

ABAD CONFERENCE
Low-Income Affordable Housing
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Low-Income Housing
Overview of Issues and Answers

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Presentation covers

- Housing Scenario and Challenges around the Globe (World, Asia and the Muslim World)
- Urbanization, Slums and Housing Challenges
- Affordability and Housing Market Segmentation
- Low-Income Housing (LIH), Issues and Answers (Supply Side)
- Low-Income Housing (LIH) Issues and Answers (Demand Side)
- Pakistan: Housing challenge is unique

Urbanization Explosion around the Globe

- World population expected to reach between 7.9 to 10.9 billion by 2050
- By 2030, nearly 60% of the world's population will be urban, and nearly ½ will comprise of urban poor living in poor habitat and in slums
- Urban growth rates are highest in the developing world, absorbing an average of 5 million new urban residents/month
 - ✓ Responsible for 95% of world's urban population growth
- Factors contributing to urban migration are: greater economic growth, rising income levels, employment opportunities, immigrant workers, occupational shift from agriculture to manufacturing and services, changing attitudes towards consumption and life style, changing family culture and shrinking household size.

GLOBAL Urbanization Explosion Cont'd

- Almost half of the World lives on less than \$ 2.50 a day, and one of four people around the globe are below \$ 80 a day.
- Worldwide, some 830 million people live in urban slums and by 2020, it is estimated that the world slum population will cross 1 bn.
- Every second person on the globe lives in urban areas. Expected to reach more than three out of four (70%) by 2050
- Slum dwellers grew from 777mn to 830mn during 2000-2010.
- Positive factor: 227 million moved out of slums; doubling MDG goals
- World needs 4,000 houses an hour to keep up with demand (UN-Habitat)

In view of this population and urbanization explosion

- The percentage of people without access to decent, stable housing is rising.
- Adequate housing is vitally important to the health of the world's economies, communities and populations. If we are to succeed in our fight against poverty, we must support the expansion of housing both as policy and practice for Socio-Economic Empowerment..

Asian Snapshot

- **Asia-Pacific represents:**
 - 1/4th of the world's population, and including China nearly half of the world population
 - Nearly 1/2 of the World's Poor
- **Awareness:** Housing has become a popular political slogan.
 - “Housing for all”;
 - “Slum Free Cities”
 - “Maang Raha hai har Insaan-Roti, Kapra, aur Makan” (Every human demands food, clothing and shelter); etc.
- **Delivery:** In few countries it is SOME, but in most there is NONE
- Each country in the region has its own geo-socio- economic parameters, while all face a common issue of “shelterless poor”

Asia-Pacific: Some innovative initiatives

- **India:** GOI Policy Initiatives, Monitor India initiatives, Role of Developer Industry, Role of Housing Regulator-NHB, HDFC etc.
- **Mongolia:** Ger area project sponsored by Japan Fund for Poverty Reduction (JFPR),
- **Malaysia:** Cagamas as a role model for Mortgage Refinance, Securitization and Liquidity Facility Institution
- **Sri Lanka:** Women's Bank program,
- **Thailand:** CODI and Baan Mankong program
- **Indonesia:** Subsidized Home Mortgage Program
- **Bangladesh:** Grameen Bank and Islamic Bank of BD
- **Pakistan:** Lyari Resettlement and Rehabilitation Project, KKB-4 Project etc
- **Afghanistan:** Initiatives by Central Bank of Afghanistan, rural micro housing program of First Micro Finance Bank, Role of MISFA
- **Singapore and Hong-Kong** have unique challenge of land scarcity and offer innovative and effective answers. Singapore role of CPF-Housing and HDA

OIC/IDB Member Countries on a Global scene

Muslim World

- Fifty seven (57) countries are OIC members out of 193 UN members on a global scene
- The World population has crossed 7.3 Bn by 2013, whereas population of IDB member Countries was 1.6 Bn in 2009 (23%). Muslim population on the Globe is 2 Bn plus.
- The Muslim world represents 1 of 4 humans on the planet.
- Nearly the same share in number of countries.
- Irony is that it represents 1 of 2 poor on the planet.
- An acute challenge of widening demand/supply gap and rising housing backlog ... leading to Social Unrest.
- Most of the housing backlog and short supply is in low-income segment of the population.
- Population growth and urbanization are further compounding the existing huge backlog.
- Rising costs (land, construction, construction materials) are making housing unaffordable for the poor.

Housing Supply Challenge – The figures speak

- IDB/IRTI* study suggests housing needs of the Muslim World are about 8.2 mn units, nearly all in the Low-Income Segment. The estimate needs further analysis. The breakdown is as follows:
 - MENA 3.2 mn;
 - Asia 2.7 mn; and
 - Africa/others 2.3 mn.
- Shortage: Egypt 1.5 mn, Iraq 1.0 mn, Morocco 0.6 mn, Saudi Arabia 0.4 mn
- Significant oversupply in upscale or luxury housing only, while low income segments/ communities remain neglected
- Rapid urbanization is a major issue for low income housing
- Need for new housing for 8 mn plus due to population growth is based on 5-5.5/HH and population growth rate of 2.8%
- Urbanization and population growth further increases the annual housing needs in major metropolitans
- On the other side, supply is 30-40% of new demand, all for high income segment.

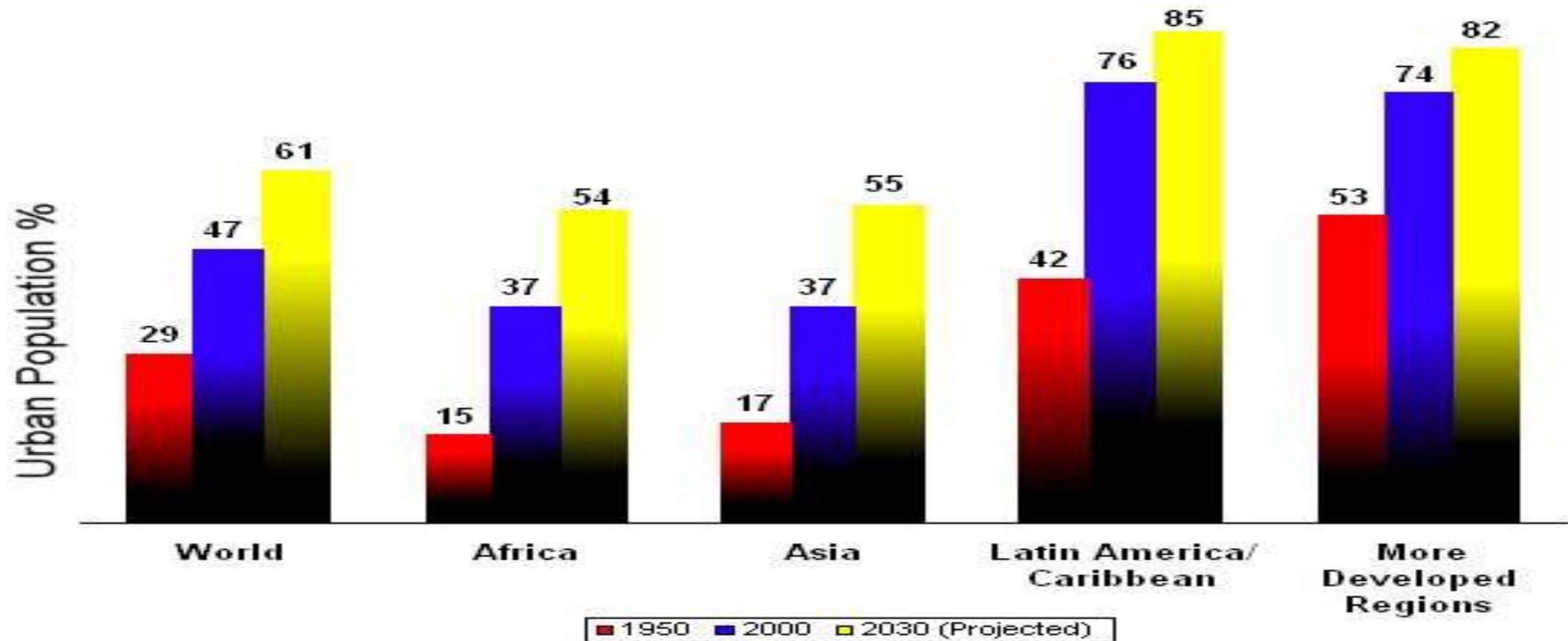
Housing is a 'Numbers' game – Muslim World is no exception!

- IDB member Countries need around 8.2 mn new housing units/year. To meet this yearly demand they will need US\$ 15.5 Bn/year of investment in housing sector.*
- The yearly requirement of housing in Muslim World is growing at 2.83% p.a.
- Sharia-Compliant Housing Finance in Muslim Countries is around 20% only.
- Muslim Population Share: Africa-53.0 %, Asia-32. 2%, Europe-7.6 %, N. America-1.8 %**
- Urban population of IDB member countries is growing at 2.8%/year (Worldwide growth 0.5%).
- The total urban population of IDB Member Countries was 731 Mn in 2010, representing nearly half of total population of IDB member countries
- MD to GDP Ratio is highest in Malaysia (32%), and lowest in Pakistan and Egypt (below 1%).
- Institutionalized housing finance is at infancy stage in most of these countries

Urbanization, Urban Housing Shortage and Growth of Slums

- Increased urbanization, population growth, depletion of stock
- Changing size of persons per household (a cultural phenomenon)
- Cities growing in circles around inner circles, rather than developing new cities and satellite towns
- Low-Income Segment prefers to live close to the place of work
- Failure in redefining city limits with progressive Master Plans (urban/rural rezoning)
- Land prices force poor into suburbs/illegal habitat having no civic amenities, transport, utilities, while Slums in inner circles of cities provide all these amenities-leading to slums growth.
- Failure or absence of an integrated Housing and Urban Development Function

Trends in Urbanization by Region, 2003.



Source: United Nations, World Urbanization Prospects.

Slums Prevalence in Asia

- **Afghanistan:** 80% of Kabul's population (2.44 mn) lives in slums and/or in damaged/destroyed houses
- **Bangladesh:** 2,100 slums. In Dhaka only, 2 mn people live either in slums or are without any proper shelter
- **India:** 52,000 slums provide housing to 8 mn people (about 14% of the total urban population)
- **Pakistan:** Karachi alone has between 600-800 slums sheltering 7.6 mn people (1 million plus households) out of the total city's population of 18 mn
- **Sri Lanka:** A considerable share of the population of Sri Lanka lives in plantations, slums or shanties
- **Mongolia:** 51% of the population residing in temporary 'ger' dwellings
- **Indonesia:** 17.2 mn families live in approximately 10,000 slum areas

Urban Housing Shortage and Urban Planning

Urban Planners need to develop:

- Innovative approaches in urban planning to address issues of rapid urbanization, backlog and cost/income affordability.
- Regulations on densification: Inner city expanding in circles around circles results in further densification.
- Alternative options to act against slums prevalence, expansion, and inefficient use of land.
Resettlement and Rehabilitation Projects
- New neighborhood/satellite towns equipped with physical, social infrastructure, transport etc.
- On-going coordination and wisdom sharing between urban planners, housing ministry, developers and academia
- Business model of Public-Private Partnership for viable and sustainable plans and projects
- Role of Academia, Research Centers etc.

Affordability Defined

- Affordable Housing units being supplied by the market are considered ‘affordable’ since they cater to “market segment” that can afford it.
- The “**Market Housing**” represents middle and high income segment, and does not address the real issue of affordability
 - Supply matches demand and at times may exceed it as well
 - The One Billion Dollar house in Mumbai-India was affordable, since Mr. Ambani could afford it
- Affordability is an issue of Low-Income Segment and Bottom-of-Pyramid (BoP), where housing backlog and incremental demand is massive (**Social Housing**).
- Market forces/developers do not come forward with supply due to viability constraints.
- Affordability issue genuinely arises in segments having an acute affordability mismatch between income, cost and mortgage affordability

If the System will not offer them solutions, they will grab it outside the System...(Slums)

Affordability is to reach and empower shelterless who can not afford it

Affordability: as per market practice

Based on general definition used in the region

Income Affordability :

- When 35-40% of the disposable income match the equated mortgage installments (EMIs)
- Loan to value (LTV) ratios are typically 70:30 or 80:20
- Loan Tenors are long term of 20-30 years

Cost Affordability:

- The cost of a housing unit is equal to 50-70 times (4-6 years) of monthly income and EMI is determined for long term loans

The above market norms are used for low and lower-middle income segments of population (LIH) and do not apply in case of housing microfinance (the Bottom of the Pyramid –BoP or EWS), where an entirely different business model would be used

Affordability Defined....*haves*



ANTILIA: Mukesh Ambani House Mumbai One Billion Dollar, 27 Story, 400,000 Area, 600 Staff to maintain
Mr. Ambani does not live in it

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Affordability is not what you have

Affordability Defined....*have-nots*



House built of used Mineral Water Bottles



Shoes made of used Mineral Water Bottles

**Affordability is what you essentially need and would like to have
Then poor are obliged to find their own ways in housingthey develop slums**

Country Specific Affordability Criteria

Finance Affordability:

- India, Pakistan, Malaysia: EMI- 30 % of gross monthly income.
- Thailand: EMI- 25 % of gross monthly income.
- Philippines: Monthly amortization/rental at PHP 265 in first decile, PHP 388 in second and PHP 496 in third decile
- Hong-Kong: HK uses Median Rent to Income Ratio as affordability yardstick

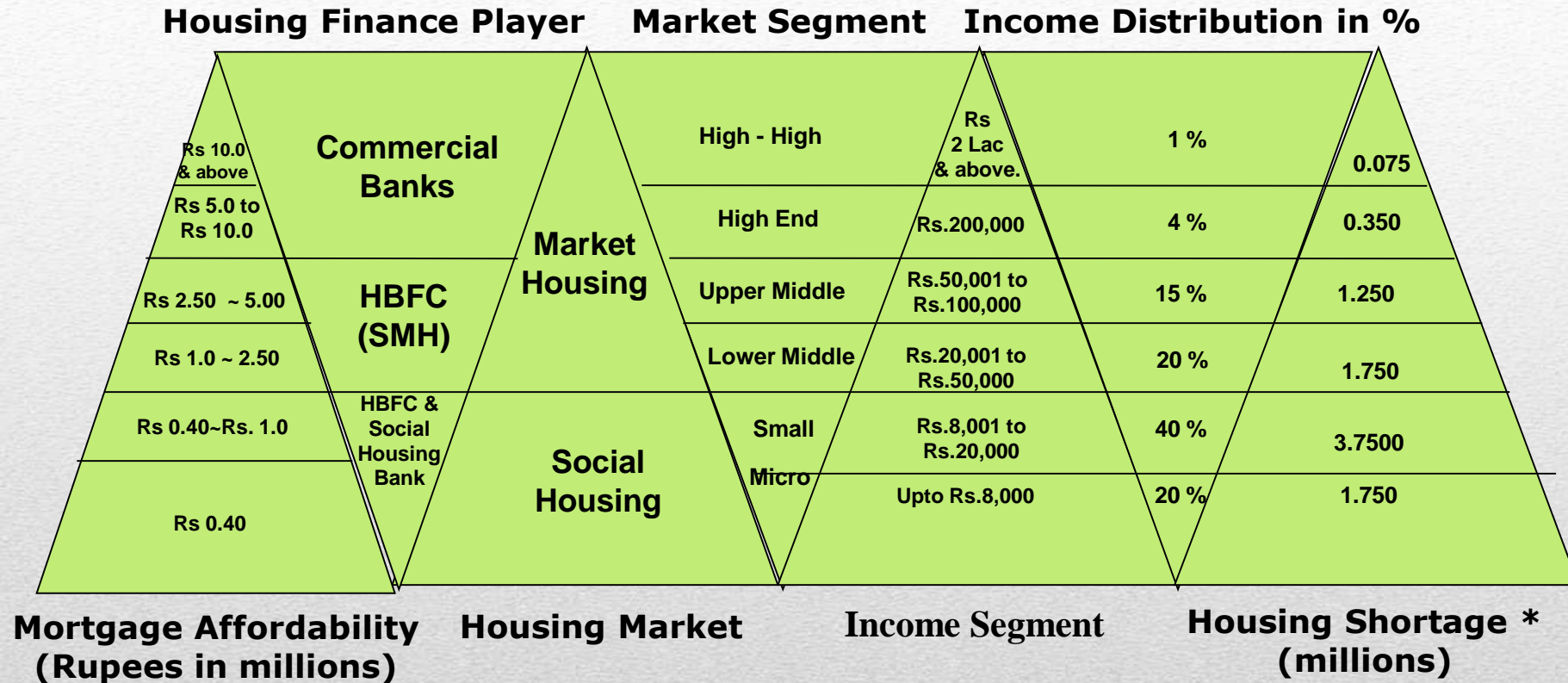
Cost Affordability:

- India: *Supply*- Area 300-600 Sq Ft, *Cost* 4 times gross annual income.
- In certain countries this ratio may be 5-6 times
- Korea: Housing Affordability Index - ratio of mean price of house to mean income of working class

Pakistan: Low-Income Housing CHALLENGES

- For a population of 186 mn, household size of 6.6 and population growth rate of 2.5%, the incremental demand for housing for new household is 0.7 mn units per year.
- Urban population is nearly one-third of the total population and increasing. Likely to reach 50% by 2030-40.
- With changing socio-economic norms, household size will shrink from 6.6 to lower levels, leading to more demand for housing units for the same population. (India 5.6).
- Overall housing backlog is around 9-10 mn Housing Units.
- The Urban Housing Shortage is around 3.5-4.0 mn units, nearly all of which is in the Economically Weaker Segments (EWS) of population.
- The yearly housing supply is around 0.30 mn or may be less. Therefore, short supply is adding another 0.3-0.4 mn every year to the existing backlog.
- Depletion of old housing stock will further widen the shortage.
- The Rural Housing Shortage is 5 mn units, being neglected so far.
- Rural Housing calls for a different approach to address the issue of Housing Supply and Housing Finance. No Govt has ever addressed the issue of Rural Housing.

Housing Continuum in Pakistan



- Per Capita Income: Rs.10,000 per month
- Minimum Wage Rate Rs.12,000 per month

* The figures as above are just estimates current , based on in house research done at HBFC Pakistan in 2008.Total existing backlog is estimated at 9-10 mn units. The shortage in various income segments is assumed in the same proportion as per income distribution pattern. However, actual shortage is much higher in low income segments as opposed to higher income segments.

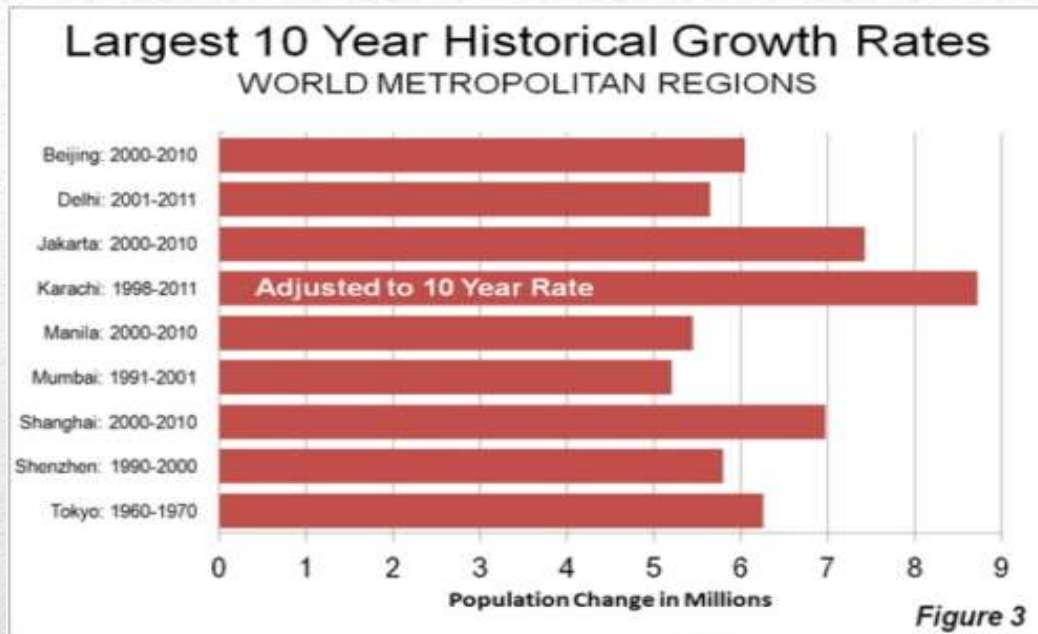
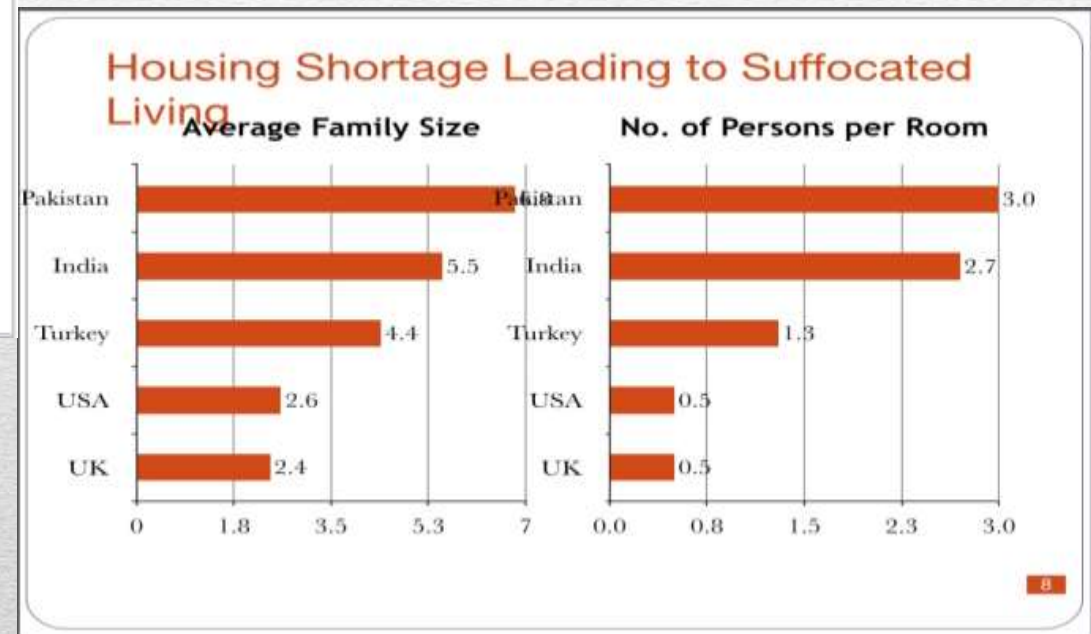


Figure 3



Pakistan: facing an abnormal housing challenge

Challenges of LIH: Supply Side

- ISSUE: *Supply of serviced land* at affordable price: Availability of well-connected affordable land remains a main concern in major metropolitan cities of Asia. Affordable land is often not well connected to transportation and other public services.

ANSWER: External Infrastructure support, in terms of physical and social infrastructure, to be a part of affordable supply of serviced land by the state.

- ISSUE: *Rising Construction Costs*: According to developers across cities in India, their construction cost on yearly basis has increased by 15-20%. LIH is a 'low-margin' business, so not attractive, more so in case of delays.

ANSWER: Fiscal support in terms of waiver of Sales Tax, Import duties, and other levies.

- ISSUE: *Lengthy and Complex Approval Process*: This impacts construction timelines, project IRR, pricing. The approval fees/costs further add to the unit price.

ANSWER: Simplified approval procedures, on-line status, monitoring, waiver or discount of approval fees etc.

Challenges of LIH: Supply Side- *Cont'd*

- **ISSUE:** *Developer /Construction finance* from financial institutions and capital markets is not easily accessible, due to absence of Developer Finance Regulations in most of the countries. Developers fund the projects through short term in-house funding or through customer finance.
ANSWER: The Central Banks and Securities Commission to play a proactive role in facilitating market based supply of Long Term Funding for the developers.
- **ISSUE:** Absence of or insufficient *Fiscal Support* to LIH projects.
ANSWER: Business Models of indirect Cross-Subsidies and direct Smart Subsidies to LIH/EWS projects will provide fiscal incentives to developers
- **ISSUE:** Absence of or insufficient **Regulatory Support** to LIH/BoP Segments.
ANSWER: Regulatory incentives in terms of FARs, and wherever permissible, relaxation in Building Codes etc without compromising on strength.

Challenges of LIH: Supply Side- *Cont'd*

- ***External Infrastructure:*** Government needs to ensure that *Raw Land* for LIH Projects is supported by way of external infrastructure in terms of roads, transport, communication etc., as well as provision of health and education- *From Raw Land to Serviced Land*.
- ***Transport:*** At the initial stage of LIH Project, public transport be provided.
- ***Non-availability of Low-Cost Construction Technologies.*** The Developers to be facilitated and supported to import and indigenize Low-Cost Construction Technologies for manufacturing g scale production.
- ***Lack of Low-Cost Construction Materials(CMIs):*** The Govt. to promote local development of Low-Cost construction materials, and regulate standardization of CMIs for use in LIH Projects.
- ***Manufacturing Scale Production:*** The development projects and the developers are of small size, thus denying the benefits of economies of scales, and use of proven low-cost construction technologies.

Challenges of LIH: Demand Side

- Mismatch of Monthly Mortgage vs Income Affordability. At lower income levels, propensity to save is low and fragile
- Income assessment issues, informal income, issue of family vs individual income etc.
- Income sustainability for long term remains an issue, while longer tenors are needed to make mortgages affordable.
- Poor prefer FRMs, the Lenders prefer ARMs
- Long term liquidity/Funding challenges
- Issues of title verification, lien registration costs/fees, lengthy and complex foreclosure process.
- Cost efficient loan delivery and servicing.
- Awareness on mortgage programs and fiscal/regulatory provisions.

Challenges of LIH: Demand Side- *Cont'd*

- Specialized HFCs are needed to finance Low-Income Segment
- Commercial banks (CBs) prefer middle and high income market- Low-Income housing finance by CBs be placed under priority lending regulations
- Housing Microfinance Institutions for BoP/EWSs.
- Ensure outreach and financial inclusion to low-income segments, through innovative channels like Physical Branches, Virtual Branches, Service Agents, Service on Wheels etc
- Customers' lack of awareness on affordability, payment terms, registration & clearance of titles, and available fiscal/regulatory support.
- Delay in home delivery leads to simultaneous payment of rent and EMI
- Provide interest rate subsidy to low-income customers
- Waive or subsidize levies like VAT, Stamp Duty and Registration Fees for low-income customers

.... Issues we Know, Answers we Need

Pro-Poor Affordable Housing is a Global Issue ...

with Country specific Challenges ...

*that needs Shared Wisdom
and Indigenized Answers!*





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