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# Low-Cost Housing Solutions

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**INSTITUTE OF BANKERS PAKISTAN  
RESEARCH PAPER COMPETITION  
(Winter – 2006)**

**“Low Cost Housing Solutions”**

**Written By:**

**Ghulam Mohey-ud-din**

**Student M.Phil. leading to PhD (Economics)**

**Department of Economics**

**GC University, Lahore.**

**E-Mail:**

**[g.moheyuddin@gmail.com](mailto:g.moheyuddin@gmail.com)**

**Contact Nos.**

**Cell: 0300-8883487**

# **Low Cost Housing Solutions** \*\*

## **By: Ghulam Mohey-ud-din** \*\*

### **ABSTRACT**

*The provision of housing becomes a mega issue not only in the Under-Developed Countries (UDCs) but also in the Developed Countries (DCs). There is massive unmet demand for housing because of rapidly increasing population and rural-urban migration. On the one hand, there is an unmet demand for housing and on the other hand the affordability is worsening due to low purchasing power, reducing income of the people and accelerating inflation etc. So, the only solution to the housing issue is the provision of the low-cost (affordable) housing to the low-income people.*

*This paper discusses the different possible alternative solution for low-cost housing. First of all this paper describes the importance and potential for low-cost housing in this contemporary world and then the challenges and constraint, that must be addressed before finding the solutions to low-cost housing. And ultimately it gives the brief but comprehensive review of the possible alternatives to solve the housing issue.*

### **KEY WORDS**

*Low-Cost Housing, Low-Income Housing, Provision of Housing, Housing Issues, Housing in UDCs, Housing Solutions.*

### **I – INTRODUCTION**

The provision of low cost housing for the low-income segment of population is still a mega issue, not only in the Under-Developed Countries (UDCs) but even in the Developed countries as well. The world population is growing swiftly, the current

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\* This research paper is awarded cash prize in *Institute of Bankers, Pakistan (IBP)*'s Research Paper Competition (Winter – 2006) and published in IBP's Book "*Low-Cost Housing Solution*" 2007.

\*\* Mr. G. Mohey-ud-din [<http://www.moheyuddin.com>] is a Research Fellow (Student – M.Phil Economics), Department of Economics, GC University, Lahore.

world population has crossed the 6.1 billions and according the United Nations (UN) Population Fund it is expected that the total world population will reach 7.9 to 10.9 billions by 2050 [HBFC, 2006]. This escalating trend is exerting a massive pressure on the demand for housing and also resulting in the increase in the migration from rural to urban areas, which is worsening the availability of housing in cities particularly. On the other hand the poverty is also a mega issues of the era, as the more than one third of the total world population are also living below the poverty line which are living in the slums and *Katchi Abadies*<sup>1</sup> or still homeless. So, the provision of the housing not merely a problem but the provisions of low-cost (affordable) housing to this less-privileged class is the genuine issue.

There are different possible alternate for the provision of the low cost housing available to us. But at the same time there are some challenges and the constraints we have to face regarding the formulation and implementation of the housing strategies and policies. The major objective of this paper is to underline the different possible solutions for the provision of the low cost housing. But it is necessary to study the importance of the low cost housing, i.e. why we need the low cost housing, as well as the constraints and challenges in the low cost housing. So, first of all we will discuss the importance of low-cost and then constraints of the low cost housing provisions before analyzing the low cost housing solutions.

The organization of this paper is follows as; the next section (section – II) discusses the need and importance of the low cost of housing provisions. The section – III describes the challenges and the constraints in the provision of the low cost housing. The section – VI analyzes the different possible alternate solutions to low cost housing. The last section (section –V) concludes the paper.

## **II – WHY THE LOW COST HOUSING? NEEDS AND IMPORTANCE**

It is very important to know that, “Why the Provision of Low Cost Housing is needed?” and “Why the supply of Low Cost housing is so important?” This section tries to answer these questions as under:

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<sup>1</sup> The un-regulated and squatter settlement on the government lands are usually known as the *Katchi Abadies* in Pakistan

## II.1 – Demand and Supply Gap in Housing

There is a huge demand and supply in provision of housing and there is enormous unmet demand for housing all over the world. The demand for housing is rising not only in UDCs but in the Developed Countries also. As, according to JRF<sup>2</sup> [2001] in Greater London in 2000-01, for example, over 41,000 eligible applications were received for such properties (low cost housing), despite registered social landlords (RSLs) adopting a narrow marketing approach to reduce demand to manageable proportions. (Only 1,300 new low-cost homes were funded by the Housing Corporation for this region over the same period).

In case of Pakistan the room density ratio is 3.5 persons per room, while this ratio is 111 in turkey, 22 in china and .5 in USA [HBFC, 2006]. The demand-supply gap for housing in Pakistan could be shown in the Table No.1.

**Table 1: Shortfall of Housing Units in Pakistan**

Growing rate of Housing Demand in Urban areas	8% per Annum	
Housing units in the Country	19.649 million	
- Owner Ship	80.8%	15.876 millions
- Rent Free	10.2%	2.004 millions
- Rented	9.0%	1.768 millions
Units Required for Population of 149 millions	25.839 millions	
Shortfall of housing units	6.19 millions*	
* Based on 1998 survey		
* this estimates that the backlog may now be increased 7.0 millions		

Source: HBFC [2006]

The above table shows that the growth rate of housing demand in Pakistan is 8% per annum. While the availability of housing lower than the demand and there was shortfall of 6.19 millions of housing units in 1998 and at present this shortfall may accumulate to 7.0 million.

## II.2 – Vulnerability and Low Incomes

As discussed in the previous section that there is big demand-supply gap of housing units in the Pakistan as well as all over the world. So, there is need of increased supply of housing and this housing supply should be affordable (low-cost). Because the most of the (houseless) population is living below the poverty (vulnerable and low-income group) and they cannot afford the large and costly houses. Thus the provision of low cost housing is necessary for these low income groups. As in Pakistan, nearly one

<sup>2</sup> JRF stands for “Joseph Rowntree Foundation” [http://www.jrf.org.uk/]

third of total population is living below the poverty line and according the HBFC [2006]:

- About 20% of population is very needy and very poor. Their mortgage affordability is less than Rs. 2 lac (Micro upto 2 lac).
- Nearly 3/4th of the people have income levels less than Rs.6, 000 per month and their mortgage affordability is less than Rs. 5 Lac ( Small – between Rs. 2 – 10 lac).
- Nearly 85% of the people can hardly afford mortgage up to Rs. 15 Lac (Lower Medium – between Rs. 10 – 25 lac);
- Nearly 95% of the people fall below the Mortgage affordability of Rs. 30 Lac (Upper Medium - between Rs.25–50 lac);
- Less than 1% can afford mortgage of Rs.100 Lac and above
- Average per capita income of Pakistan is Rs. 4,000 per month.

Now it become clear that most of the people cannot afford the large amounts of the mortgaged finances. So, the only possible solution to these housing issues is the provision of low cost (affordable) housing especially for the vulnerable and low-income people. Thus the provision of the low-cost housing is also important for this most vulnerable and low-income class.

### **II.3 – Employment Generation and Other Social Issue**

The low-cost housing is also important not only for the employment generation but also resolves some additional communal and social issues like social deprivation, weak social cohesion and issue of *Katchi Abadies* etc. So, the low-cost housing policy, as an integral part of social housing, can help achieve stable communities rather than ‘welfare ghettos’ which stigmatize their occupiers [JRF, 2001]. In construction of, low-cost housing usually the labor-intensive techniques of productions are used that helps in generating the employment. Thus we can say that the low cost housing is important in employment generation as well as in resolving the other social issues for UDCs.

### **III – LOW COST HOUSING: CHALLENGES AND CONSTRAINTS**

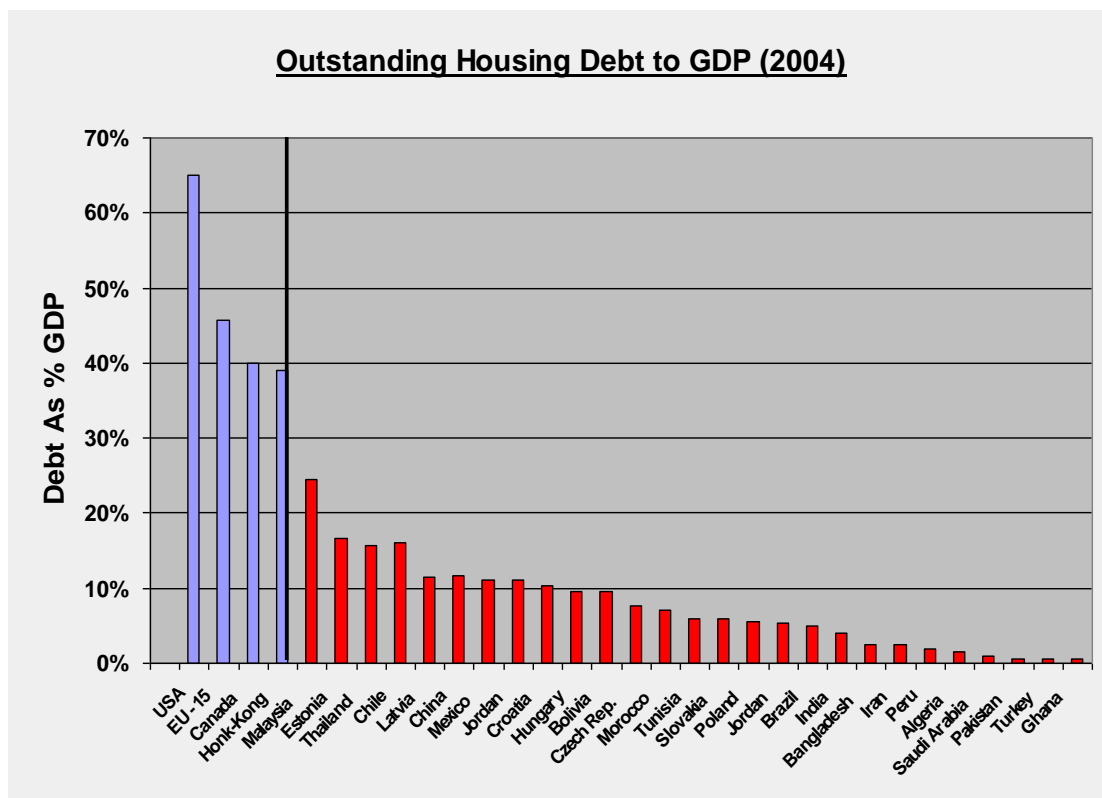
After studying the previous section it is obvious that nobody can deny the importance of the low-cost housing. We have discussed that there is a massive potential for the

low cost housing all over the world. Even if the economic and social advantages of housing development have been recognized, there are a number of obstacles that hinder the progress of housing delivery processes. These issues are addressed in this section as under:

### III.1 – Provision of Finances for Low Cost Housing

Financial institutions in most of the UDCs offer housing finance only to a small proportion of population. So, demand for housing finance mostly met through the informal sources of credit, because the national policies are not successful in encouraging domestic savings and the development of domestic financial institutions and instruments. Lacking collateral, the guarantee of regular and recorded income, the low-income groups depend completely on informal credit sources, which are expensive and mostly short-term. Establishing and in rare cases (since there are a few) strengthening mechanisms for financing low-cost housing and in this relation inclusion of the informal settlements is a fundamental issue [Erguden, 2001]. In case of UDCs including Pakistan the share of Housing Finance is inadequate, as shown by the Figure.1:

*Figure 1: Outstanding Housing Debt to GDP (2004)*



Source: HBFC [2006]

In Figure.1 the outstanding housing debt as percentage of GDP is shown. In most of the countries the housing debt as percentage of GDP is less than 20% and even less than 10%, while this housing debt to GDP ratio is about 65% in USA and also high in EU-15, Canada and Hong Kong. This shows the inadequate supply of housing finance in the low-income and some middle-income countries.

### **III.2 – Lack of Affordable Land for Housing**

Lack of adequate amount of land for housing especially in urban areas, particularly for low-income housing, is another most important constraint. This scarcity of land leads to growing land prices, overcrowding of existing houses, illegal invasion of vacant land and growth of *Katchi Abadies* (squatter settlements). This issue can only be solved by the provision of adequate and affordable land for low-cost housing.

In order to increase the supply of urban land, the financial and technical capabilities of the local government and authorities must be strengthened. It is also necessary to create conditions that would facilitate the growth of private land development agencies. Governments should formulate a regulatory framework ensuring that such private sector land developers will serve all income-groups [Erguden, 2001]. And government and local authorities should also provide the land for low-cost housing at the subsidized rates.

### **III.3 – Lack of Infrastructural Facilities**

Provision of infrastructural facilities is most important for the development of the housing sector. Financing and facilitating infrastructure to meet basic needs of many urban communities have been difficult for the majority of governments and local authorities. This is, in most cases, due to the high standards that make provision of infrastructure very costly [Erguden, 2001]. So, there is a need of the government intervention in provision of the better infrastructural facilities and services for the low-cost housing schemes.

## **IV – LOW COST HOUSING: SOLUTIONS**

We have studied that there is huge potential for investment in the low-cost housing provision but there are some constraints and impediments in the development of the low cost housing sector. Therefore, after over coming these obstacles we would be able to find out the solutions to low-cost issue. This section analyzes some possible alternatives available for low-cost housing as under:



#### **IV.1 – Public Sector in Low-Cost Housing**

In most of the UDCs the markets are inefficient and incomplete so the private sector, solely, cannot make sure the adequate supply of the low-cost housing units. The private sector works for the profit motive but in provision of low-cost housing units, as we discussed in the previous section, there are many constraints in the housing sector. So, private sector will not work efficiently in this regard and there will be a need of government intervention in the provision of the low-cost housing. The UNCHS<sup>3</sup> [1996, Clause 71] states, “Government interventions are required to address the needs of disadvantaged and vulnerable groups that are insufficiently served by the markets”.

So, the direct public intervention may be justified in low-cost housing provision. However, two major arguments against this are stated by Werna [1999, p. 14]: *firstly*, it (public provision) sets unfair competition against the private sector, therefore hindering its development; and *secondly*, the outcome of direct public provision has been dismal. The first argument does not hold universally; in many cases the private sector does not reach the low-income population due to its internal constraints. However, there is ample evidence to support the second argument, especially in the case of public housing programs in developing countries.

Despite of these arguments, given against the public provision, we have some examples of success of public provision of low-cost housing in some countries like Malaysia and China etc. For example, in China, The local governments are actively pushing the construction of affordable housing forward and have made the prominent achievements in meeting the low and moderate income households, optimizing the market supply of real estate and improving the city environment [Meisheng, 2004].

We discussed that there is a justification for the government’s role in the low-cost housing provision for most vulnerable and disadvantaged groups. But now the public sector role in the economic activity is reducing due to more emphasis on privatization, liberalization and globalization. So, government’s role is changing from ‘provider’ to ‘facilitator’ now. Accordingly, there is still a role for public sector in providing ‘enabling environment’ for the private sector. For example in Malaysia, government has given incentives to housing developers in form of tax relief, lower land premium and faster approval etc. to ensure the adequate construction of low and medium cost

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<sup>3</sup> UNCHS stands for United Nations Centre for Human Settlements

housing [Shuid]. Thus, it is obvious that the role of public sector is very important in the provision of low-cost housing directly as well as the facilitator to private sector.

#### **IV.2 – Private Sector in Low-Cost Housing**

We discussed, in previous part, that along with the direct intervention the government should focus on assisting the private market to be more efficient. It is argued that in order to achieve significant improvements in housing conditions in developing countries, a new division of responsibility and spirit of cooperation between the public and private sectors is required as neither can be expected to succeed in isolation [Werna, 1999; p.17].

So, the private sector should be allowed to play its role in the supply of low-cost housing and government should ensure the enabling environment. Private markets, therefore, have been acknowledged as the primary housing delivery mechanism forming the backbone of the “shelter for all” policy of the United Nations Centre for Human Settlements and the World Bank’s housing agenda in the 1990s (Kimm, 1987; LaNier et al., 1987; Linn, 1983; UNCHS, 1988). Similarly, Malpezzi (1994) states that even the existence of market imperfections would not negate the value of the private market nor the effort to make it more efficient relative to the existing conditions. Based on such ideas, the World Bank has advocated that governments should support the private sector rather than intervene directly in the market. The aim of such a strategy (enabling approach) is not to create textbook efficiency in markets but to increase their practical efficiency to produce more housing [Werna, 1999; p.10]. Accordingly the private sector is as necessary as the public sector in low-cost housing sector. The role of private sector is not limited to the construction of houses but also in the provision of finances, that will be discussed in the next section.

#### **IV.3– Financial Sector and Low-Cost Housing**

Supply of housing finance is the most crucial element of the low-cost housing policy. So, there is an important role of financial institutions in providing the housing finance for low-cost housing. The role of financing is most important in UDCs, as we discussed earlier that the proportion of housing debts as percentage of the GDP is already low in the UDCs. There is a demand for housing finance which is not fully met by the financial institutions. Another issue in the housing finance is the affordability issue mostly low-income people cannot afford the high interest rates and

don't have enough asset to pledge (guarantee). So, there is need of special arrangements for these like co-operative housing, micro-credit for housing and rental housing finances etc. These types of housing finance will be discussed in the coming section of the paper.

Like the other UDCs, in Pakistan, there is also a lack of housing finance availability. According to HBFC [2006], the potential for the mortgage housing finance is Rs. 135 billions (3% of GDP), while the current available mortgage finance is just Rs. 18 Billions (0.5% of GDP). It means there is still a gap of Rs. 117 billion in Pakistan. But now in Pakistan government provides fiscal incentives to housing sector through liberalizing credit regime for housing finance, broadening the scope of Credit Information Bureau at SBP, establishing Credit Information Bureau in the private sector for consumer loans, rationalizing stamp duties, registration fee and property taxes, and ascertaining enforcement of Recovery Procedure in case of default by mortgagors [Hussain, 2003].

Governments can play an important role in provision of the housing finance for the low-cost housings. Governments should facilitate in the establishment of market based efficient housing finance system through giving incentive and its supporting policies for low-cost housing for the low-income people.

#### **IV.4 – Co-Operative Housing**

Housing co-operatives and other similar type of organizations are able to mobilize human and financial resources within communities to enable low-income groups in particular to improve their housing through a combination of methods including new construction and improvement of existing housing. The inability of governments to provide housing and the acceptance of the "enabling" approach has increased the potential of the co-operative approach [UN-HABITAT, 2006a].

However, considerable assistance by the government, local authorities and the financial institutions is required to enable cooperatives. There is an issue of generating the finances for the co-operatives, these co-operatives may be finance through members' fund or borrowed capital. Whether it is funded by the borrowed or members' fund capital, the rate of interest should be as low as possible. So, government should subsidize the capital and should establish co-operative bank for providing the finance for low-cost housing co-operatives.

#### **IV.5 – Micro-Credit for Housing**

The most of the commercial banks, are designed to provide mortgage finance for housing and this mortgage finance is based on a some conditions that aren't met by the low-income groups of the UDCs. Most of the low-income people are informally employed, and have low resources. Even though they can repay small loans, they can't always do so regularly. Moreover, their houses and assets are generally not very valuable in market terms. So, most low-income households won't be able to benefit from mortgage finance. In such situations, there will be a need of some special arrangements for these less-privileged and vulnerable class like the micro-credit organizations (banks or NGOs etc.). These micro-credit organizations will provide them small (micro) loans after forming their credit – savings group on the basis of social collateral (mutual guarantees of the group members).

The Kuyasa Fund is an example of micro-credit organization, it is a small NGO-based housing micro-lender based in the Western Cape (South Africa) that has been exploring a more appropriate strategy for low-income housing borrowers. Kuyasa organizes its loans via existing traditional savings and credit groups. These savings groups have two functions. First, they serve as the basis for Kuyasa's 'relational' security model, in which relationships among borrowers and between them and the lender replace the asset-based security of the mortgage model. Second, they serve as vehicles for savings by clients, which are combined with housing micro-loans to increase the amount available to invest in housing. Kuyasa's performance as a housing micro-lender is quite good. Using this model, Kuyasa has managed to assist 2,200 low-income households in Cape Town to build bigger and better quality houses than they would have if they had relied only on the subsidy [Rooyen, 2004]. Thus the micro-credit for housing is an important solution to low-cost housing units.

#### **IV.6 – Rental Housing**

Hundreds of millions of tenant (or renter) live in cities in developing countries. There are millions of other households which share accommodation, have it provided by their employer, look after other people's houses or stay with their relatives. During the past two decades, rental housing in developing countries has been badly neglected both by governments and in the housing literature. The problem of accommodating large numbers of tenants has simply not found a place in most national plans or in most housing policies. But recently there have been signs of a change in attitude.

International attention has once again begun to focus on the rental-housing market. Within the World Bank, for example, several officials have begun to recognize that rental-housing programs offer opportunities for improving living standards. While this argument will take a long time before it is translated into action on the ground, the movement has begun [UN-HABITAT, 2006b].

Governments should recognize the important role that rental housing plays in accommodating the urban population. In this regard, particular emphasis needs to be given to the respective roles of the institutional, commercial and household sectors in supplying rental housing, as suggested by the UN-HABITAT (2006c):

- (a) Governments should review their housing policies and should devise appropriate strategies for rental housing which remove biases against non-owners.
- (b) Such strategies can be devised only when the following are properly understood:
  - (i) The operation of housing markets and the role of the rental sector;
  - (ii) The characteristics of rental units and owner-occupied dwellings; and the socio-economic characteristics of landlords, owner-occupiers and tenants;
  - (iii) The potential of low-income house-owners as suppliers of rental housing.

## **V – CONCLUSION: SUMMARY OF ANALYSIS**

Despite of the vast potential for growth and development in the low-cost housing sector, there are constraints and impediments that must be addressed before finding out solutions to low-cost housing. These challenges will not diminish without the involvement of all levels of government, as well as the collaboration of businesses and nonprofit housing and service providers. Unfortunately, most forces are working against the expansion of housing resources. With the escalating federal deficit, the administration is proposing deep cuts in public sector development and housing programs etc. Thus there is a need of private-public partnership to achieve the goal of low-cost housing provision and exploiting the different available alternative solution like co-operative housing, rental housing and micro-credit for housing.

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