Asian Development Blog

URBAN DEVELOPMENT

The Housing Unaffordability Crisis in Asia

Soaring housing costs are threatening the competitiveness of Asian cities. Photo: Steven Wei

By Matthias Helble

The poor and middle class are struggling to find affordable housing across the region, but there are some basic steps cities can take to improve the situation.

Cities in developing countries all over Asia face a severe housing unaffordability crisis. Prices as a portion of income have reached levels that prevent most urban dwellers from realizing their dream of becoming a homeowner. And as cities continue to grow, that does not look set to change.

The consequences of the housing unaffordability crisis go beyond the individual household though and impact the entire economy. As housing becomes very expensive, people become reluctant to move and spend longer hours commuting. The city as an efficient labor market thus

works less well. It also means companies invest in real estate instead of more productive investments while banks favor firms that have large real estate portfolios instead of those with the best business models. High housing prices thus result in the misallocation of labor and capital and undermine the competitiveness of cities.

Over the past three decades Asia has experienced an urbanization rate unprecedented in human history. While the rapid urbanization helped to fuel economic growth, it has overwhelmed many cities, especially with respect to housing. While the demand for housing rapidly increased, the supply reacted slowly, resulting in high housing prices.

In an attempt to gauge the magnitude of the problem, ADB's economic research team gathered housing price data for 211 cities in 27 developing countries in Asia. Combining the data with the income of households allowed us to calculate the price-to-income ratio, the most common measure for housing affordability. The average price-to-income ratio across all cities is at 15.8, which is classified as severely unaffordable. In developed countries the ratio stands at around 4. A further aggravating factor is that access to formal finance is still low in many Asian countries and housing finance expensive.

[tweet="Here are four ways to make #housing more affordable in #Asia" text="Here are four ways to make housing more affordable in Asia"]

How to solve the housing crisis? First, better data means better policies. Housing price data are rarely collected systematically in cities. Policy makers therefore struggle to assess the magnitude of the problem and are unable to assess the impact of existing housing policies. Several governments in the region, including Malaysia and the Philippines, have recognized the need for better data and introduced new programs to systematically collect more information on the housing market. Rich data sources are also becoming available through new information technology developments and can offer relatively inexpensive options to improve the understanding of the housing and labor market.

Second, easing supply constraints will lower housing prices. Housing prices are high because the rapid increase in demand has met a sluggish supply response. One of the main reasons is that cities have been slow in providing new developable land at low cost. Rigid land use regulations and coordination problems across administrative boundaries often delay the process. In the best case, the provision of new land is linked to the increase of affordable housing. For example, in Singapore the government provides land parcels at lower prices to private developers to build affordable housing for the middle class.

Third, provide affordable and efficient public transportation. Recent research in the United States found that better transportation can substantially lower housing prices. An efficient and affordable within-city transportation system allows people to move quickly within the city and expands the potential area for commuting to jobs. It thereby alleviates the need to live in urban

centers and eases the housing demand. Upgrading public transportation systems in cities in Asia would therefore not only ease the massive congestion problem, but also help reduce housing prices.

Finally, promote the rental market. The focus of housing policies has often been on enhancing homeownership. While homeownership offers certain advantages, such as the accumulation of a physical asset, it also carries risks, such as overborrowing and lower labor mobility. The rental market remains small in most Asian cities, especially for low-income groups. Developing a thriving rental market that offers a healthy mix of both public and private rental housing should therefore be encouraged. The public rental housing stock needs to be expanded and better managed. The participation of the private sector can be encouraged by providing financial incentives, such as tax exemptions or subsidies, for building private rental housing.

As cities in Asia continue to grow, they urgently need to tackle the housing unaffordability crisis. Housing unaffordability could undo many of the benefits that urbanization brings. As cities are the center of economic activity, unaffordable housing undermines the competitiveness of the entire economy and of sustainable development.

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