

Jakarta, Indonesia

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## Challenges of providing Low-Income Housing Finance – Insights from Pakistan

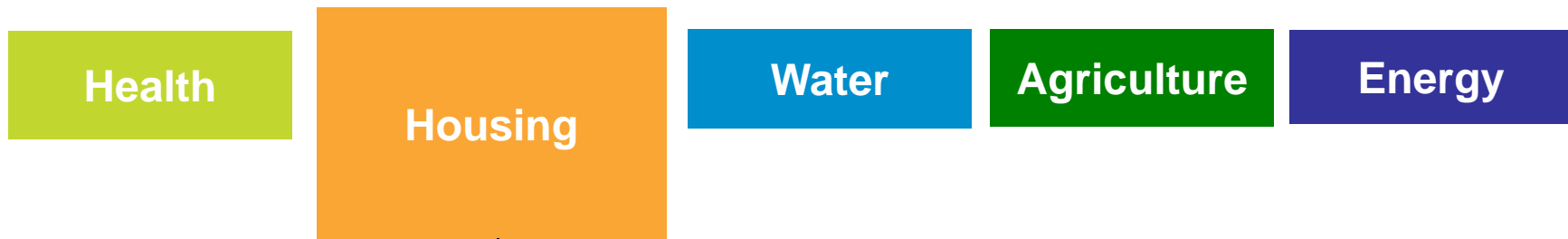
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# Acumen Fund Overview

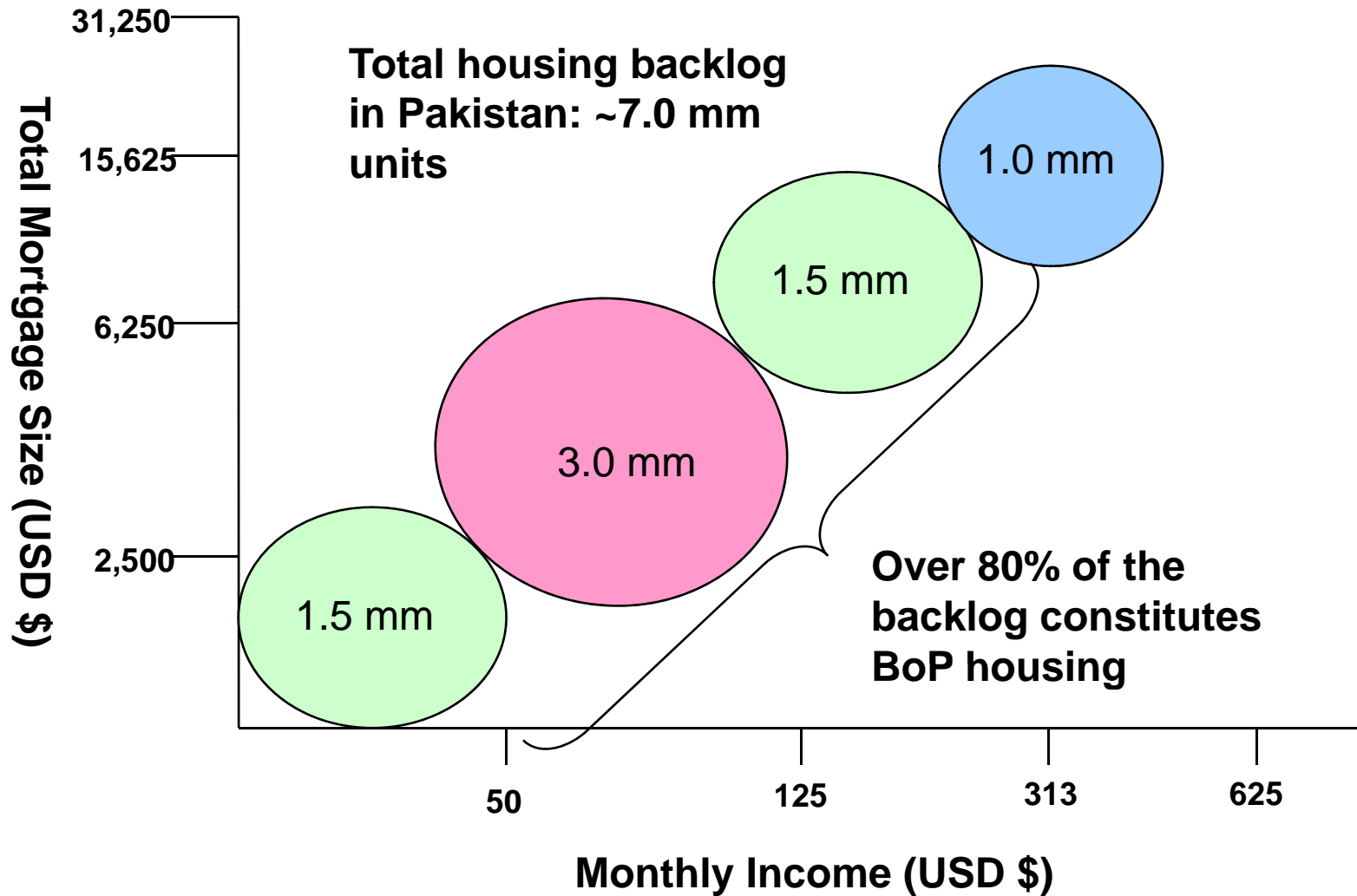
***Venture Capital Fund investing in early-stage ventures providing critical goods and services to low-income markets in South Asia and East Africa***



*Investment focus on affordable housing development and housing finance*

	<u>Company</u>	<u>Investment</u>	<u>Purpose</u>
<b>Financing</b>	<b>Commercial bank</b>	Credit Guarantee	Long-term floating rate mortgages
	<b>Housing Finance Company</b>	Equity	Long-term fixed rate mortgages
	<b>Micro-Finance Institution</b>	Debt	Short-term home improvement loans
<b>Development</b>	<b>Low-cost Developer</b>	Debt	Incremental housing
	<b>Project Management Co.</b>	Equity	Housing projects for low-income groups

# Pakistan Housing Backlog



\*\*Not to Scale

# Case-Study 1: Partnership with Commercial Bank

**Concept – Partial credit guarantee (2<sup>nd</sup> loss) to large commercial bank to provide \$50 mm in housing finance to low-income households over 3 years**

- **Target Market:** Salaried income HHs – HH income upto PKR 20,000 per month (USD 250/m)
- **Purpose:** Purchase of new or existing homes in areas where title is clear
- **Tenor:** Upto 15 years
- **Pricing:** Floating rate (KIBOR+4%) - ~ 15% in 2007
- **D/E ratio:** 80:20
- **Max. mth. pmt:** PKR 6,700(USD 83)

## **Critical Challenges:**

- Real-estate prices increase over 50-60% between 2006-2007 across Pakistan due to massive real-estate investment boom
  - Price of cheapest small apartments with clear title in major cities rises to PKR. 700,000 - 800,000
  - Monthly payment on PKR 600,000 loan over 15 year = **PKR 8,400 (target market priced out)**
- Customers - Aversion to floating rate mortgages

# Case-Study 2: Investment in Housing Finance Co.

**Concept** – New housing finance company providing fixed rate mortgages to low/middle income households through new housing developments.

- **Target Market:** Salaried/self-employed HHs – HH income between PKR 15,000-40,000 per month (USD 175-500 per month)
- **Purpose:** Purchase of studio/1-3 BR apartments in new housing projects in the outskirts of cities.
- **Tenor:** Upto 15 years
- **Pricing:** Fixed rate (PK Investment Bonds + 5%) – enabled through credit guarantee from international development agency on long-term bond.
- **D/E ratio:** 80:20
- **Max. mth. pmt:** PKR 5,000 – 13,300 (USD 63 - 165)

## **New Housing Project Features**

- G+3 apartments (@ PKR 1200 per sq. foot) in structured residential communities
  - Studio, 1 BR and 2 BR apartments priced between PKR 600,000 to 1,000,000

## **Critical Challenges:**

- Unstable macro-environment forces massive increase in interest rates in 2008.
  - Loan pricing increased to 19%; unsustainable for low/lower middle income home-buyers over the long-term

# Alternative models for housing and housing finance

## Low-income Housing Market Characteristics

- 60% of the housing need is for people with HH income less than PKR 10,000 per month
- Informally or self-employed – unstable income stream
- Build their houses incrementally
- Current sources of financing
  - Household savings
  - Informal ST loans from friends/family
  - Informal savings groups
  - Informal ST loans from local material suppliers
- Averse to long-term credit



## Options to Consider

### Vertical Housing

- ***Where land prices are high***
- Low-cost apartments with construction innovations to make pricing/financing more attractive

### Incremental Housing

- ***Where land is still in-expensive***
- Short-term (3-4 year) housing finance solutions for incremental home building
  - Less sensitivity to pricing
  - Fewer AL mismatch issues