whilst the borrowing term is long the actual rate charged is typically only fixed for 2 years, although the recently the average term that rates have been fixed has risen to 5 years.

FIGURE 7 Population density by country

RANKING OF 100 MOST POPULOUS COUNTRIES BY DENSITY	COUNTRY	AREA KM²	POPULATION NO	POP/KM²
2	South Korea[4]	100,210	51,811,167	517
4a	England[5]	130,309	55,977,178	430
4	Netherlands[6]	41,526	17,438,431	420
9	Belgium[7]	30,689	11,515,793	376
11	Japan[8]	377,975	126,010,000	333
14	United Kingdom[9]	242,910	66,435,600	274
16	Germany[10]	357,168	83,149,300	233
32	France[11]	543,965	67,060,000	123
79	United States[12]	9,833,517	329,351,332	33
100	Australia[13]	7,692,024	25,628,309	3

Sources: See footnotes. Ranking is from Wikipedia
(Note England is listed as 4a as it is not a separate country within the list but part of the United Kingdom).

Borrowers therefore change products and often lenders on a frequent basis, resulting in a competitive industry, in particular for low risk borrowers. Borrower activity is further influenced by the presence of a large intermediation sector (mortgage brokers).

The mortgage market has in turn become efficient at processing change and customers are relatively price sensitive. This high level of activity makes the UK mortgage market sensitive to changes in interest rates and this in turn has resulted in pronounced cyclicality in the housing market.

This cyclicality has historically led to the UK following a different economic cycle to many of its European neighbours. In 2004 the Miles report highlight the wider economic benefits of greater use of longer term fixed rate mortgages in the UK housing market. The extended period of stable and low interest rates has seen a shift towards 5 year fixed rates in the UK (now over 50% of borrowing) but even long term fixed rates remain a rarity – with customers being unwilling to pay the additional premium for stability. This in turn restricts loan-to-income lending as affordability calculations must accommodate the potential for states to rise significantly over the life of a mortgage.

Since 2007 and in response in part to the reckless lending of the past the UK mortgage market has become much more mainstream. Lending has consolidated around a core of lower risk lending whilst mortgage propositions have also become less flexible in part due to automation.

Lending to the new build sector remains constrained. Prior to the Global Financial Crisis [GFC] most lenders provided mortgages of at least 95% loan to value on new build homes. Now well over 10 years after the GFC many lenders limit loan to values to 85% on new build houses and 75% on new built flats. These limits were imposed in response to the relatively poor performance of the sector since the GFC in part due to poor standards in the sales process for new build homes. Whilst the lending market is subject to new regulation, the sales standards on new build homes are only now being addressed. This follows further issues with issues such as the selling of leasehold

3 Planning for the Future: Ministry of Housing Communities & Local Government

4 http://kosis.kr/conts/nsportalStats/nsportalStats_0102Body.jsp?menuId=10&NUM=

5 Office of National Statistics UK

6 https://www.cbs.nl/en-gb/visualisaties/population-counter

7 https://www.ibz.rrn.fgov.be/fileadmin/user_upload/nl/bev/statistieken/stat-1-1_n.pdf

8 http://www.stat.go.jp/english/data/jinsui/tsuki/index.html

9 Office of national Statistics UK

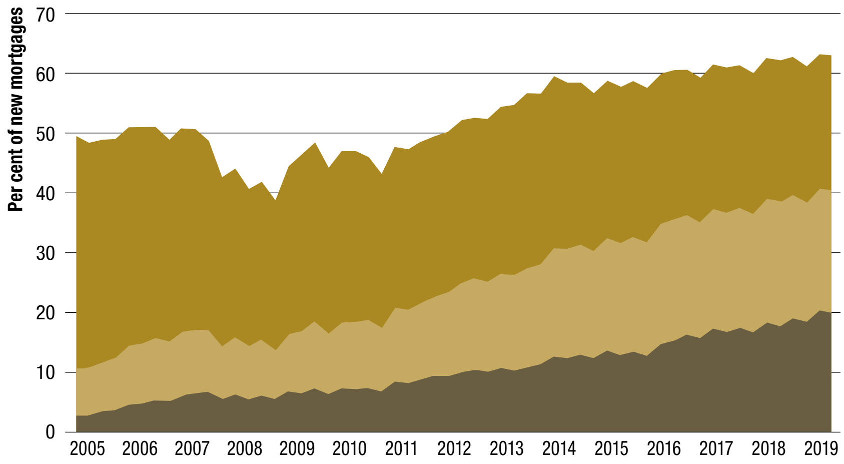
10 https://www.destatis.de/DE/Themen/GesellschaftUmwelt/Bevoelkerung/Bevoelkerungsstand/Tabellen/zensus-geschlecht-staatsangehoerigkeit-2019.html

11 https://www.insee.fr/en/statistiques/serie/001641607

12 https://www.census.gov/popclock/

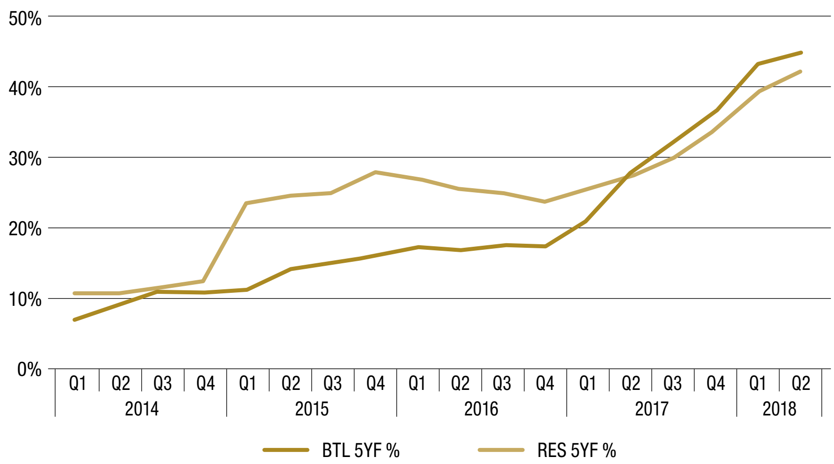
13 https://www.abs.gov.au/ausstats/abs%40.nsf/94713ad445ff1425ca25682000192af2/1647509ef7e25faaca2568a900154b63?OpenDocument

FIGURE 8 Average mortgage term – new mortgages



Source: Bank of England

FIGURE 9 Percentage of lending undertaken on a 5-year fixed rate



Source: UK Finance

homes where the builder then sold on the lease to third parties at a significant profit.

Lender concern over mainstream speculative housing has had the unintended consequence in impacting other new-build sectors including homes for affordable home ownership (where the housing association effectively sells only a share of the home), on the community housing sector and on the self build sector. Most lenders impose the same limits on lending to all these sectors, even though these sectors did not give rise to the same level of concern.

Even without these constraints, lending to the self-build sector under the typical model in the UK is more complex than a vanilla mortgage transaction. Rather than a single mortgage payment, lenders typically make six payments over the successive stages of the build. The first payment is for the purchase of the land and the last is made on the final completion of the house. Many lenders' systems are not set up to manage these multiple drawdowns and the associated checks required.

Furthermore, mortgage regulation requires that the lender demonstrates that the loan is affordable both during the build phase and once the home is completed. The second stage is a standard affordability calculation, whilst for the first development phase the lender needs to recognise that on top of the finance costs the homebuilder is likely to need to continue to pay for existing accommodation so their resources are stretched.

To help mitigate this squeeze on personal finances development funding is often on an interest only basis, which then switches to a repayment mortgage once the home is completed. Since the completed homes is likely to be worth more than the cost to build, the loan to value is also typically recalculated at this stage.

Whilst it would be thought that lending during the development phase carries added risk, the historic performance of the sector is strong. This is in part because there is independent review of the estimated build costs, and the inclusion of contingencies. In addition, lenders typically require that the borrow has insurance cover to enable the home to be completed in the case of a failure of the builder of if the self-builder steps back from the scheme. Part of the protection is that the mortgage is based on the estimated build costs and not (as in the case of buying a home from a mainstream builder) on the sale value including the builders margin. Figures consistently show that the buyer of a new-build home pays a premium reflecting the newness of the home and lack of early years maintenance. Formal advice to valuers is that they advise those buying a new home that what they pay for the home may not be realised if they were to resell the home shortly after buying.

Lending to the new-build sector became so constrained in the wake of the GFC that the Government became concerned as to the slowdown in the supply of new homes. It experimented with a number of new schemes before launch an equity loan scheme in 2013 known as Help to Buy. The scheme works by the Government lending 20% of the cost of a home (40%) in London by way of an equity loan. When the property is subsequently sold it receives 20 / 40% of the value on the sale of the property. There is a small interest charge after 5 years to help encourage early repayment. The Government loan ranks after the mortgage and the scheme has three main benefits. Variations on the scheme exist in Wales and Scotland.

Help to Buy offers potential homebuyers certain advantages:

1. Most importantly it reduces the deposit needed to 5% of the property value as the mortgage lender also has the added protection of the Government loan.
2. It enables the individual to buy a more expensive house as the charge for the loan is limited (and less than the cost of a mortgage).
3. Due to the level of cover the mortgage rate is less than buying a property without the benefit of the scheme.

The scheme has been a major intervention in the UK new build market.

The scheme is triggered by the legal purchase of a completed home, and so is not suitable for most self-build schemes. As noted above these typically required the multiple payments to different parties.

Whilst the Government is looking to extend support to the self-build sector it is also seeking to bring to an end the Help to Buy scheme as a whole, although it has now been extended until 2023. the end of the scheme will mean that lenders will have to lend at higher loan to value on new-build properties. This is something that larger lenders can do with relative ease. They have a flexible regulatory capital regime that allows them greater freedom over their business mix. However most large lenders do not currently support the custom and self build sector due to its size. The sector is supported by many smaller lenders (typically mutual building societies) but being smaller they operate within a simple and less flexible regime that limits the amount of higher LTV lending they can undertake.

There is some concern amongst lenders in the UK that the sector may promote modern methods of construction, and novel approaches to energy supply, and that these may not have been appropriately tested. If that were the case it could ultimately give rise to additional risk for lenders. the approach to construction is not always obvious from the look of a property and in practice lenders' primary focus is on ensuring that the home is marketable given the area in which it is located and the properties that surround it.

The new UK government has committed to open the Help to Buy scheme to the custom and self build sector, but it needs a mechanism to do that. The manifesto states:

> "Community housing and self-build. We will support community housing by helping people who want to build their own homes find plots of land and access the Help to Buy scheme. We will also support communities living on council estates who want to take ownership of the land and buildings they live in."

6. Interventions in support of Self and custom build

As noted above, self-commissioned homes are unusually rare in the UK. As part of its diversification agenda the UK Government has expressed a desire to see the market grow.

The trade body for the sector, the National Custom and Self Build Association (NaCSBA) argues that the sector creates more and better homes that more people aspire to live in and that communities are happier to see built.

- More homes – because the supply is additional through new supply routes, in particular using modern methods of production / prefabrication and / or local artisans
- Better homes – because the homeowner has a greater oversight of the production and is more willing to invest in quality.
- More people aspire to live in – because the homes are those that people choose and that are suited to their needs and not those that are chosen for them.
- Communities are happier to see built – because these homes add variety and quality that are not currently present in most mainstream housing.

As is set out below, the government has made one significant intervention in support of the sector and another is planned. This change applies in England only. Housing is devolved to the different countries within the UK and whilst the challenge is the actions taken vary.

6.1. The Right to Build

Legislation passed in 2016 in England, but only fully effective from October 2019 requires each local authority to maintain a register of everyone who would like to build a home of their own. The local authority must then ensure that sufficient plots are given planning permission to match the demand on the register (they have 3 years to do this). This is known as the Right to Build.

Local authorities are encouraged to use the registers to understand the nature of demand and to link the potential self builders with the potential plot providers.

The legislation does not provide a direct link between those on the register and the plots – so the plots may be taken by others, but it does act as a short to medium-term measure of demand.

The plots can be provided in one of three ways:

1. The Council may bring forward plots on its own land
2. The Council may require some or all of certain developments to be set aside for self-build.
3. The Council may allow more individual plots by adopting an assumption in favour of development.

Early indications are that Councils have established the registers that are required (and over 55,000 people have joined them) but have done only limited amounts of work to meet the requirements of the legislation. A minority of local authorities have taken active steps to limit the impact of the legislation for example by seeking to create and use loopholes to reduce the duties placed on them. This does not appear to be due to an opposition to self-build but rather part of wider challenges to the planning process as a whole.

The Government has committed to ensure that the legislation delivers its purpose and is willing to revisit it if necessary. This appears likely to prevent more Councils seeking to reduce their obligations.

The legislation does allow a picture to be drawn up of demand for self-build across England – it is concentrated in the South of England where the housing shortage is the most extreme.

6.2. Help to Build

For the market to become mainstream, then mortgage lending should be broadly available and on similar terms to that for speculative new build homes. However, in part due to the scale of the sector, the specific complexities and in part due to continued hangover from the downturn back in 2007 this is not the case.

The Government has committed to extending the help to Buy equity loan scheme (as set out above) to the custom and self build sector.

A variation of the scheme has been developed whereby the mortgage lenders lend 95% of the cost of the build in stages, and then when the building reaches practical completion (and hence able to be occupied) the Government pays the money to the mortgage lender rather than to the builder.

As well as delivering the benefits of the Equity Loan, it will amount to an important demonstration of Government support and will help bring the option to the minds of more potential home builders. In particular it is expected to lead to the growth of more custom built homes on larger sites, creating an important bridge between self-build and speculatively built new homes. In doing so it will add capacity and innovation to the market as well as opening up the market to new providers in particular those with existing products serving existing overseas markets.

6.3. Impact

NaCSBA believes that these two policies fully implemented and supported by Government have the capability to deliver at least a 10,000 homes year on year growth for the sector. Based on a current build rate of 250,000 homes a year and assuming the UK achieves a 40% share of custom and self-build homes, this would see production rise to 100,000 homes if the homes were substituting for existing supply, or 200,000 homes if the supply was incremental. These are fundamental changes that will take time to deliver, but once momentum is gained it is hard to see it stopping.

7. Conclusion

The UK has the lowest known rate of self-commissioned homes in the world. Most new homes are built by large speculative developers and the homebuyer has very little say over them.

Rather than lead to competition and efficiency, the net result is local monopolies, with limited demand for new homes, yet large profits are being generated.

Opening up the market to self-commissioned homes appears to be a route to increasing competition, quality and innovation in the new homes market.

Finance is a key barrier. Lending on self-commissioned homes is more complex by its nature but also due to the regulatory regime. This with its small scale means access to loans is limited in particular to customers with smaller deposits.

The main government intervention to allow those with smaller deposits to access the new homes market does not work for the sector, but the government has committed to address this.

Other challenges include access to land and a complex planning process. On top of this the lack of scale means that many potential home builders are unaware that this is an option for them.

Change is needed, and it appears that in most overseas markets self-commissioning is seen as a core part of the new homes market, and one that most mortgage lenders consider as core business.

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