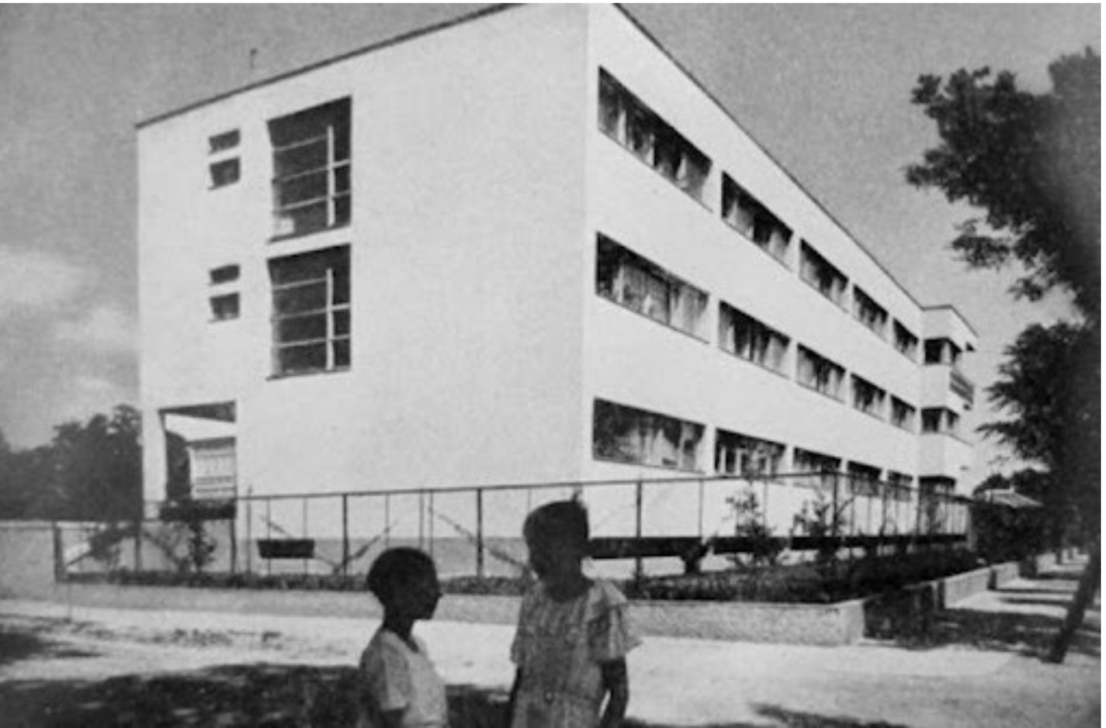
Housing finance beyond individual mortgages – how to finance new forms of affordable housing in Eastern Europe?



Zsuzsanna Pósfai

GEOFIN Research, Trinity College Dublin

ENHR 2021 – Unsettled Settlements: Housing in Unstable Contexts

08.30. - 09.02.2021.

GEOFIN
Western Banks in Eastern Europe: New Geographies of Financialisation
European Research Council
Trinity College Dublin
Coláiste na Tríonóide, Baile Átha Cliath
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Disclaimers

- work in progress
  - GEOFIN: Western banks in Eastern Europe – last part on „financial futures”
  - previous work on the inequalities inherent to housing finance – now conceptualizing and practically understanding how housing finance in Eastern Europe could be more progressive
- more practice- than theory-based » pragmatic presentation
  - negotiating financial mechanisms for housing cooperatives in Hungary
  - work done in MOBA Housing Network, which aspires to become a financial intermediary for new cooperative housing initiatives in the Eastern and South-Eastern European region

Unstable context: Eastern European dependent housing finance, volatile housing markets

- volatility of finance: an inherent characteristic of semiperipheral, dependent housing markets
  » expectations of faster and higher returns; less commitment of foreign financial actors
  » integration of housing finance tools in the broader economic context
- this results in volatile housing markets – unpredictable for households, and increasingly unaffordable
  » volatility creates house price shocks
- alternation of periods of capital flowing abundantly onto the housing market and periods of lack of housing finance
  » the lack of stability conditions the strategies of all actors (financiers, developers, individuals)
- could new forms of housing tenure, new institutions bring stability?

Limits to individual mortgages?

- Regulatory caps on mortgage lending:
  - max PTI – 50% if min 10 year mortgage (otherwise lower)
  - max LTV – 80% but often lower (often 30-40% equity required)
  - To be proved by formal income
- In the practice of banks:
  - Employment status (indeterminate contracts required)
  - Demographic characteristics
  - Spatial aspects (differences of real estate market)
  - Generally more risk aversion since the crisis
- Obstacles to households:
  - Existing previous loan
  - High downpayment

»» techniques for increasing the market of mortgages (after 2015):

- state subsidies for those who are on the limit of accessing market-based mortgages

- increasing loan amounts for those who are eligible

»» mortgages still not affordable / accessible to many
(current crisis aggravates that)

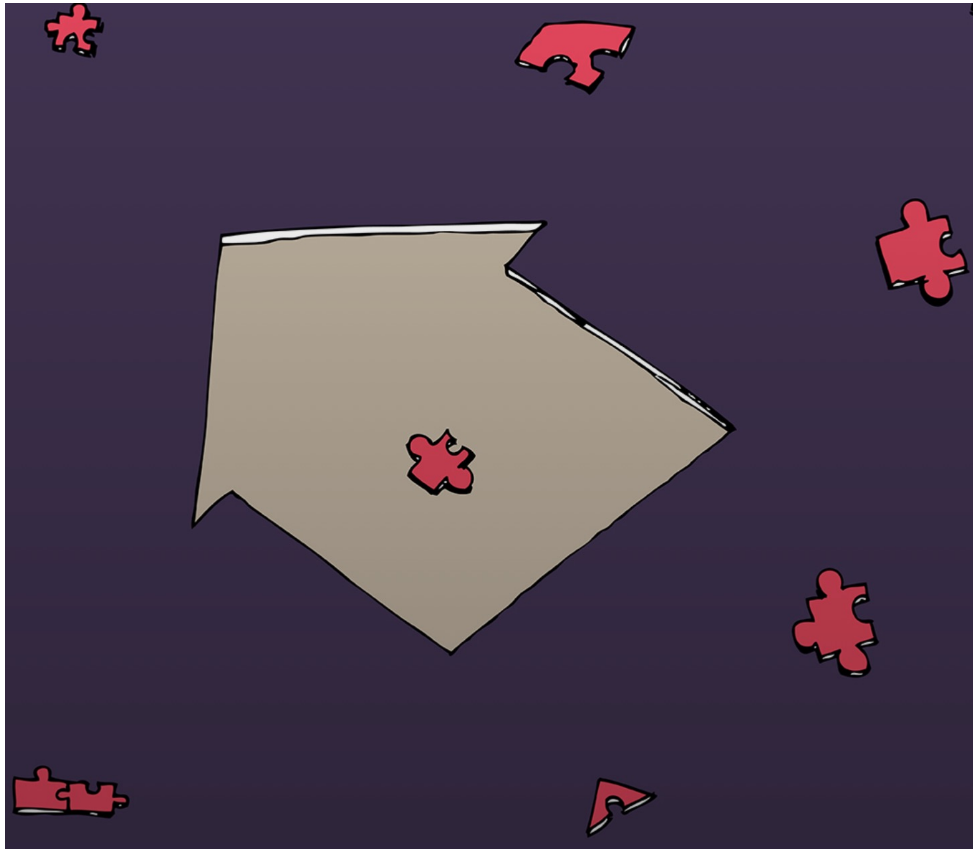
Missing forms of housing finance

- patient finance (long term, low interest rates)
- long-term housing-purpose funding to organizations / nonprofit corporations

»» characteristics of semi-peripheral / dependent economies

What would be the benefit of creating such financial instruments?

- opening the potential for new housing tenure forms to develop
- access to stable and affordable housing for those who cannot access either the market or the small public housing stock in Eastern Europe



Housing finance as an enabler for new housing institutions

- institutionally owned affordable rental housing („housing associations”)
  - do not exist in the region
  - access to long-term affordable loans is a prerequisite for their existance (currently accessible: max 10-15 years)
  - private rental market dominated by small private landlords
- housing cooperatives
  - only ownership-based cooperatives exist in the region
  - in order to provide access to those who cannot become individual owners – loans taken by the cooperative have to be made possible

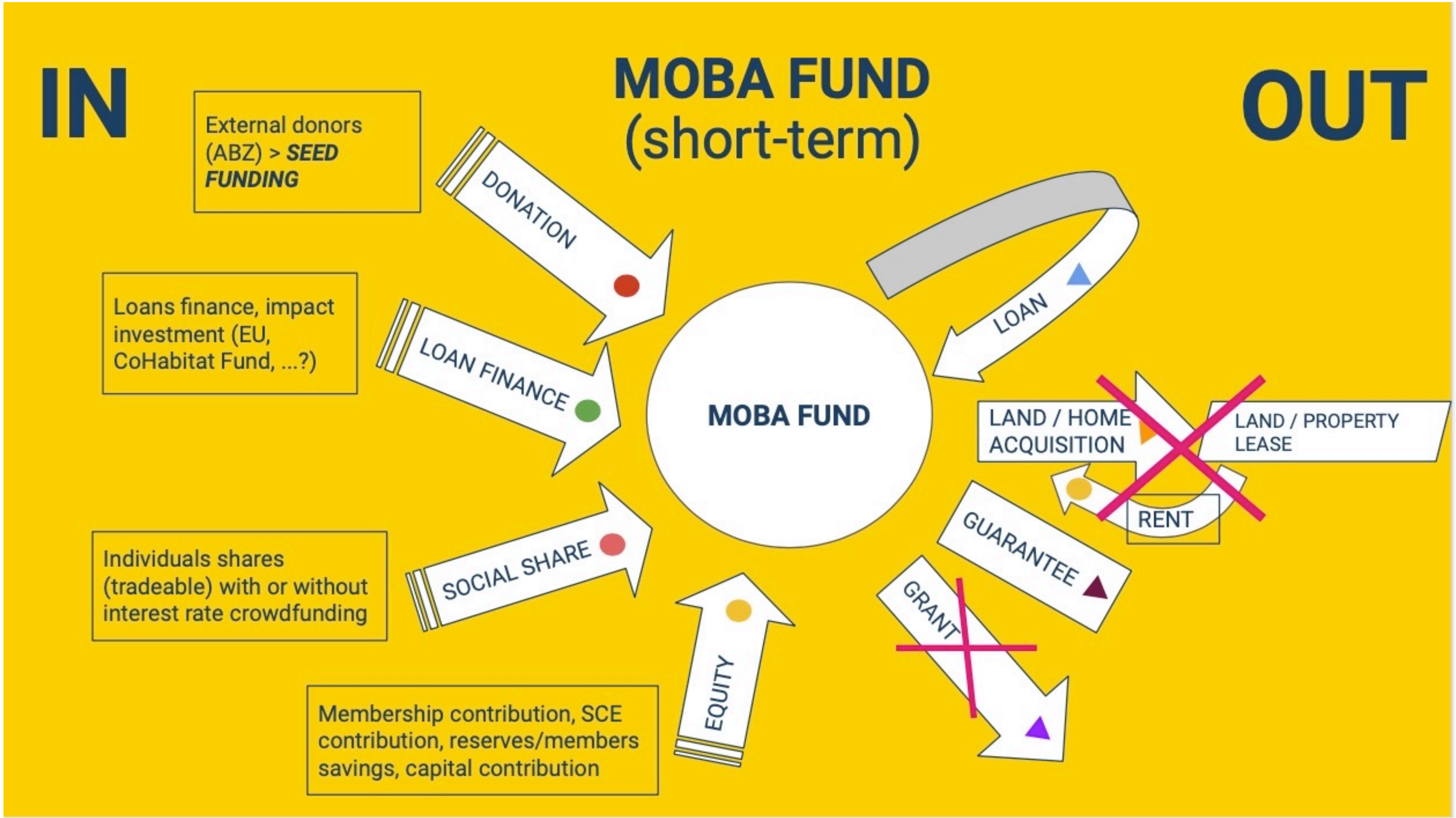
»» other conditions also need to be in place, but the development of adequate financial tools is fundamental

»» thinking of financial instruments as enablers of new institutions and progressive solutions rather than merely as forms of investment

Potentials and difficulties of EU financial instruments

- difficult to get around the scale of the nation state
- developing the capacities of housing organizations
- reducing the minimum loan package (smaller projects)
- financial intermediaries to be trained about the specifics of housing finance

The starting experience of the MOBA Fund



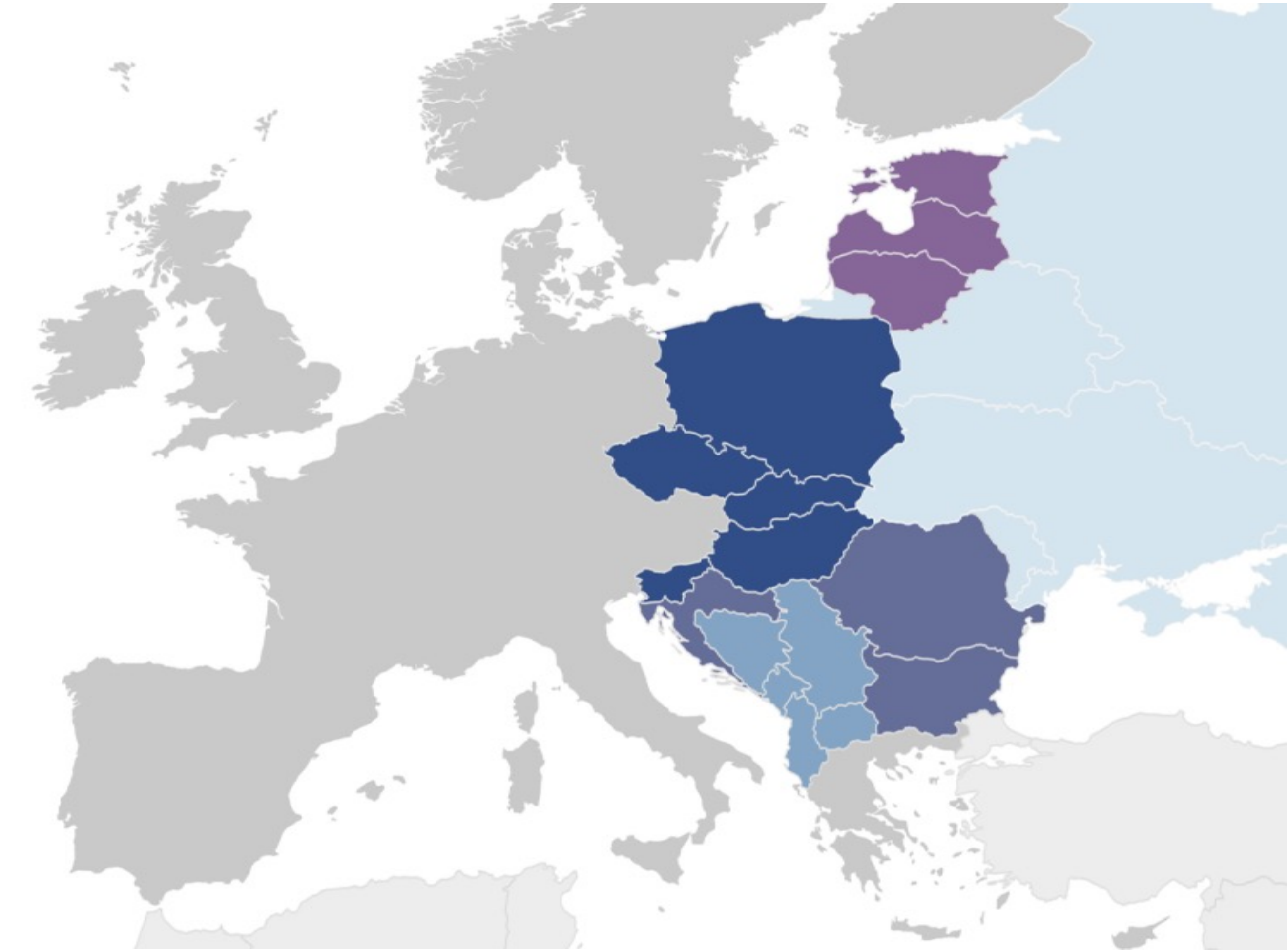
https://moba.coop/2021/05/24/moba-housing-development-fund-launch/

Overcoming bottlenecks

- Role of the state
  - developing the regulatory framework of rental housing and rental-based cooperative housing
  - shifting the focus of government subsidies away from individual homeownership
- Role of market actors
  - developing different methods of risk assessment
  - allocating resources to new product development
  - developing partnerships and communication with both public entities and housing organizations
  - accepting longer returns on investment
- Role of housing organizations
  - building up capacities
  - developing proposals
  - reaching out to the target group

Financial innovation needed for affordable housing

- What would this practically mean
  - long-term loans that assess the cash-flow of housing organizations (and not individuals)
  - financing not for profit entities
  - making favorable financial instruments accessible to smaller actors
- How to scale up beyond pilot projects?
  - identifying a large enough target group whose needs are not met under market conditions
  - securing stable financial channels
  - developing an enabling policy environment
  - developing the capacities of housing associations and cooperatives
- The potential opportunity in the current moment
  - economic instability reduces individual access to mortgage
  - abundant liquidity on financial markets



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Thank you!

Email contact:

psfaiz@tcd.ie

posfai.zsuzsanna@periferiakozpont.hu

Twitter:

@GEOFINresearch

GEOFIN research:

https://geofinresearch.eu