

Housing Policies for Emerging Asia

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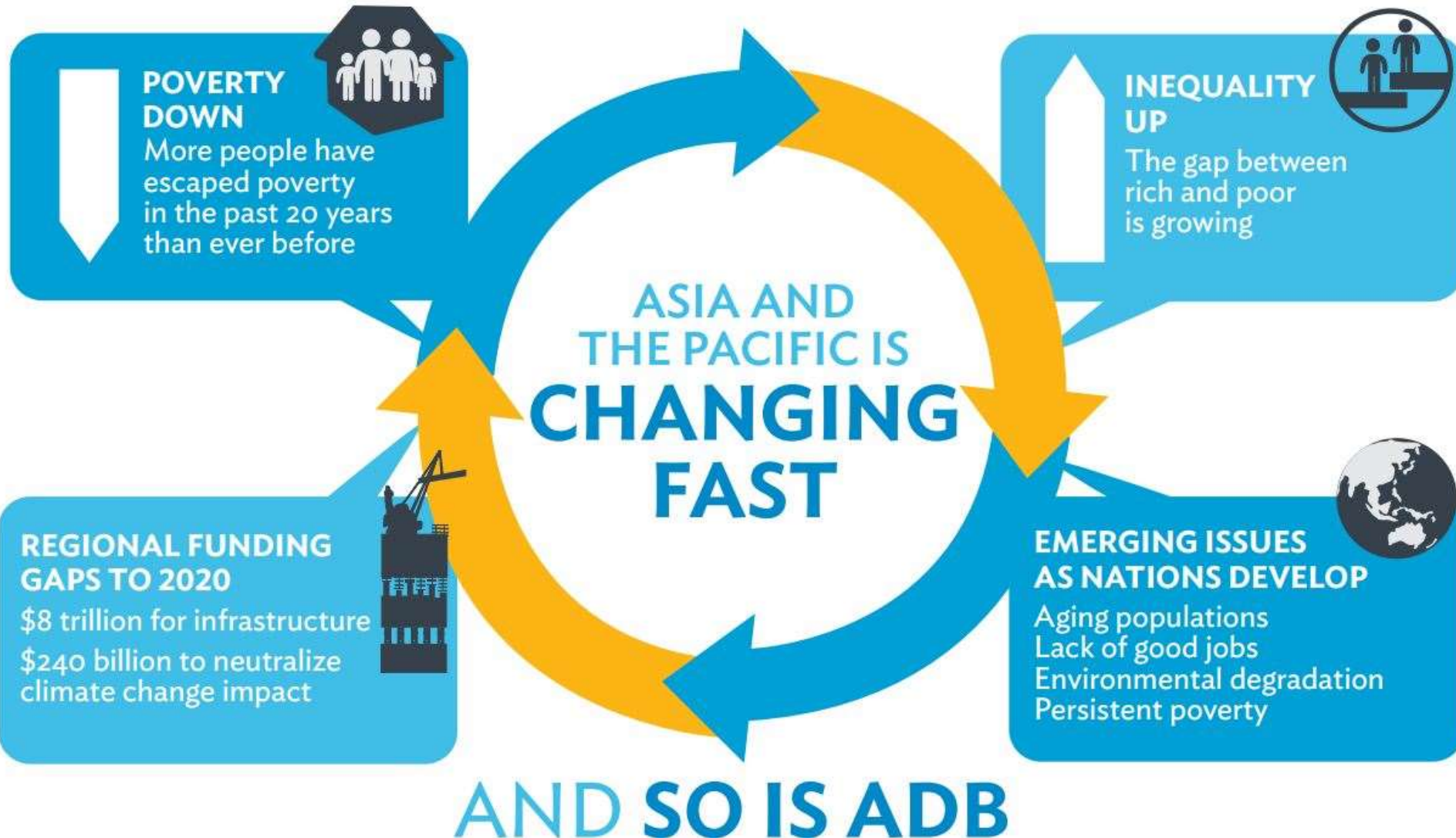
- I. Basic facts about ADB and ADBI
- II. ADB Housing Finance Projects
- III. ADBI Research: Housing policies for emerging Asia
- IV. Conclusion

I. ADB and ADBI

Basic Facts



I. ADB – The Context



POVERTY DOWN

More people have escaped poverty in the past 20 years than ever before



INEQUALITY UP

The gap between rich and poor is growing



REGIONAL FUNDING GAPS TO 2020

\$8 trillion for infrastructure
\$240 billion to neutralize climate change impact



EMERGING ISSUES AS NATIONS DEVELOP

Aging populations
Lack of good jobs
Environmental degradation
Persistent poverty



AND SO IS ADB

I. ADB – Basic facts

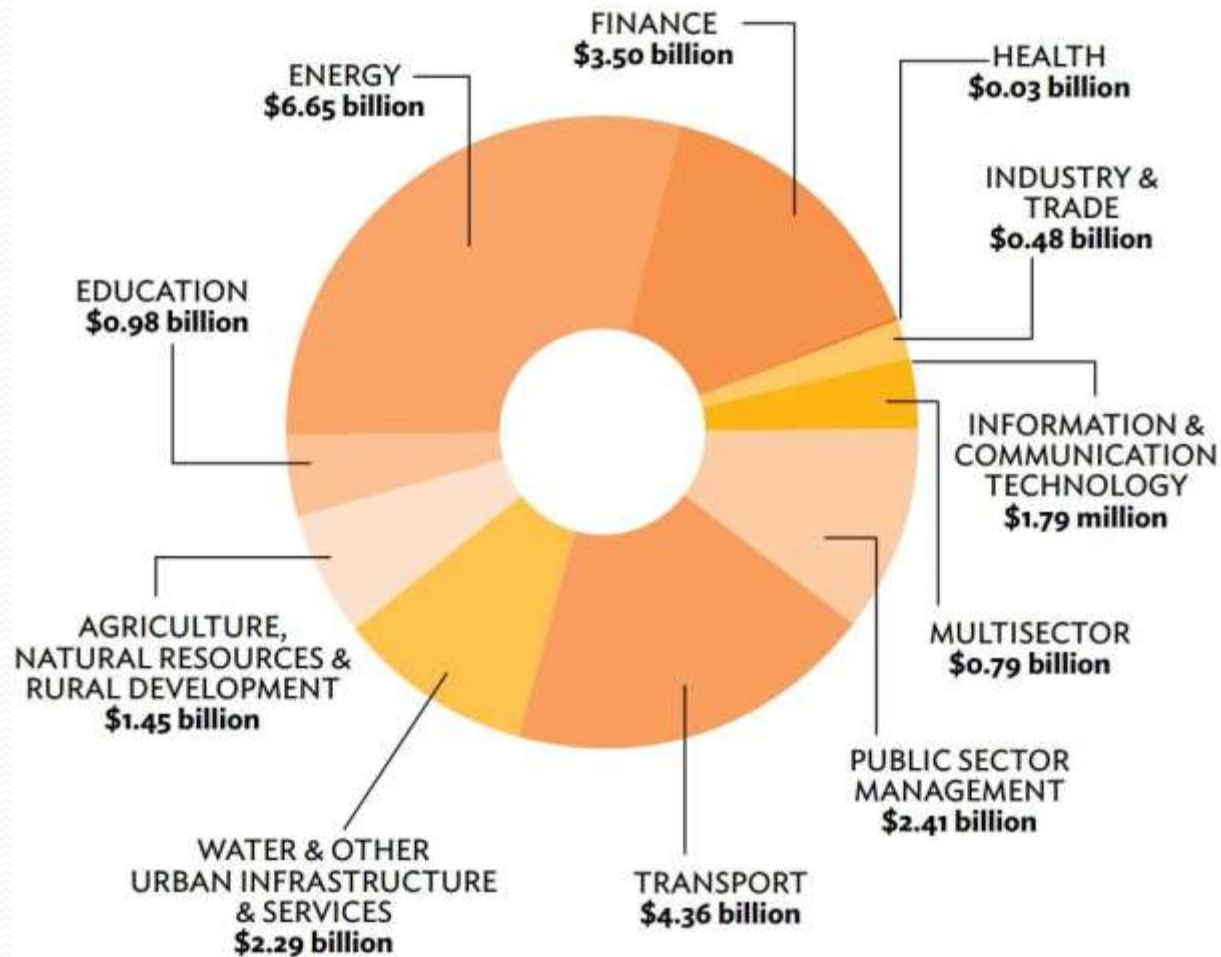
- Founded in **1966**
- Located in **Manila** (29 residents missions and 3 representative offices in Tokyo, Frankfurt and Washington, ADBI in Tokyo)
- **Members: 67 (48 regional, 19 nonregional)**
- President: Takehiko Nakao
- Number of staff: About **3000**
- Bank
 - Lends money (loans), about \$13 billion annually
 - Lends mostly to governments, but also to private sector
- Development
 - To support economic development
 - An infrastructure bank: most lending to 3 sectors: transport, energy and water/sanitation
 - Also policy-based lending, technical assistance, economic research

I. ADB: Total assistance USD 22.93 billion

REGIONS



I. ADB: SECTORS



I. ADB Institute – Basic facts

- Founded in **1996** as think tank of ADB
- Located in **Tokyo**
- Number of staff: About **60**
- Head: Dean Naoyuki **Yoshino**
- Two main areas of work: **research & capacity building**
- Current research topics:
 - Infrastructure (economic impact)
 - SME
 - Financial inclusion
 - **Housing policies** (flagship)
 - Central-local governance (flagship)



II. ADB Housing Finance Projects

The problem of housing finance

- Financial sector often underdeveloped with limited reach and services, especially in mortgage lending
- Few people have access to formal financial services
- Finance sector lacks of access to long-term local currency funding
- Down-payments typically too high for average borrower
- Only middle- and high income groups have access to housing finance
- Conservative mortgage lending with adjustable interest rates (risk of interest rate fluctuations covered by borrower)

The problem of housing finance

Other factors:

- Weak regulatory framework surrounding property
- High transaction costs for home purchases
- Often no credit bureau with robust consumer data
- Foreclosure typically costly and lengthy

Result:

- Mortgage debt-to-GDP ratio is often below 15 % (compared to more than 50 % in many developed countries)
- Lack of housing finance one of main constraint for expansion of housing

ADB project for housing finance

ADB project in housing Finance

- Provide fixed-rate long-term loans (denominated in national currency) to banks to offer new mortgage products, especially for low-income groups.
- Recent examples: Indonesia (2010) and India (2015)

Expected outcomes:

- Wider customer segment and down-market penetration
- Increase in overall growth of participating banks' portfolios
- Job creation
- Increase in economic activity through forward and backward linkages.



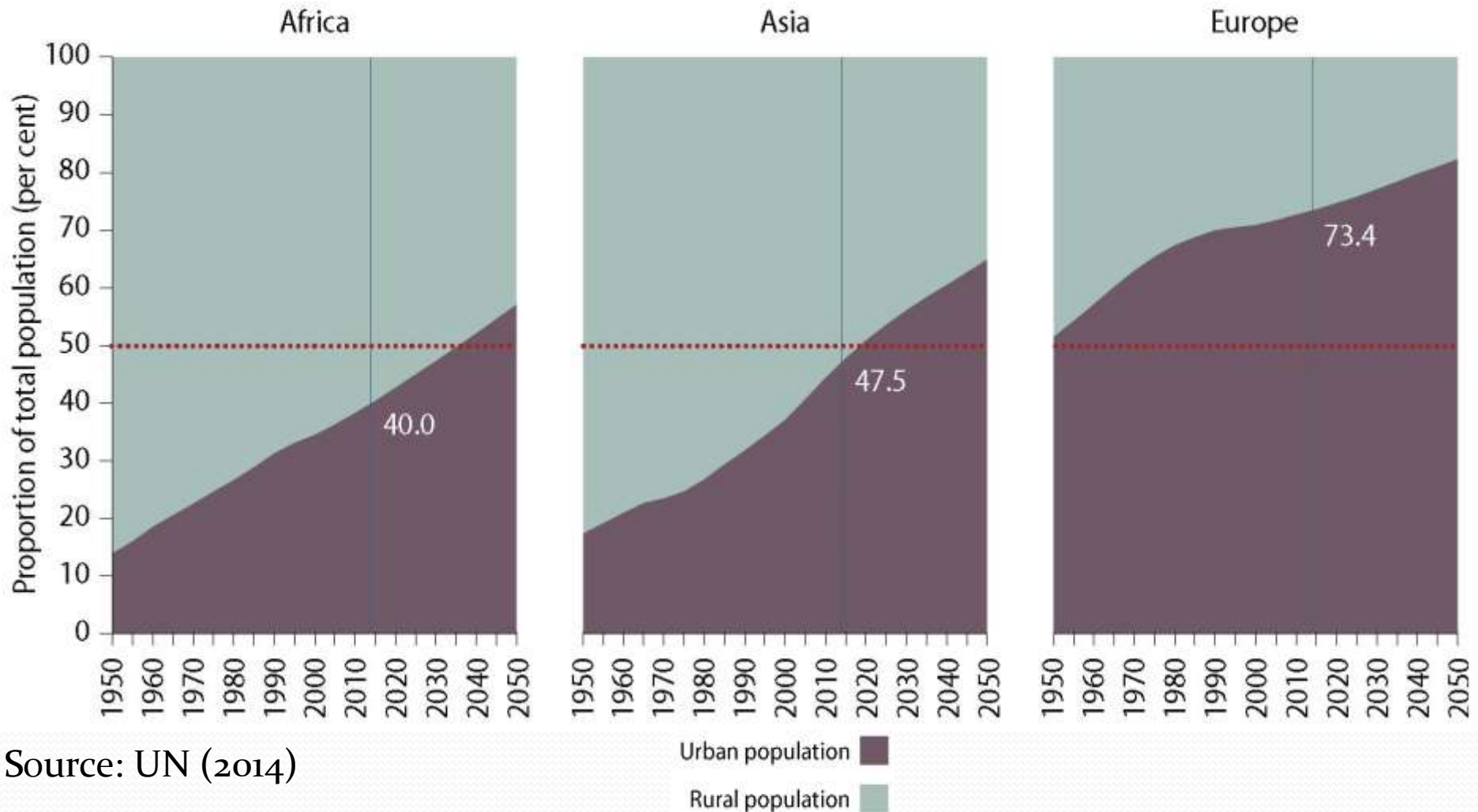
III. ADBI - Housing Policies for Emerging Asia

Housing Policies Research Project: Rationale

- Housing as fundamental need (food, clothing & shelter)
- Benefits of access to adequate housing for household:
 - Improved health (infectious and non-infectious diseases)
 - Better educational achievements
 - Contributes to social cohesion and social security
- Benefits for economy:
 - Construction multiplier
 - Small business aspect (place of employment/collateral)
- But: Difficulties throughout Asia in providing enough affordable and adequate housing.
- Research objective: Assist in developing policies that facilitate access to affordable and adequate housing.

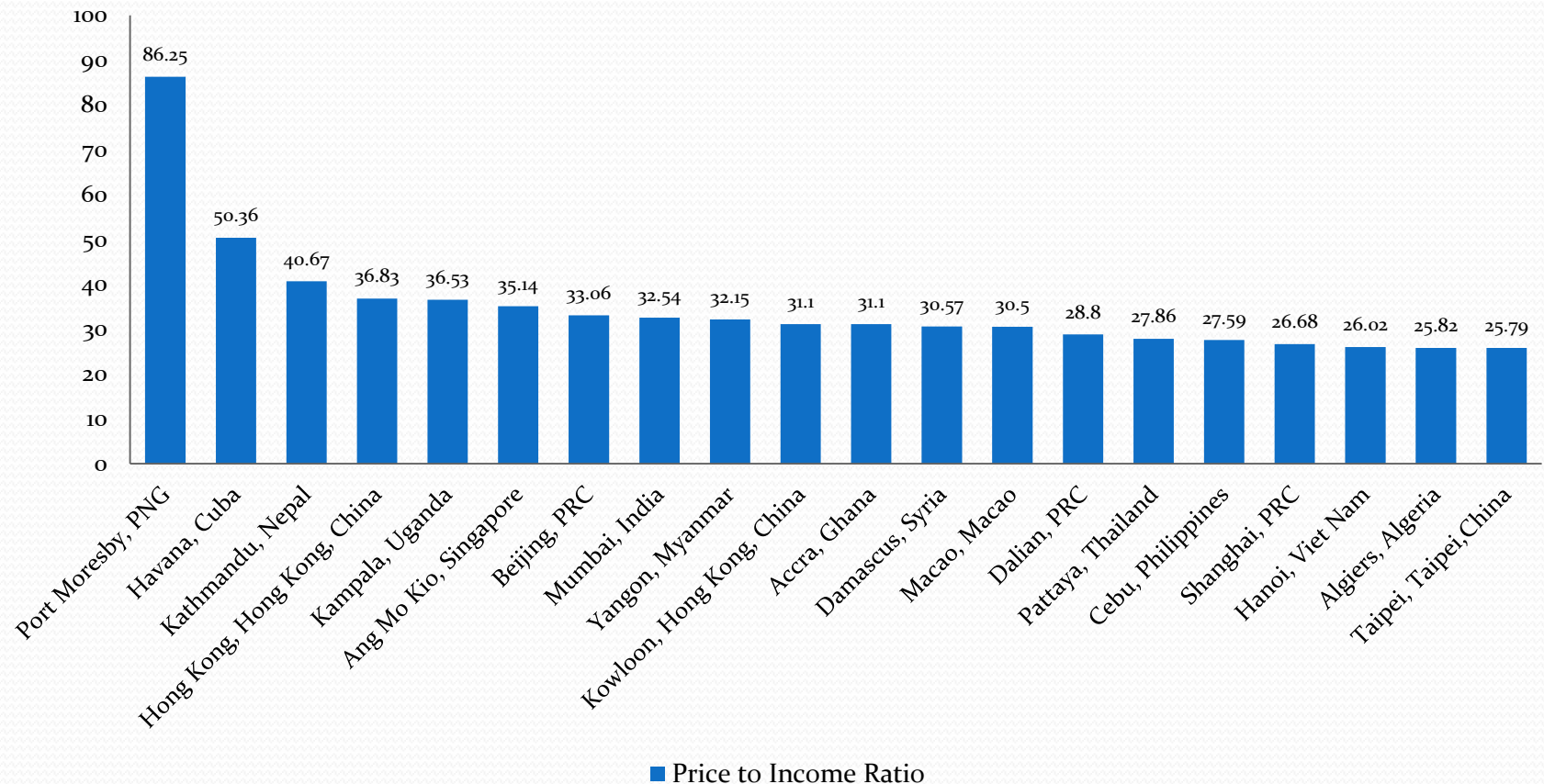
Increasing urbanization...

Figure: Urban and rural population as proportion of total population (1950–2050)



Increasing property prices...

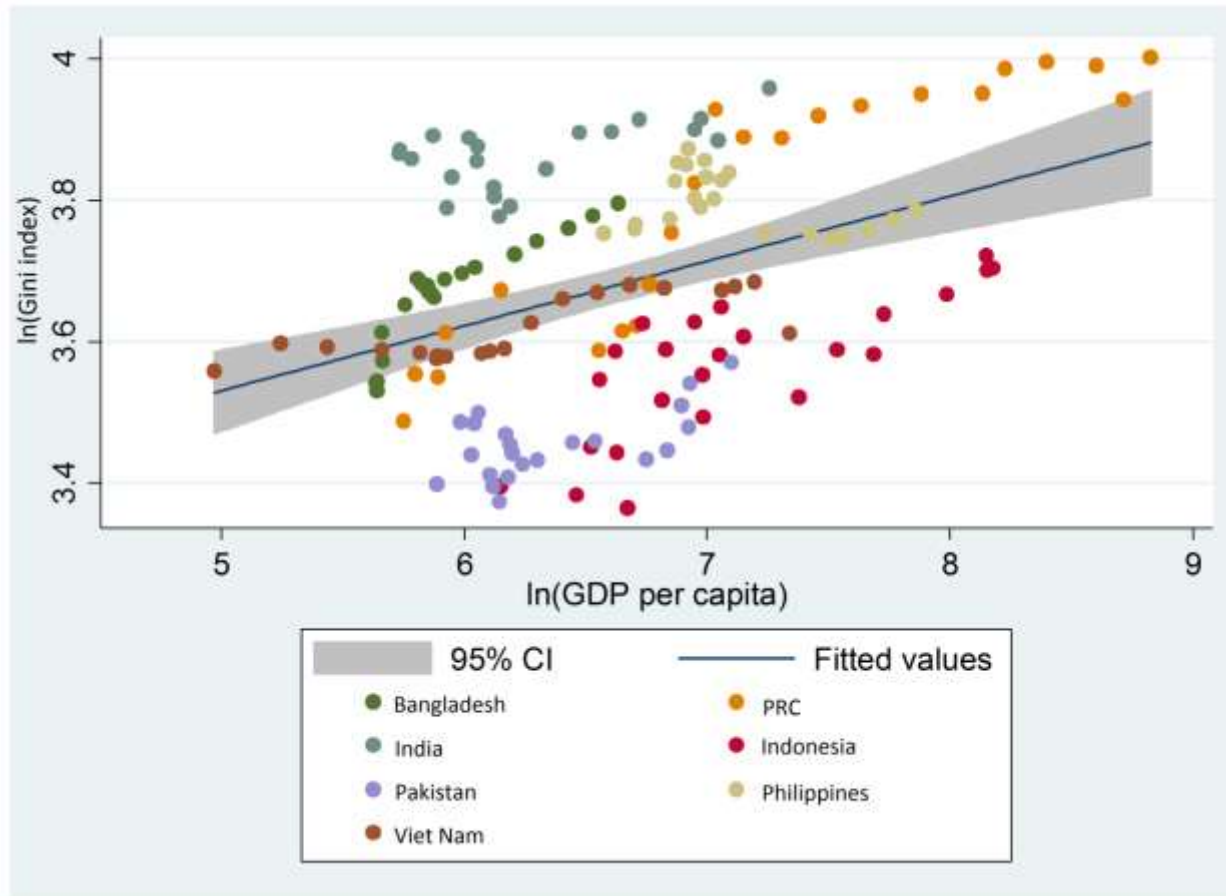
Figure: Price to Income Ratio in 20 most expensive cities in the world



Source: Numbeo Property Prices Index (2015)

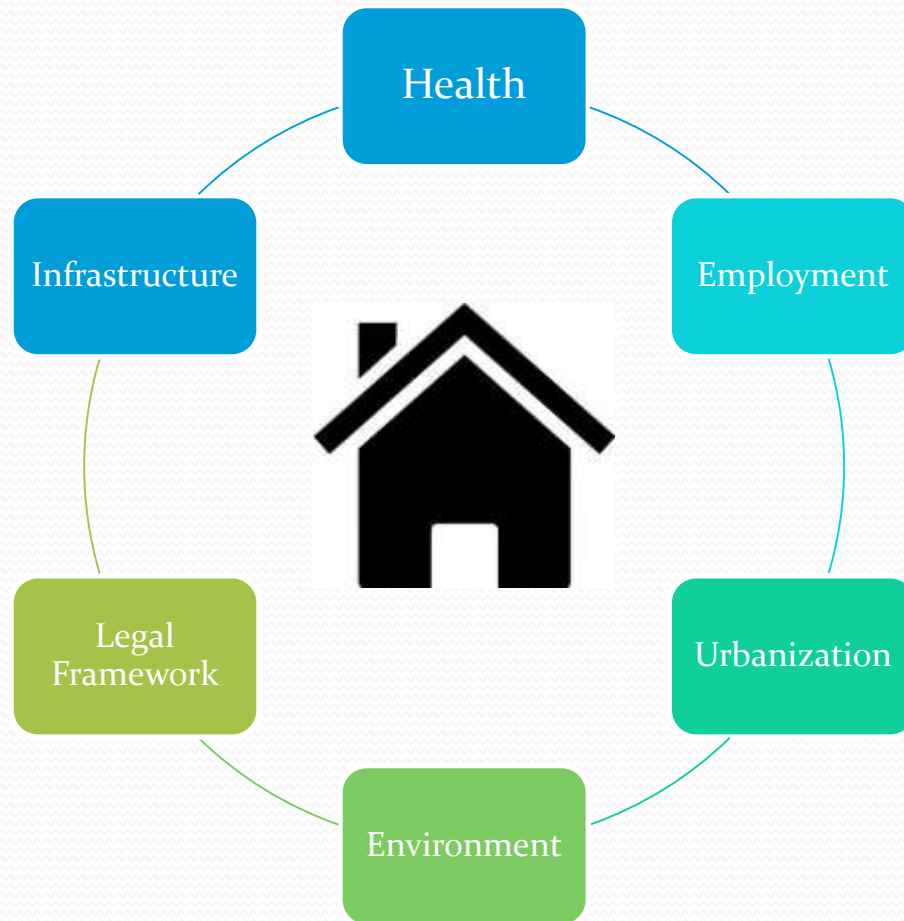
Increasing income inequality...

Figure: Gini Coefficients vs GDP per capita in 7 most populous DMCs (1990–2012)



Source: Authors' calculations based on SWIID and World Bank

Housing Policies: The Context



Book: Housing Policies for Emerging Asia

(forthcoming)

PART 1: Overview, Modelling Framework and Context

- Overview
- Housing Policy Matrix
- Demand and Supply Model of Housing Policies
- Housing Policies and Urbanization (jointly with ADB)

PART 2: Country Studies

- Advanced economies: Japan, Rep. of Korea, Singapore, CH, UK, US and Hong Kong, China
- Emerging economies: PRC and India

Housing Policies to promote homeownership

	Cash benefits for housing / Housing subsidy	Mortgage interest rate reduction	Mortgage interest deduction from income tax	Upgrading quality standards	Construction of housing or provision of land
Demand/Supply	Demand			Demand/Supply	Supply
Merits	Lowers housing costs for HH Simple to implement and to understand for HH	Lowers financial cost to purchase housing Enhances competition	Lowers housing financing costs	Enhances living standards and durability Contributes to environmental policies	Accelerates the construction of houses Ensures quality of houses
Demerits	Cash benefits used for other purposes Eligibility criteria Fiscal burden	Crowds out private banks and investors Increases HH debt Fiscal burden	Less effective for low-income groups Increases HH debt Fiscal burden	Implementation costs for HH and government Makes housing less affordable for low-income groups	Overstretched supply capacity Lack of diversity Fiscal burden
Country examples	Rep. of Korea, Singapore	Japan, Rep. of Korea	US, Japan	Japan, Rep. of Korea	Japan, Rep. of Korea, Singapore

Housing Policies to assist low-income renters

	Rent certificate	Housing voucher	Rent control	Public housing	Subsidy to suppliers
Demand/Supply	Demand		Demand/Supply	Supply	
Merits	Increases housing consumption Incentivizes maintenance (owner)	Gives HH more choices Incentivizes maintenance (owner)	Mitigates the burden of rent hikes	Addresses housing shortage Guarantee minimum standard	Accelerates the construction of houses Addresses housing shortage
Demerits	No incentive to find inexpensive housing Fiscal burden	Subsidy might be used for other purposes Fiscal burden	Excess demand Low incentive for new construction Inefficient allocation	Limits HH choice Crowds out private suppliers Eligibility Fiscal burden	Overinvestment Fiscal burden
Country examples	US	Germany, Rep. of Korea, US	US, Switzerland	Japan, UK	Germany, India

Housing Policies: Cost-Effectiveness Analysis

Owner Occupied Housing Market:

	Policy	Policy variable	Change		Policy Cost	ΔUtility	ΔUtility (%)
			From	To			
Owner occupied house	Cash subsidy for buyers	G ₁	0	0.021	0.021	0.00465	0.07354%
	Housing subsidy	Subsidy rate	0%	0.238%	0.021	0.00464	0.07350%
	Mortgage interest rate reduction	r	5%	4.462%	0.021	0.00500	0.07921%
	Mortgage interest deduction from income tax	rtyL*	0	0.021	0.021	0.00465	0.07360%

Rental Housing Market:

	Policy	Policy variable	Change		Policy Cost	ΔUtility	ΔUtility (%)
			From	To			
Rental house	Cash subsidy for tenants	G ₁ and G ₂	0	0.518	1.00973	0.21612	3.34299%
	Rent aid	Subsidy rate	0%	10%	1.00973	0.20545	3.17805%



IV. Conclusion

Conclusion

Common challenges across countries:

- More data needed
- Market vs. non-market solutions
- Demand vs. supply-side policies
- Central vs. local governments
- Reaching low-income groups
- Tenure choice
- Quality improvement
- Maintenance
- Policy implementation

Thank you very much for
your attention

