Improving Housing Affordability by Addressing Issues in the Affordable Housing Ecosystem

Mark Weinrich
Secretary General
International Union for Housing Finance
The concept of affordability

- Affordable for whom?
- No agreed standards for the concept of affordability, but commonly accepted guideline is a housing cost that does not exceed around 35% of a household’s disposable income
- Of what quality?
- Affordable housing is housing that is reasonably adequate in standard and location for low or lower middle income households
Affordable housing – a pressing issue

- The lack of affordable housing:
  - fosters the development of illegal settlements
  - fosters overcrowding, unhealthy conditions, insecure tenure, social exclusion and urban poverty
  - hinders economic growth

- Addressing housing shortages and improving affordability:
  - supports the improvement of living conditions and the socio-cultural milieu
  - promotes economic development
Approaches to improve affordability

- Two major approaches to improve affordability:
  - Improving access to “mainstream” housing for sale or rent;
  - Develop “affordable/social housing” as a specific tenure usually involving subsidy to reduce rents and/or improve access.
- These approaches are not mutually exclusive.
- Third approach: Creating a conducive environment that makes housing more affordable per se
The affordable housing ecosystem

- Affordable housing projects are usually large scale developments
- Many players are involved, representing a set of conflicting agendas and incentives
- Gaps in the ecosystem hinder more and better affordable housing
- Developed countries and emerging countries face different challenges, but interrelated influences are similar
The affordability challenge

DEMAND
- Population and life cycle driven
- Investment due to other reasons
- Income

SUPPLY
- Price (interest rate)
- Availability (ability and willingness of banks to lend)

OUTCOME: PRICE
- Rent
- House price

ENABLER: FINANCE
- Speed of land supply
- Construction and building materials sector
The affordability challenge: the demand side

DEMAND

ENABLER: FINANCE

OUTCOME: PRICE

SUPPLY
The affordability challenge: the demand side

- The bulk of housing demand comes from predictable natural population growth and household size change.
- Variability in population growth tends to come from immigration and urbanization patterns.
- Income is the primary factor that determines housing affordability – and it is often too low.
- Income inequality exacerbates the housing affordability problem.
- Employment in informal sector might exclude households from subsidies and formal financial services.
- Housing is a popular investment choice – in particular in a low interest rate environment. Tax regimes might favor property investment.
- Tenure choice might be biased (usually towards home ownership)
The affordability challenge: the demand side

• As the bulk of housing demand is predictable on a long-term basis, a foresighted planning is key to success.

• Economic development and social policy have to target income inequality and poverty.

• Integrate the informal sector into the formal sector and/or develop strategies to give informal sector workers access to subsidy programs and financial services.

• Governments should balance out the attractiveness of housing investments vis-à-vis alternative investments

• Rental housing is often neglected and stigmatized. Renting has to be made more attractive so that it is considered a normal alternative.
The affordability challenge: the supply side
The affordability challenge: the supply side

- Shortage of available land impacts housing supply.
- Required licenses and permits can be costly and time-consuming.
- Unclear division of responsibilities and lack of harmonization impede new housing developments.

- Construction sector does not possess the capacity or techniques to build affordable homes at a large scale.

- Building materials not available in required quantity, quality and pricing for affordable housing.
- No locally available and/or produced building materials.
Governments can cut through red tape and expand the supply of affordable homes by:

- streamlining and speeding up approval processes
- reducing fees and number of rules
- lowering minimal habitability standards
- making publicly owned and tax-delinquent properties available
- taxing underdeveloped land and changing zoning rules

Offer construction industry incentives to build affordable homes.

Increase the productivity of construction sector by e.g. improving job-site efficiency and by making greater use of off-site fabrication.

Support the local production of building materials.

Foster innovations in building materials sector.

Help startups in the building materials sector.
The affordability challenge: housing finance

- DEMAND
- ENABLER: FINANCE
- OUTCOME: PRICE
- SUPPLY
The affordability challenge: housing finance

- Lower income households often have difficulties to access mortgage finance:
  - mortgage market small;
  - low-income customers associated with asymmetric information (impact on probability of default);
  - foreclosure procedures timely and costly (impact on loss given default);
  - credit institutions lack knowledge how to underwrite for informal incomes.

- Financial stability vs. accessibility.

- Lack of long-term debt for largescale multi-family projects has negative impact on availability of rental housing units.
The affordability challenge: housing finance

• Increase (long-term) funding options for credit institutions:
  • Strengthen local capital markets and provide the necessary skills
  • Strengthen the deposit base

• Establish viable institutional partners that cater to the low-income market
  • Communicate that housing loans are a great business opportunity
  • Consider to create specialized housing lenders; offer technical assistance

• Reduce risk for credit institutions to lend to low-income households
  • Focus on the ability to repay and the underwriting process to reduce information asymmetries – supported by smart technology
  • Make foreclosure procedures speedier and cheaper
  • Offer guarantees to lenders which disburse loans to low-income households

• Establish for large scale multi-family (rental) projects market based debt instruments
Excursus: Contractual savings for housing

Fundamentals:

• Propensity to save exists also among lower income households
• Completion of savings phase is linked to the right to receive a loan
Excursus: Contractual savings for housing

Unique selling point of contractual savings for housing:
- Interest rates on deposits and loans fixed and usually below capital market rates
- Waiving of interest in savings phase is “option premium” of customer for guaranteed low fixed interest rate in loan phase – option premium makes bauspar loans “sticky”

Advantages of contractual savings for housing:
- Unlocks savings of lower income households for funding
- Regular savings efforts as proof of creditworthiness
- Higher down payment = less risk
- Attractively priced small loans
- No prepayment penalty
- CSH savers save considerably more (low substitution effect)
- Flexible and successful business model; CSH systems exist for more than 100 years
- Functions in informal environments
The affordability challenge: prices
The affordability challenge: prices

• Supply and demand factors, supported by finance, influence the price of housing

• The price of housing has implications for demand and supply as well as finance

• Rent or house price for formal housing units – even the most affordable – might be still too high for low income households

➢ Tackling the affordability challenge requires to take all factors into account
➢ Development of long-term initiative which involves all stakeholders necessary
➢ Impacts of the necessary policy solutions will need some time before be seen
Affordable housing is possible

Adequate housing for all is achievable!