

Affordable Housing Asia

3rd Annual Conference

Kuala Lumpur, Malaysia

September 6-7, 2017

Session-1

“Asia-Pacific: Regional Developments in Housing Finance”

By

Zaigham M. Rizvi

Secretary General

ASIA PACIFIC UNION FOR HOUSING FINANCE (APUHF)

- Housing Scenario and Challenges around Globe
- Defining affordability for Low-Income Housing (LIH)
- Regulatory Framework in the Region
- Economic Impact of Real Sector
- Electricity Poverty and Low-Income Housing
- Housing: Story of Singapore
- HDFC India: A model housing finance institution on global scene
- Malaysia: A success story on the region backed by Cagamas
- Thailand: Housing and Housing Finance
- Self-Contained Communities for Housing: Case of CODI Thailand
- Issues we know, Answers we need

- World Population is 7.5 billion. By 2050 it will be 10 bn plus. (was One Bn in 1800, 4 Bn in 1974)
- Current average net population growth is about 130,000/day. (Interesting to see World Population Clock)
- World needs 4,000 houses an hour to keep up with incremental demand and backlog (UN-Habitat)
- Every second person on the globe lives in urban areas, and by 2050 it will be three out of four (70%)
- By 2020, it is estimated that the world slum population will cross 1 bn
- Availability of “Serviced land” is limited, and population density (Persons/Sq. KM) is on the rise.
- Bangladesh, Population Density is 1,237 (was 381 in 1961), where as it is 28,410 in city of Dhaka.
- India, Population Density is 441 (was 154 in 1961), it is 28,500 in the metropolitan of Mumbai.
- Almost half of the world lives on less than \$ 2.50 a day, and four out of five under \$ 10 a day

In view of this population and urbanization explosion:

- The percentage of people without access to decent, stable housing is rising.
- Adequate housing is vital for the health of world economies, communities and population.
- If we are to succeed in the fight against poverty, we must support expansion of housing both as policy as well as practice.

- **Asia-Pacific represents:**
 - 1/4th of the world's population, and including China nearly half of the world population
 - Nearly 1/2 of the world's poor
 - Region is faced with massive housing shortage. Nearly entire urban shortage is in low-income category
- **Awareness:** Housing has become a popular political slogan.
 - “Housing for all”;
 - “Slum Free Cities”
 - “Maang Raha hai har Insaan - Roti, Kapra, aur Makan” (Every human demands food, clothing and shelter); etc.
- **Delivery:** In few countries it is SOME, but in most there is NONE

Each country in the region has its own geo-socio-economic parameters, while all face a common issue of “shelterless poor”

- IDB member Countries need around 8.2 mn new housing units/year. To meet this yearly demand they need to spend US\$ 15.5 Bn/year of investment in housing sector.*
- The estimate of population growth is based on 5-5.5/HH and population growth rate of 2.8%. Population growth is not being controlled, while HH size is declining
- The yearly requirement of housing in Muslim World is growing at 2.83% p.a.
- Sharia-Compliant Housing Finance in Muslim Countries is 20% and is on the rise.
- Muslim Population Share: Africa-53.0 %, Asia-32. 2%, Europe-7.6 %, N. America-1.8 %.**
- Urban population of IDB member countries is growing at 2.8% per year (Worldwide growth 0.5%).
- The total urban population of IDB member Countries is 731 Mn in 2010, representing nearly half of total population of IDB member countries.
- MD to GDP ratio is highest in Malaysia (32%), lowest in Pakistan and Egypt (below 1%).

Housing is a 'Numbers' game – The OIC member countries are no exception

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

**www.IslamicPopulation.Com

Market Housing:

- Represents High and Middle Income Market Segments
- **Market Segment** is addressed by market forces on its own without any need for state-intervention or support
- Supply is there to meet the demand

Social Housing:

- Represents lower-middle and low-income market
- Social segment needs state intervention/support to facilitate affordable housing supply and an enabling environment –**LIH Segment**

Housing Microfinance

- Bottom of the Pyramid: The candidates for housing microfinance, needing delivery through direct/indirect state subsidies. **EWS Segment**

Market Segmentation for Affordability:

Income Affordability:

- India: 30-40 % of household income
- Pakistan: 30-40 % of household income
- Indonesia: 30 %
- Malaysia: 30%
- Thailand: If a household earn the amount 25% of which can be paid off for housing, then it is said to be affordable for that household.
- Philippine: Housing is considered to be affordable if monthly amortization/ rental is PHP 264.78 (US\$ 6.38) in the first decile, PHP 388.71 (US\$ 9.36) in second decile and PHP 496.38 (US\$ 11.96) in third decile.
- Hong Kong: Like United States and United Kingdom, Hong Kong uses the median rent-to-income ratio as an affordability yardstick for rent setting.

Cost Affordability:

Generally considered at 4-6 times of Annual Income

Definition of Affordability:

Income Affordability: As percentage of Gross Household Income

Cost Affordability: 4-6 times of Gross Annual Income

Affordability Defined....

haves



ANTILIA: Mukesh Ambani House Mumbai One Billion Dollar, 27 Story, 400,000 Sq. Ft Area, 600 Staff to maintain
Mr. Ambani does not live in it

Affordability is not what you wish, its what you desire and can have it

Affordability Defined....

have-nots



Cage Housing in Hong Kong



Shoes made of used Mineral Water Bottles

**Affordability is what you essentially need and need economic empowerment to have it.
For this essential need, the poor are obliged to find their own ways and develop slums**



Rich-Man, Poor –Man Housing

Housing Construction vs Destruction : Syria

Destruction is mass scale,
Construction may take decades, if at all it will be



- **Government** at federal and provincial levels: Facilitator and Enabler Role.
- **Urban Planners** : Integration of Housing and Habitat Development with Urban Planning.
- **Fiscal Authorities** : Providers of Fiscal Incentives to LIH Developers and Material Suppliers.
- **Regulatory Agencies** like central bank, building control authorities etc.
- **Academia**: Involved in research and development on Urban Planning, Housing and Construction Materials.
- **Developers**: Engaged in development of large scale LIH, Innovative Construction Technologies for Manufacturing Scale Production, Development models under PPP Modes, etc
- **Construction Materials Industry (CMIs)**: Provider of standardized CMIs
- **Housing Finance Companies and Commercial Banks HFCs/CBs)**: Providers of Diversified Housing Finance Products, Expansion of Outreach to financial inclusion
- **Land Agencies/Land Banks (Land)**: Arranger and manager of Raw Lands and Serviced Lands, enhancing supply of lands under PPP modes.
- **Legal System**: Foe efficient and effective Foreclosure Laws, Title Registration and Transfer etc.

Stakeholders of Housing

- **India:** Reserve Bank of India (RBI) has the overall housing finance regulatory role and responsibility. In 1988, RBI created National Housing Bank (NHB) as its wholly owned subsidiary and transferred the development and regulations of HFCs to it. RBI retained housing finance regulations of commercial banks and is maintaining active liaison with NHB on its regulatory role on housing for specialized companies.
- **Singapore:** Central Bank of Malaysia (MAS)
- **Malaysia:** Bank Negara Malaysia (BNM), The Central Bank of Malaysia.
- **Thailand:** Bank of Thailand, The Central Bank
- **Philippine:** BSP, The Central Bank
- **Pakistan:** State Bank of Pakistan (SBP) for commercial banks and DFIs, while HFCs are regulated by the Securities and Exchange Commission (SECP).
- **Afghanistan:** Da Afghanistan Bank, The Central Bank
- **Bangladesh:** Bangladesh Bank, The Central bank along with Ministry of Finance.
- **Indonesia:** Bank of Indonesia (BI) along with Ministry of Finance

Regulatory Framework in the region

- **Developed World:** Real Sector contributes to growth and development of 71 CMIIs and 7-10% contribution to GDP. In USA, it has direct and indirect linkage to 272 industries.
- **Developing World:** About 42 CMIIs and 3-6% contribution to GDP.
- **India:** Real sector is playing a vital role in overall growth of the economy, growing at 20% pa in recent past and contribution to GDP is 7-8%.
- **China:** 5-6% , **UK:** 7%, **USA:** 9%
- **Multiplier effect into economy:**
 - Philippine:** Housing sector has a great economic impact. For every Peso spent on housing will create 2.3 jobs, 3.3 pesos as Value Creation Multiplier, 0.47 as Household Income Multiplier and 3.9 Pesos as Indirect Tax Multiplier.
 - India:** IRs 1.0 invested in construction contributes IRs 0.8 to GDP (Agri-0.2, Manuf. 0.14)
IRs 10 mn in construction generates employment of 22,000 unskilled man-days, 23,000 semi-skilled man-days, and 9,000 technical man-days.

Economic impact of Real Sector

Solar for Social Housing

Energy (Electricity) Poverty around Globe and in Asia

- Nearly 1.3 billion people worldwide live without any access to electricity (being Off-Grid).
- Asia with 55 % has the largest off-grid population in the world.
- Nearly 800 million people in Asia live in a state of near darkness, coping with no or limited access to electricity. 700 million or 90% are located in rural Asia.
- India alone has 400 million, 35% of India's total population is off-grid.
- Pakistan has 60 million, 30% of Pakistan's total population is off-grid.
- Kerosene lamps, used as source of lighting, are potential threat of fire and cause of environmental pollution in small rooms, which are mostly without ventilation.
- In India alone expenditure on Kerosene Lamps is estimated at \$ 2.2 billion/year.
- In Bangladesh 17 million households out of total 29 million are off-grid.
- In Indonesia 20 million households out of total 57 million are off-grid.
- Extending grid-electricity to these household is a remote possibility in near future due to economic constraints and under-electrified grids.

Alternate and renewable energy resources, and mainly Solar is the doable and affordable option

Global Lighting Program of IFC

To serve Off-Grid and Under-served population

- International Finance Corporation (IFC) has launched a Global Lighting Program.
- Lighting Asia is the Asian component of this program.
- IFC has assessed some solar lights manufactures for “quality certification”.
- In each country IFC has partner organizations, which include companies engaged in solar business, NGOs and Microfinance Institutions.
- IFC promotes this program through consumer awareness and policy advocacy.
- IFC has conducted a few exhaustive studies on penetration and impact of this program in seven countries of Asia.
- The reports concludes that program has positive impact on life of electricity-poor population in terms of education, income generating activities, health and improved environment.



**BRIGHT ROOM FOR
MOTHERS, TEACHER AND STUDENTS**



**TARGETING SCHOOLS TO
ILLUMINATE THE COMMUNITIES**

Approximately 80% of Singapore's housing stock is built by the HDB, with home ownership financed through CPF savings. As a result:

- The country's home ownership rate is above 90% (at 50% in 60s)
- 75% of the housing stock in 2015 classified as “public housing”; 82% of the resident population live in HDB estates, of which 79% lived in HDB-sold flats.
- The remaining private housing sector transactions are by higher-income citizens, expatriates, and foreign investors.
- The government developed its housing policies based on three pillars:



Housing status in Singapore

Singapore Yesterday



1960s

World Bank holds Singapore up as model of development, pointing to sound policies in urbanisation



Source: The World Bank's World Development Report 2009

Singapore Today



The "Miracle" Transformation



Today

From 3rd World to 1st in One Life Time!



Singapore, the benchmark in successful economic development



- Housing Development Finance Corporation Ltd (HDFC) of India was incorporated in 1977 as a specialized housing finance institution (SHFI) in the private sector.
- Over the years it has grown into a financial conglomerate, having established eight subsidiaries of its own, including HDFC Commercial Bank, Life and General Insurance, Asset Management, Property Valuation, Venture Capital, Financial Services and an institution to serve low-income housing segment (GRUH Finance).
- HDFC's outstanding Gross Loan Portfolio stands at US\$ 43.8 billion as of March 2016.
- Over the years it has served 5.4 million customers (March 2016),
- HDFC is serving 1,000 plus clients/day. Its yearly average loaning is IRs 200-250 billion.
- India has 80+ SHFIs regulated by NHB. Its overall outstanding mortgage debt is IRs 12.5 trillion
- HDFC PAT CAGR is 18%; including subsidiary profits at 23%.
- Cost to Income Ratio at HDFC is only 7.6%.
- Total loans written off since inception are only 4 basis points of cumulative disbursements.
- HDFC has a wide distribution network, based on physical and virtual offices. HDFC has 401 offices in 173 cities. In addition, it has 103 outlets of HDFC's wholly owned Distribution Company.

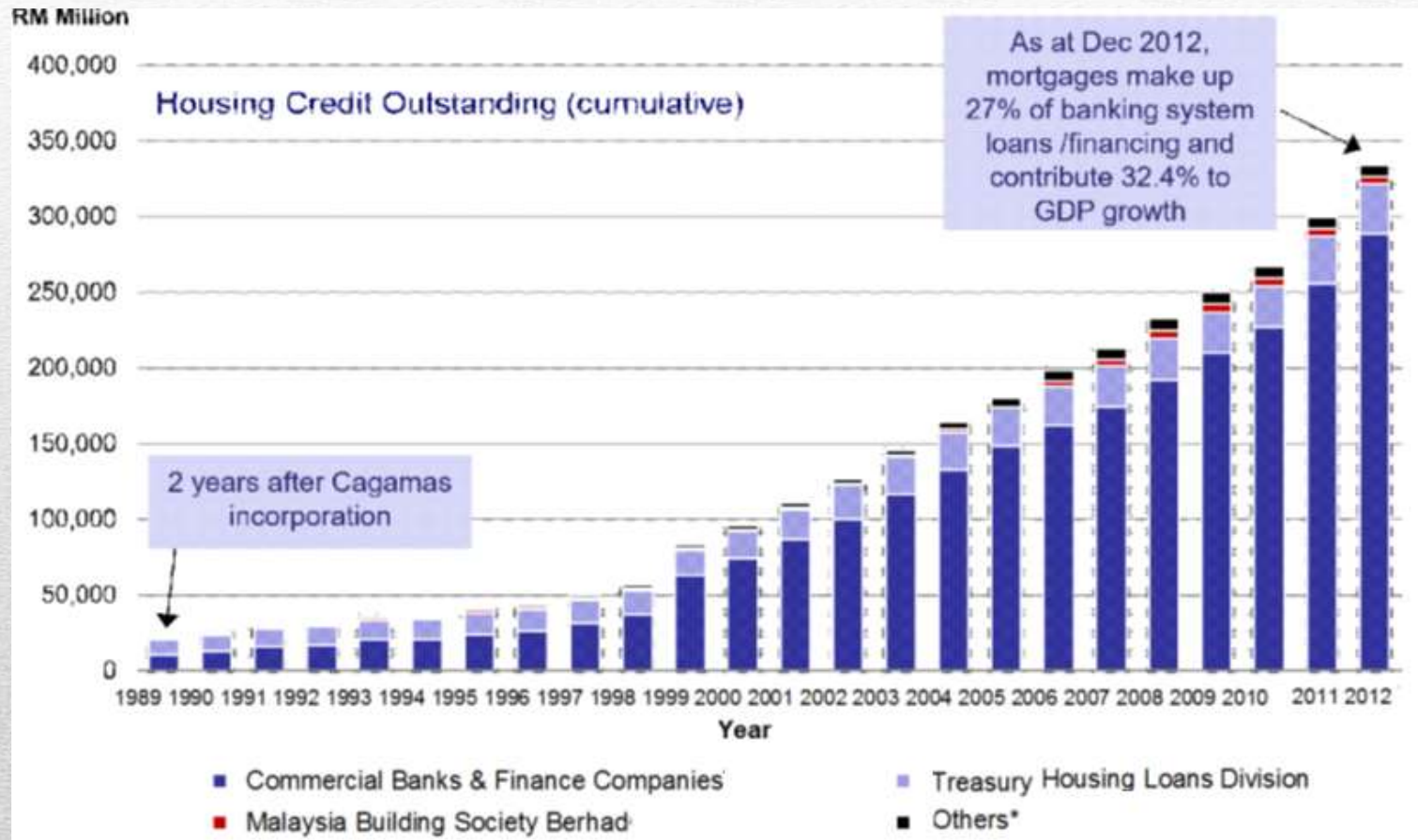
HDFC-India: a model housing finance institution on global scene

- The **outstanding amount of housing loans**, totaled RM 460 billion (**USD 108 billion**), **granted by housing credit institutions** (comprising of Commercial Banks, Islamic banks, the Treasury Housing Loans Division, the cooperative Bank Kerjasama Rakyat Malaysia Berhad, Malaysia Building Society Berhad, Borneo Housing Mortgage Finance Berhad and Sabah Credit Corporation).
- The important factors that contribute to the establishment of the sustainable housing finance system in Malaysia are a combination of **government participation**, active and **efficient mortgage market** and development of **secondary mortgage market**.
- Mandated lending to priority sectors, including affordable housing, was introduced by BNM in 1976.
- For development of Secondary Mortgage market, **Cagamas Berhad was established in 1987**.
- Cagamas aims at achieving widespread housing ownership and promoting the development of long-term capital market in Malaysia (i.e. to convert illiquid housing loans in the books of financial institutions into liquid and tradable securities).
- Over the next 25 years after establishment, **Cagamas cumulatively purchased housing loans and Islamic house financing in the secondary market equivalent to RM104 billion (US\$ 24.4 billion) for the financing of 1.7 million houses**. To fund such purchases, Cagamas issued Bonds/Sukuk of varying tenures to match the underlying pools of housing loans/financing. These Cagamas bonds/Sukuk served as a catalyst for the development of the private debt securities market in Malaysia.

Malaysia: Cagamas, a success story on the globe

Role of Cagamas

Promotion of home ownership/home accessibility and affordability in Malaysia



- Population 66 million - Bangkok Metro. Region (BMR) 14 million (21%) •
- Urbanization level 50% - Household size 2.7 – smaller in Bangkok 2.0
- GDP growth +3.2% - GDP per capita US\$ 5,662 - Unemployment 1.0% • Inflation 1.5% - Policy Rate 1.5% - Exchange rate US\$1= Baht 35
- **Successful provision of affordable housing to all income levels** • Home ownership rate 80%, Rental 16% • No serious housing shortfall
- **Slum housing has been decreasing, rather disappearing**
- Affordable subsidized housing is provided by **NHA (264,000 units during 2004-12)**
- **Private housing developers** are efficient (800,000 units in BMR during 1993-97, 130,000 in 2016)
- **Housing finance system has operated efficiently and is very robust. GHB is lead player.**
- **Home Loans to GDP at 27%. Outstanding Mortgages at Baht 3.3 trillion (US 97 billion)**
- Home loans are available, accessible and affordable to most income groups
- **Commercial banks** altogether have the largest home loan market share 60%.
- **Government Housing Bank (GHB)** is the largest individual holder of home loans 28%
- GH Bank has played a key role in providing affordable home loans to LIG.
- GHB's 80% of all loan accounts are less than One million baht (US\$33,000)
- Lowest interest rates - highest LTV (up to 100%) and longest term 30 years
- GHB supports housing market information, education and knowledge development (**National Credit Bureau - Real Estate Information Center (REIC)- Journals & Websites** - professional associations)

“The infrastructure in our major cities cannot cope with current populations, never mind the predicted growth that continued urbanization will drive.

People who live in decent homes are better workers and make the city a thriving place...the challenge is to make life more livable for people who are drawn to cities to find jobs and create that growth.

Adequate housing and secure tenure are the basis for living. There are various ways to address long-term affordability of housing, but it has to start with the allocation of land.”

Jonathan Reckford

Chief Executive Officer, Habitat for Humanity International

Massive urbanization, Poor Urban Planning and decaying Urban Infrastructure

Challenges of LIH: Supply Side

- **ISSUE:** *Supply of serviced land* at affordable price: Availability of well-connected affordable land remains the main concern in major metropolitans/cities of Asia. Affordable land is often not well connected to transportation and other public services.

ANSWER: External Infrastructure support by the state, in terms of physical and social infrastructure, as part of affordable supply of “serviced land”.

- **ISSUE:** *Rising Construction Costs:* According to developers across cities in India, their construction cost on yearly basis has increased by 15-20%. LIH is a ‘low-margin’ business, so is not attractive, more so in case of delays.

ANSWER: Fiscal support in terms of waiver of Sales Tax, Import duties, and other levies.

- **ISSUE:** *Lengthy and Complex Approval Process:* This impacts construction timelines, project IRR, pricing. The approval fees/costs further adds to the unit price.

ANSWER: Simplified approval procedures, on-line status, monitoring, waiver or discount of approval fees etc.

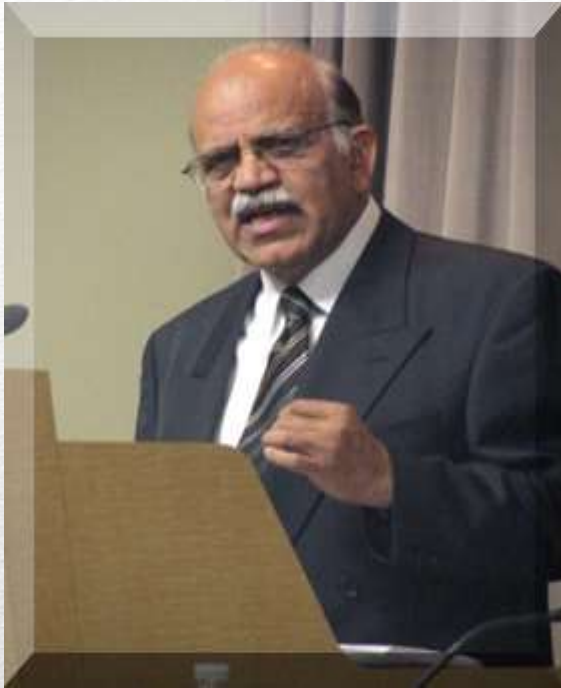
Challenges of LIH: Supply Side- Cont'd

- **External Infrastructure:** Government needs to ensure that *Raw Land* for LIH Projects is supported by way of external infrastructure in terms of roads, transport, communication etc., as well as provision of health and education- *From “Raw Land” to “Serviced Land”*.
- **Transport:** At the initial stage of LIH Project, public transport be provided.
- Non-availability of **Low-Cost Construction Technologies**. The Developers to be facilitated and supported to import and indigenize Low-Cost Construction Technologies for manufacturing scale production.
- **Lack of Low-Cost Construction Materials(CMIs):** The Govt. to promote indigenized development and production of Low-Cost construction materials, and regulate standardization of CMIs for use in LIH Projects.
- **Manufacturing Scale Production:** The development projects and the developers are of small size, thus denying the benefits of economies of scales, and use of proven low-cost construction technologies. Manufacturing scale provides economies of scale.

Challenges of LIH: Demand Side- Cont'd

- Specialized HFCs are needed to finance Low-Income Segment
- Commercial banks (CBs) prefer middle and high income market- low-income housing finance by CBs be placed under priority lending regulations
- Housing Microfinance Institutions for BoP/EWSs.
- Ensure outreach and financial inclusion to low-income segments, through innovative channels like Physical Branches, Virtual Branches, Service Agents, Service on Wheels etc.
- Customers' lack of awareness on affordability, payment terms, registration & clearance of titles, and available fiscal/regulatory support.
- Delay in home delivery leads to simultaneous payment of rent and EMI
- Provide interest rate subsidy to low-income customers
- Waive or subsidize levies like VAT, Stamp Duty and Registration Fees for low-income customers

- Generally Political Sloganism
 - “Housing for all”,
 - “Slums Free Cities”,
 - “Maang Raha hai har Insaan-Roti, Kapra, aur Makan” (every individual is demanding for bread, clothe and house), and so on.....
- In some countries delivery on these slogans is SOME, and in most it is NONE
- Every country is facing a common issue of “shelter less poor” with an ever increasing backlog
- Recent uprising in the ME has shown that even affluent economies are no exception
- Regional successful models are to be shared and indigenized
- Multilateral institutions like the World Bank, IFC, Islamic Development Bank, UN-HABITAT to play a pivotal role in promoting housing finance, more so in low-income affordable hosing supply and finance
- **Platforms like IUHF, AUHF and APUHF to play a pro-active role in serving the mission and be provided much needed support by multilateral agencies.**



Zaigham M. Rizvi

zaigham2r@yahoo.com

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

Served/Serves as Housing Adviser/Expert Consultant to:

- World Bank/IFC, UNHABITAT, CMHC-Canada
- Affordable Housing Institute-USA (AHI)
- Encludes-USA (ShoreBank Int'l)
- State Bank of Pakistan (the central bank)

The information has been compiled by Mr. Rizvi from self study and from different sources. He is grateful to all those serving this noble cause in some form or the other.
