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Housing Finance Needs to Reach South Asia's Poor

December 1, 2010



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Housing Finance Needs to Reach South Asia's Poor

December 1, 2010 - The report examines housing shortages in South Asia, as well as outlines shortcomings of the market for home financing. To enable a rapid housing and housing finance market expansion current obstacles should be removed to the efficient functioning of land administration and mortgage markets, to make homes more affordable.

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Tatiana Nenova

Senior Economist, Private and Financial Sector Development for the South Asia Region

ACCESS TO FINANCE

High economic growth coupled with rapid urbanization and a rising middle class have created considerable demand for housing and housing finance in South Asia, according to a World Bank report entitled, "Expanding Housing Finance to the Underserved South Asia."

South Asia's housing and housing finance markets have grown at an impressive 30% in the past decade, but are limited to upper-income groups. Around 30 million middle- and lower-class households in South Asia—which accounts for 11% of the region's population—have the

willingness to pay, but unable to have access to mortgages.

In India alone, estimates of the housing shortage range from 20 million to 70 million yet as much as half of this excess demand can be profitably serviced by the housing and housing finance markets.

DEMAND FROM LOWER-MIDDLE-CLASS

The report examines housing shortages in South Asia, as well as outlines shortcomings of the market for home financing. To enable a rapid housing and housing finance market expansion current obstacles should be removed to the efficient functioning of land administration and mortgage markets, to make homes more affordable.

The rising numbers of lower-middle-class groups pushed housing and housing finance demand way beyond current supply, as banks and builders were unprepared to service the lower-income segments.

One in every 4 people on the planet live in the South Asia region, and more than 14% of South Asians have no home, not counting a further 45% living in overcrowded conditions.

The region's future economic growth, social development, and employment are tied to providing housing and the funding for home-ownership, the report noted.

GOOD NEWS

"The good news is that housing and housing finance services have the potential to expand to middle- and lower- income families," said Tatiana Nenova, the World Bank's Senior Economist, Private and Financial Sector Development for the South Asia Region and author of the report. *"This requires an improved land administration, strengthened legal framework for all aspects of housing, and promotion of long-term funding for mortgage lenders and developers. Innovative traditional mortgage products and non-traditional options such as Islamic finance, rental finance, and microfinance could meet demand in underserved market segments."*

"Large-scale slums and informal settlements that exist in almost all South Asian countries underline the urgency of meeting the demand for homes. There is a shortage of more than 38 million housing units in the region, taking into account average household size, this translates to 212.5 million homeless people, 14% of a total population of 1.5 billion," said Ernesto May, Sector Director for Poverty Reduction in South Asia.

PRIVATE SECTOR IS KEY

The report emphasized the critical role the private sector must play in the provision of a sustainable solution for expanding the affordable housing market to lower-income groups. Public-sector housing provision alone cannot cope with the demographic and urbanization pressures of low-income groups.

Bringing housing finance to low income families involve a whole set of new instruments and policies. *"In South Asia, the key is to make sure there is sufficient land supply with proper urban regulations to avoid land price speculation and inflation,"* said Olivier Hassler, the World Bank's Program Coordinator for Global Capital Markets. *"Countries should work toward setting up financial institutions at the grassroots level to develop housing products, instead of focusing only on mainstream Banks."*

In fast-growing economies, the housing sector has the capacity to grow at considerable speed (10% national growth translates into 14% housing growth), and can generate 3.2 million new jobs over a decade.

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REFORMING FINANCIAL SYSTEMS

The report emphasized on low-income housing solutions. In some countries in the region, private developers discover that cheaper housing is actually capable of presenting good commercial opportunities. Faster reorientation of the building industry to lower-income construction is predicated on two conditions: developer finance and efficient land administration.

Deficiencies in financial systems, the report noted, should be eliminated to address the dearth of long-term funding for mortgage lenders and developers.

Financial markets are dominated by large banking sectors in South Asia. Despite the gradual liberalization of the sector in the recent decades and the remarkable growth that came with it, financial services have been limited to basic products and have extended in a very modest manner into housing or related insurance products.

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