

# Housing and Housing Finance Challenges and Initiatives in OIC Member Countries

## **Real Estate and Housing Economics**

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**Zaigham M. Rizvi**

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“There is no legal and practical mechanism to which all countries related with Islamic finance are subject”.

- *Turkish Deputy Prime Minister Ali Babacan*

“The brilliant recent growth and globalization of Islamic finance has led the total size of the global Islamic financial assets to increase to USD 1.5 trillion. Many countries, mainly Bahrain, Indonesia and Malaysia have a large Islamic finance sector while others such as Luxembourg and England are making determined steps to improve these financing instruments”

- *The World Bank President Dr. Jim Yong Kim*

**Press conference on the occasion of World Bank's first Representation Office on Islamic Finance launched at Tutkey's Borsa Istanbul Premises**

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This presentation has four sections:

- Housing Scenario and Challenges in the Muslim World
- Financing Modes under Sharia
- Long Term Funding Instruments in an Islamic System
- Issues to be addressed

- 57 countries are OIC members out of 193 as UN members on a global scene
- The World population has crossed 7 Bn in 2012, whereas population of IDB member Countries was 1.6 Bn in 2009 (23%)
- IDB member Countries need around 8.2 mn new housing units/year. To meet this yearly demand IDB member countries will need US\$ 15.5 Bn/year of investment in housing sector.\*
- The yearly requirement of housing in Muslim World is growing at 2.83% p.a.
- Sharia-Compliant Housing Finance in Muslim Countries is around 20%, and rest of financing is Conventional. A lot more is needed to be done to expand its share.
- Urban population of IDB member countries is growing at 2.8% per year as compared to worldwide average growth of 0.5%.
- The total urban population of IDB member Countries was 731 Mn in 2010, representing nearly half of total population of IDB member countries
- MG to GDP ratio is highest in Malaysia (32%), and lowest on Pakistan and Egypt(below 1%).

## OIC/IDB Member Countries on a Global scene

\* Source: IRTI-IDB Occasional paper, 2012. OIC and IDB membership is the same.

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- The Muslim world represents 1 of 4 humans on the planet.
- Nearly the same share in number of countries.
- Represents 1 of 2 poor on the planet.
- An acute challenge of widening demand/supply gap and rising housing backlog ... leading to Social Unrest.
- Most of the housing backlog and short supply is in low-income segment of the population.
- Population growth and urbanization are further compounding the existing huge backlog.
- Rising costs (land, construction, construction materials) are making housing unaffordable for the poor.

**Housing is a 'Numbers' game – The Muslim World is no exception!**

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- IDB/IRTI\* study suggests housing needs of the Muslim World are at 8 mn units, nearly all in the Low-Income Segment. The estimate needs further analysis and breakdown
  - MENA 3.2 mn;
  - Asia 2.7 mn; and
  - Africa/others 2.3 mn.
- Shortage: Egypt 1.5 mn, Iraq 1.0 mn, Morocco 0.6 mn, Saudi Arabia 0.4 mn
- Significant oversupply in upscale or luxury housing only, while low income segments/ communities remain neglected
- Rapid urbanization is a major issue for low income housing
- Need for new housing for 8 mn due to population growth is based on 5-5.5/HH and population growth rate of 2.5%
- Urbanization and population growth further increases the annual housing needs in major metropolitans
- On the other side, supply is 30-40% of new demand, all for high income segment.

## Housing Supply Challenge – The figures speak

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- **ME Countries:** Recent civil uprising in some countries have brought to surface the social issue of low-income affordable housing
- Many countries in the region have allocated huge funds and have initiated Affordable Housing Projects, which need to be more effective and sufficient.
- Most of these programs are based on State Subsidy, and thus would not be viable and sustainable in the long run.
- *Indonesia* over the years has developed and implemented a very comprehensive program of State Subsidized Pro-Poor Housing.
- *Africa* has a unique challenge of Low-Income Housing, with challenges of affordability, housing micro-finance, and slums growing in size.
- Many African countries with large Muslim population are a candidate for Sharia-Compatible Housing Finance
- *Asia*, with Muslim countries like Pakistan, Afghanistan, Indonesia, and Malaysia, are faced with challenges of low-income affordable housing shortage and answers have no match with the issues

## **Muslim World facing bigger challenges**

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- As most of housing shortage is in low income segment, these segments/communities need empowerment through housing finance.
- Nearly 1/5<sup>th</sup> of population in the Muslim World is a candidate for HMF.
- Need for Faith- Sharia-Compliant Financing Models.
- Challenges of Rapid Urbanization and growth of low-income communities.
- Institutional Housing Finance is either non-existent or in infancy stages in most of the Muslim World (Afghanistan and some African Countries).
- Slightly advanced in some others (Malaysia, Turkey, Egypt, Morocco, Indonesia, Pakistan and Saudi Arabia).
- Regulatory Framework needs strengthening.
- Additional challenges include:
  - Role and responsibilities of Specialized Housing Finance Institutions (HFIs) and Commercial Banks (CBs).
  - Long Term Liquidity Facility Institutions and Instruments.

## **Housing Finance Challenges in Muslim World**

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- Murabaha
- Ijarah
- Istisna
- Diminishing Musharakah

*(Mostly used for Islamic Housing Finance)*

## **Islamic Housing Finance - Core Structures**

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## Diminishing Musharakah

- Is kind of Shirkat-ul-Milk (Joint Ownership)
- It involves taking share in the ownership of a specific asset and then gradually transferring complete ownership to the other partner.
- This concept works as declining ownership of the bank.

### Three components

- ✓ Joint ownership of the Bank and Customer
- ✓ Customer as a lessee uses the share of the bank
- ✓ Redemption of the share of the Bank by the customer

## Mortgage Refinance Entities:

- Cagamas Malaysia
- Jordan Mortgage Refinance Co.(JMRC)
- Egyptian Mortgage Refinance Co. (EMRC)
- Jordan Mortgage Refinance Co. (JMRC)
- Pakistan Mortgage Refinance Co. Under Formation (PMRC)

## Liquidity Instruments:

- Islamic REITS (iREITS)
- Securitization/Mortgage Backed Sukuk (MBS)

## Malaysian i-REITs:

- As of Nov 2013 there are a total 4 i-REIT out of the total 17 REITs issued.
- Total market capitalization of Malaysian i-REITs is RM 14.4 Bn, and makes 42% of total REITs market
- i-REIT in Malaysia generated a return of 13.4% during 2011-13
  - Al-Aqar: Malaysia launched the First i-REIT in the World, in Nov. 2006, size \$ 138Mn
  - Hadharah: Malaysia launched Second i-REIT in Feb. 2007, size \$ 136 Mn.
  - AXIS: Malaysia launched Third i-REIT in Dec. 2008, size \$ 79 mn
  - KLCC REIT: Malaysia launched Fourth i-REIT in May 2013, size \$ 650 mn

## Kuwait i-REIT:

- Al Mahreb Tower REIT: Kuwait launched its first i-REIT in 2007, Market capitalization in 2013 is \$ 100 mn

## Bahrain i-REIT:

- Inovent REIT: Bahrain launched its first i-REIT in 2009, size \$ 80 mn

## UAE i-REIT:

- Emirates REIT: UAE launched its first i-REIT in 2010, size \$ 200 mn

## Singapore i-REIT:

- Singapore launched Sabana REIT in 2010, size \$ 1.2 Bn

## **Islamic-REIT: Market based liquidity instrument.**

**In general, an Islamic REIT is a collective investment scheme in real estate, in which the tenant(s) operates permissible activities according to the Shariah**

- Dar-ul-Arkan of Saudi Arabia raised funding through Mortgage Backed Securitization (MBS) in 2006, and had redeemed it in 2009. In 2014 it issued another Sukuk and received a response of over \$1 Bn and accepted only \$400 Mn.
- Dubai Financial Market (DFM) has issued new Standards for Structuring Sukuk.
- HBFC of Pakistan raised PRs 1.5 Bn in 2007 through MBS for a 7 year Sukuk, to be reissued twice with 6 year intervals and re-pricing so as to get 20 years long-term funding.
- Cagamas, the pioneer long-term liquidity institution of Malaysia has been raising liquidity through Residential-MBS (RMBS)
- Dubai's Tamweel targeted \$ 235 mn through MBS in 2012, which was later shelved for market reasons.
- International Islamic Rating Agency (IIRA), and other such agencies are playing an active role in Rating as well as promotion of i-REITs.

## **MBS: Market based liquidity instrument**

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## Demand Side

- Nearly 1/5<sup>th</sup> of the population in Muslim World is a candidate for HMF.
- Need for Faith- Sharia-Compliant Financing Models.
- Institutional Housing Finance is either non-existent or in infancy stages in most of the Muslim World (Afghanistan and some African Countries), and slightly advanced in some others (Malaysia, Turkey, Egypt, Morocco, Indonesia, etc.).
- Regulatory Framework needs strengthening.
- Additional challenges include Roles and Responsibilities of Housing Finance Institutions (HFIs) and Commercial Banks and Long Term Liquidity Facility Institutions and Instruments.
- Issues of Business Models, Financial Inclusion, Product Diversification, etc.

## Supply Side

- Major challenge remains manufacturing scale production of Affordable Housing for Low-Income Segments, which as yet is very limited

## **Challenges being faced**

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## Issues we know, Answers we need



**Zaigham M. Rizvi**

**zaigham2r@yahoo.com**

Secretary General: Asia-Pacific Union for Housing Finance-  
APUHF ([www.apuhf.info](http://www.apuhf.info))

Housing Consultant World Bank, UNHABITAT, CMHC-Canada

Senior Advisor Housing Enclaves-USA (ShoreBank Int'l )

Advisor Housing, State Bank of Pakistan

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