



Affordable housing: Tackling the challenges

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The concept of affordability

- Affordable for whom?



Antilia, Mukesh Ambani's Billion-Dollar Home in Mumbai, India

- Of what quality?



Shacks in the Mathare Valley slum in Nairobi, Kenya



- Affordable housing is housing that is reasonably adequate in standard and location for low or lower middle income households
- 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

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

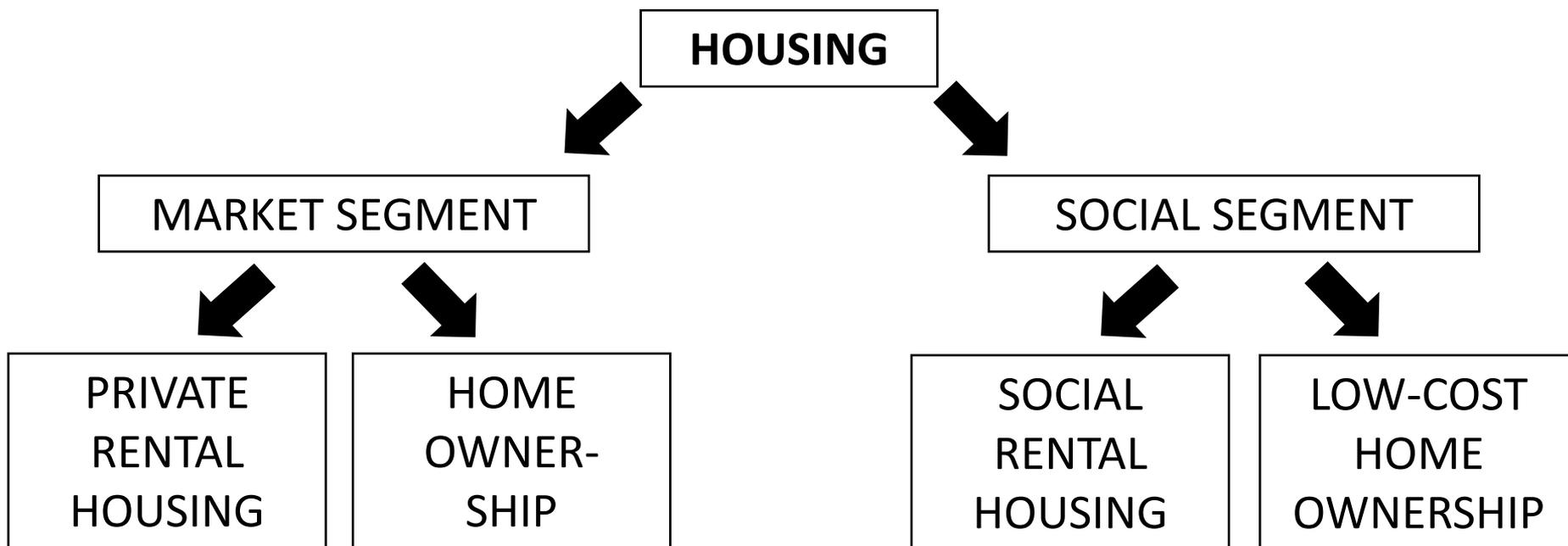


The dilemma – affordability vs. stability

- Overambitious housing policies can lead to financial instability and even the worsening of the affordability situation
- Burst of housing bubble in the US as bad example and warning
- Understanding the constraints and challenges that surround affordable housing helps to solve the dilemma

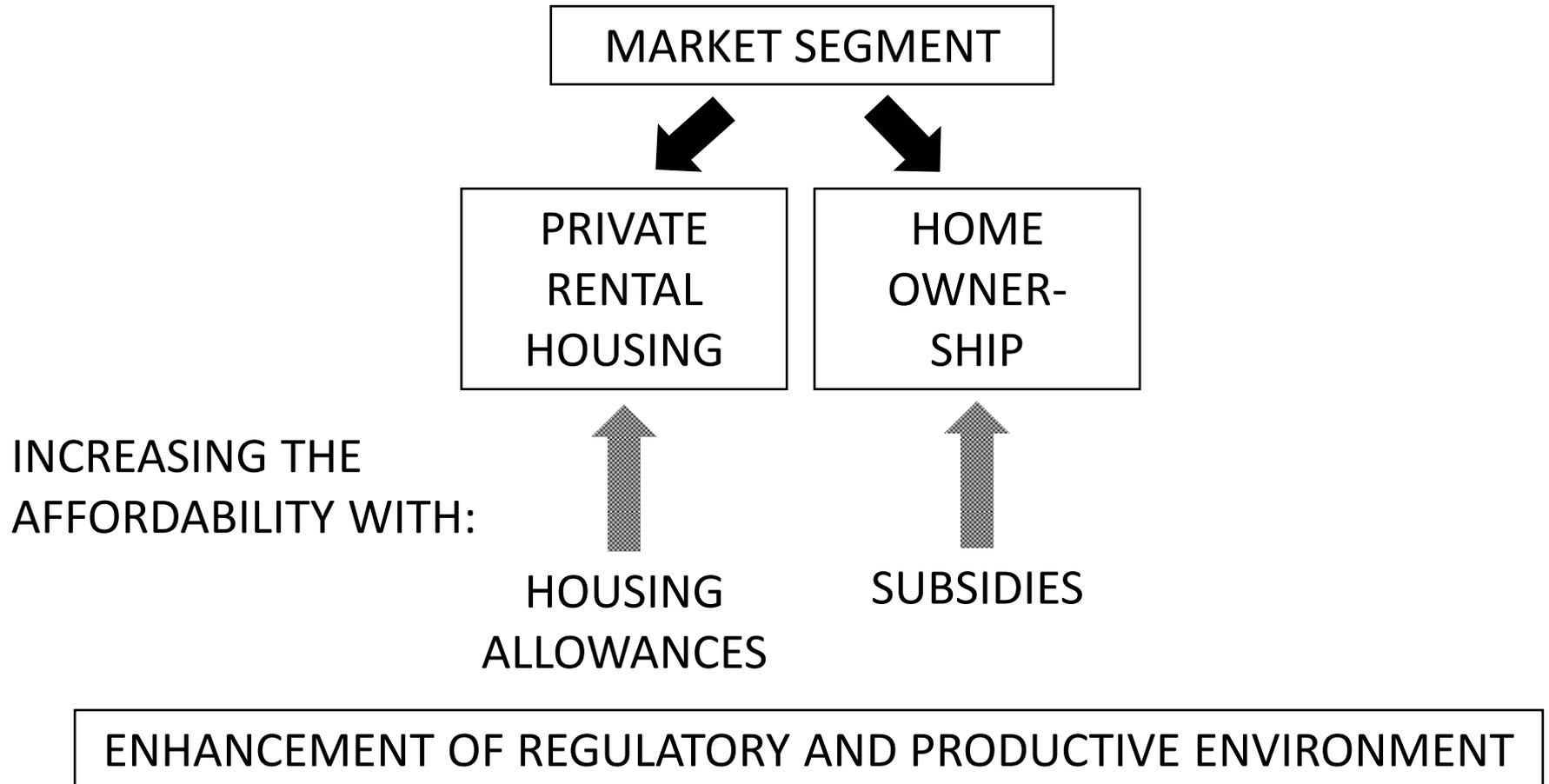


The structure of the housing market

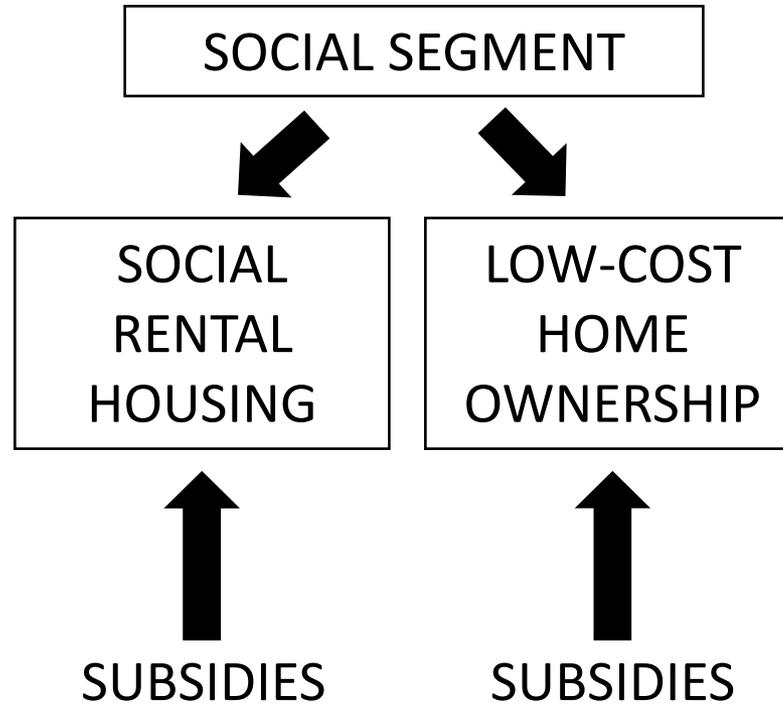


Distinctive criterion between the two segments NOT affordability but that the social housing market is directed at a specific target group in need (usually means-tested access)

The private housing market



The social housing market



Social housing market relies on subsidies; subsidies do not necessarily have to come from the government, cross-subsidisation by private developers is also possible

Making the private housing market more affordable - subsidies

- **Housing allowances** granted to households with low incomes enable them to rent a home on the private market
 - Good targeting, consumer choice BUT expensive, bound to social security system
- **Subsidies for homeowners** can increase affordability
 - Direct subsidies that are transparent, measurable, finite, predictable, and a clear expenditure item in the government budget best choice
 - Indirect subsidies – like the tax deductibility of mortgage interest – are not transparent, difficult to estimate correctly, in principle unmeasurable and usually are off the government budget
 - Strong subsidisation of ownership is expensive, distorts tenure choice, drives up house prices – thus in effect reducing affordability!

Increasing affordability by enhancing the regulatory and productive environment

- Subsidies are expensive and only the second best option
- The best way to increase the affordability of housing is the improvement of the regulatory and productive environment
- Four major strategies :
 - Improving the efficiency and productivity of the house construction industry
 - Expanding the availability of sites
 - Reducing red tape and other regulatory barriers
 - Improving the system of housing finance



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Improving the efficiency and productivity of the house construction industry

- Different roads can lead to the same goal
- A promising way is the combination of improved job-site efficiency and greater use of off-site fabrication



Expanding the availability of sites

- Affordable neighbourhoods are often on the outskirts of cities BUT this is not the best solution as they are far away from jobs and public amenities
- Communities should unlock hidden reserves:
 - Make publicly owned and tax-delinquent properties available
 - Tax underdeveloped land
 - Change zoning rules
- Alternative ideas could offer further solutions, like the usage of a leasehold system



Reducing red tape and other regulatory barriers

- Long approval processes, fees and overly restrictive rules drive up costs
- 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



Improving the system of housing finance

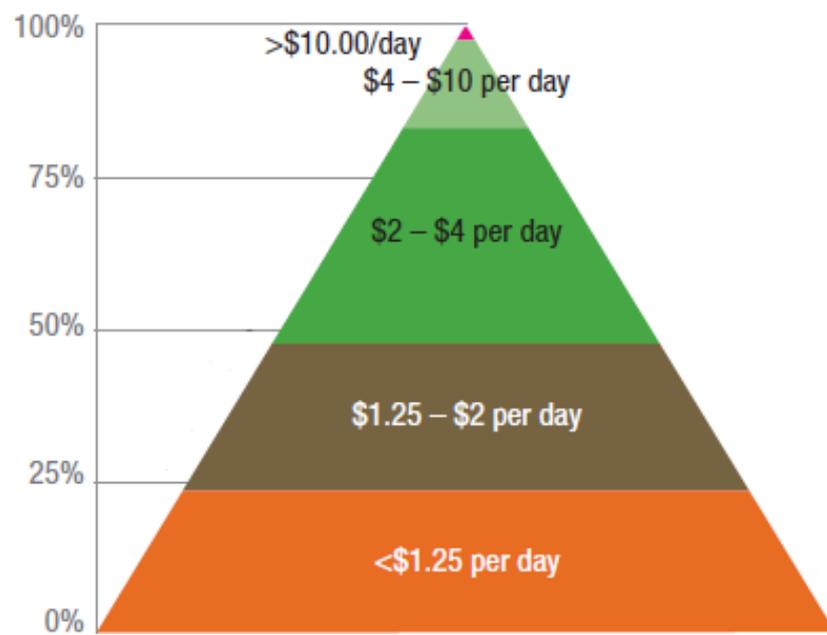
- Disengage development of the housing finance sector from policies aimed at subsidising housing for the greater social good
- Saving and lending for housing has to be at positive real interest rates allowing for a reasonable margin for lenders
- Access to credit means for most people better housing and a much better security of tenure



Access to finance: a big challenge

- Majority of population in developing countries excluded or underserved by financial system
- Good financial system design enhances inclusion and makes loans more affordable
- Financial sector stability needs to be considered
- „Financial innovation“ no solution: additional costs, key challenges not tackled
- Lack of long term funds major challenge: contractual savings systems may offer solution

excluded or underserved



Contractual savings systems: encouraging thrift and raising long term funds

- Some of the poor people are net savers
- Personal sector is the obvious sector to encourage as primary source for house-purchase loans: tapping this source will make more affordable housing loans available
- Simple logic of contractual savings systems: first the savings, then the loan
- Lenders know market better, if their potential borrowers are also their investors (depositors)
- Housing finance systems in industrialised countries arose out of mutual savings clubs; contractual savings systems continue to be common and successful in Europe
- Contractual savings systems are usually run by specialist institutions; they can promote housing finance better than general institutions

Long-term debt: vital for private buyers and developers

- Private home buyers and developers in need of long-term debt
- Different loan approval processes for single-family mortgage loans and loans for developers
- Proactive role for governments and Central Banks in facilitating market based standardised debt instruments for rental housing projects and developers



Conclusion

- Solutions for affordable housing challenges well known
- Yet progress is very slow
- Development of long-term initiative which involves all stakeholders necessary
- Vested interests need to be overcome
- Role of government should be redefined as that of a facilitator and a catalyst

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