GLOBAL HOUSING

An integrated World Bank Group approach
Why housing matters

An integrated approach

Targeted interventions

Success stories
Dynamics in housing sector create opportunities but also face challenges

Growing demand from countries and commitments for reform

**Growing slum population**
- 863 million urban residents live in slums, and growing

**Housing Needs**
- 96,150 housing units per day required through 2030

**Low & informal incomes**
- 74% in low-income countries live on less than $2 per day

**Tenure Insecurity**
- 70% of land in emerging economies unregistered

**Growth of Cities**
- 1,393 cities of 500k+ population in 2030
  - 564 cities in 1990

**Growing middle class**
- 3 billion consumers expected to join global middle class by 2030, bringing it to 5 billion

**Large impact on growth and employment**
- 5 jobs created per housing unit built

**Contribution to wealth**
- 50% of tangible assets in housing

**Ample room to improve access to finance**
- 93% of adults have no access to formal housing finance

**High GHG impact**
- 19% of the world’s greenhouse gas emissions from buildings.
  - Housing represents 3/4 of all new buildings
Affordable housing: challenges and opportunities

Value of accumulated affordable housing shortage (2012)

Top 16 markets account for ~35 million units, representing an effective and realizable formal market of $600-700 billion

- **Mexico**: $122b
- **Brazil**: $57b
- **India**: $67b
- **China**: $55b
- **Iran**: $55b
- **Turkey**: $43b
- **Egypt**: $27b
- **South Africa**: $69b
- **Argentina**: $25b
- **Nigeria**: $28b
- **Saudi Arabia**: $36b
- **Vietnam**: $19b
- **Vietnam**: $19b
- **Pakistan**: $7b
- **Philippines**: $12b

Source: McKinsey Global Institute Analysis
11.1
By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

SUSTAINABLE DEVELOPMENT GOALS

Make cities and human settlements inclusive, safe, resilient and sustainable
Affordable Housing supports Twin Goals

- Joint titling for improved gender outcomes
- Housing represents 50-65% of all tangible assets
- Major driver of financial sector
- 5 jobs per housing unit
- Reduced utility bills (green homes) and transport costs (TOD)
- Improved school attendance
- Asset effect: wealth creation, access to credit
- Improved health outcomes
- Reduced overcrowding
- Increased labor market participation

- Ending extreme poverty
- Boosting shared prosperity
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The overall approach: reform and invest across housing value chain

Vital to reform structures and catalyze markets to achieve goals

**Menu of WBG interventions**

1. Improve city planning, building regulations, and access to land
2. Invest in basic pro-poor infrastructure and slum upgrading
3. Strengthen residential rental markets
4. Strengthen local construction & building materials sectors; support private housing development
5. Expand access to housing finance

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**Reduce formal housing costs**

Sector interventions in regulations, planning, construction and land

**Boost housing demand through access to finance**

- Enhance access to mortgages
- Enhance access to microfinance
- Reduce housing-related costs through better city planning (transport) and greening (utilities)
- Introduce with efficient, well-targeted subsidies
A comprehensive WBG approach

City Planning & Building Regulations

Infrastructure & Services

Subsidies

End-user Finance

Access to Land

Construction & Building Materials Sectors

Developer Finance

The WBG is uniquely positioned to reach across the value chain

SURR

F&M

IFC

Other GPs

WORLD BANK GROUP
Some catalytic impact but more needed to scale up and reach transformational effects
A One World Bank Group approach

Housing is cross-practice by definition, it’s *vital* to integrate

- Rebuild the skillset
- Mobilize resources
- Exploit partnerships
  - AfDB, IADB, ADB, KfW, DFID, SECO, EBRD
  - UN HABITAT, Wharton School, banks, developers
- Maximize impact with a programmatic approach
  - But in a limited number countries?

A shared platform to coordinate interventions

**Surroundings**
- City planning, regulations, land, infrastructure, subsidies, slum upgrading

**F&M**
- Micro finance, mortgages, developer finance, capital markets, subsidies

**IFC**
- FIG & MAS
  - Materials, developers, micro finance, mortgages, capital markets

**MFM**

**T&C**

**JOBS**

**CC**

**ENV**

**MIGA**

**Others**
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Success stories
Improve planning and building regulations, and access to land

Dar es Salaam:
No. of buildings in compliance with Floor Area Ratio

- Distance from city center

- in compliance
- out of compliance

✓ coordinated housing policies
✓ streamlined planning regulations
✓ adapted building standards
✓ titling and registration improvements
✓ Public land allocation mechanisms
✓ incentives for density and infill
Invest in slum upgrading and basic pro-poor infrastructure

- Integrated slum upgrading projects
- Community-level infrastructure for new housing development
- Trunk infrastructure to supply existing and new settlements
- Link to revenues, property taxation, and institutional capacity in local governments

Source: UN HABITAT
Rental housing – missing pillar in housing policies

- Rental housing needed as part of a comprehensive national housing policy
- Informal settlement upgrading to include improvements and creation of rental stock
- Coherent system of supply- and demand-side subsidies
- Develop a cadre of professional property managers/management companies
- Stimulate long-term capital sources to finance multi-family and investment properties
- Ensure tax neutrality for rental vs ownership

IFC MAS Strategy is based on following pillars:

- Support private developers and large scale housing projects
- Lower cost of construction
- Scale up local industries, improve techniques
- Address climate change
Housing Finance not reaching most emerging economies

**Mortgage Debt to GDP (%)**

- **43 countries**: More than 15% of GDP
- **17 countries**: 5 to 15% of GDP
- **135 countries**: Less than 5% of GDP

**Annual Urban Growth Rates By Region, 2015-2050**

- Sub-Saharan Africa
- South Asia
- East Asia & Pacific
- Middle East & North Africa
- Latin America & Caribbean
- Europe & Central Asia
- North America

**Mortgage depth (2006-2010)**

- South Asia
- Sub-Saharan Africa
- Latin America & Caribbean
- Middle East & North Africa
- Europe & Central Asia
- East Asia & Pacific
- North America

Source: World Bank Mortgage database, UN Populations
Solutions for Expanding Access to Housing Finance

Affordable Mortgages
- Improve the legal & regulatory framework
- Provide debt and equity finance (both WB and IFC)
- Advisory services (ex: IFC mortgage toolkit)

Housing Microfinance
- Small loans for home improvement and self-construction: potential scaling up through MFIs, savings cooperatives
- IFC investments and advisory services
- F&M - HMF Funds, regulatory reforms

Capital Markets
- Liquidity facilities that issue refinancing bonds (ex: Nigeria, Tanzania)
- Support bond markets with local currency issues
- Risk-sharing facilities
- Creation of a secondary market (ex. Securitization Company in Colombia, Titularizadora)

Innovative Risk Sharing
- Informal Sector Financing/Guarantees
- Credit risk sharing
- Contractual savings
- Rent-to-buy

Efficient and well-targeted subsidies
- Restructure failing housing banks / funds / agencies
- Support appropriate and targeted subsidy policies
- Reform of Housing Subsidy Mechanisms
Building real estate industries by leveraging private sector strategic partners

- Strategic focus on Africa and Asia, additional efforts in LAC, EMENA
- 40% of advisory projects in fragile and frontier markets
- Scale up and leverage internal partnerships (MAS, Climate) and external (Lafarge, KfW, Harvard U.)
- Advisory Services streamlines and strengthens client operations
- Advisory promotes new lending products and innovative structures to broaden access to housing finance
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Morocco: example of successful WBG interventions

- Released public land
- Unified building code, relaxed planning regulations
- Modernized rental law (to reduce vacancies)
- Incentivized private developers into affordable housing
- Boosted retail mortgage markets: competitive, affordable
- Public guarantee fund: >100,000 informal income households have accessed residential mortgage finance
- Micro-finance institutions authorized to lend for housing
- Slum upgrading program (VSB), financed with a tax on cement, including cost sharing and city contracts
India: Reaching down to the informal sector

- Mortgage market reached $130 billion by end 2013 – but just 3% of lending goes to bottom 75% of income distribution
- Vast underserved population on low incomes working in informal sector
- Major challenges remain in formalizing/regularizing property
- IDA loan of $100 million channeled through National Housing Bank to expand access to housing finance, targeting households earning between $150 – 300/month
- IFC incentivizes lenders/developers to move down market with investment and advisory services (including responsible finance standards)
- IFC facilitated housing microfinance loans of $103.4m (2012-14)
- IFC’s investment and advisory to HDFC helped company to build loan book of $33 billion
Egypt: ongoing engagement in a complex housing sector

- Mortgage market liquidity facility (joint F&M – IFC project) promotes lending standards and facilitates access to long term funds in local currency
- DPLs for housing finance
- Housing subsidy reform
- TA on public land management
- IFC works with MFIs to introduce housing microfinance products, construction technical assistance services and improve risk management capabilities

Photo credit: David Evers, www.flickr.com
The potential of an integrated WBG approach to housing

- Identify target countries for the development and implementation of joint assessment and action plans
  - Financial Services, Analytical and Advisory Services
  - F&M, SURR, IFC (FIG and MAS) and others

- Elevate the message
  - e.g., high-level housing conference

- Expand external partnerships and fundraise

- Lessons learnt from prior experiences
  - Example of Mexico

- Replicate and show success cases
Annex
Plan to significantly increase WB and IFC investments and leverage catalytic effects.

$923 million
Average annual investment in housing globally since 2006

$51.1B
Percent of annual WBG commitment FY06-FY14

Urban: 7%
Housing: 2%
WBG housing investments, 2000-2014

**IDA**
- **$4.0B**
  - Housing Policy: 4%
  - Disaster Relief: 28%
  - Housing Finance: 9%
  - Slum Upgrading: 59%

**IFC**
- **$2.1B**
  - Green Building: 3%
  - Slum Upgrading: 7%
  - Disaster Relief: 17%
  - Housing Finance: 40%
  - Housing Policy: 33%

**IBRD**
- **$5.1B**
  - Green Building: 3%
  - Slum Upgrading: 7%
  - Disaster Relief: 17%
  - Housing Policy: 33%
  - Housing Finance: 40%
Housing supply and stages of economic development

Note: The vertical red lines represent points of inflection

Basab Dasgupta, Somik V. Lall, and Nancy Lozano-Gracia (2014). “Urbanization and Housing Investment”
Housing supply lead times across regions

Housing supply lead time (years)

-8 to -10
-6 to -8
-4 to -6
-2 to -4
0 to -2
0 to 2
2 to 4
4 to
6 to 8
8 to 10

Basab Dasgupta, Somik V. Lall, and Nancy Lozano-Gracia (2014). “Urbanization and Housing Investment”
Housing supply as a percent of GDP

Housing supply as % GDP (2001-11)

Basab Dasgupta, Somik V. Lall, and Nancy Lozano-Gracia (2014). “Urbanization and Housing Investment”
Urban population growth rate vs. Population living on less than $1.25 per day
Population living on less than $1.25 per day vs. Urban population living in slums

Source: United Nations
Urban population growth rate vs. Urban population living in slums

Source: United Nations
Improve planning and building regulations, and access to land

Cost to register property, as a percent of value

- More than 15 percent
- 10 to 15 percent
- 5 to 10 percent
- 3 to 5 percent
- Less than 3 percent
Invest in slum upgrading and **basic pro-poor infrastructure**.
Housing Finance – Key part of Global Financial System

- **Key resource for improving access and affordability**
  - Longer term local currency loans allow for long term investment into housing
  - Amortize cost over time (equity building up)
  - Shift from unplanned incremental construction to formal development

- **Essential part of integrated financial system**
  - Generates long term assets…
  - …which balance out long term liabilities in pension and insurance systems
  - Key product in developing retail banking market

- **Large financial exposure at household level**
  - Largest single investment
  - High relative level of leverage
  - Poor financial literacy: responsible lending matters

- **Can help macro stability and can also cause volatility**
  - Potential for house price/real state bubbles
  - Fueled by credit booms
  - Need to balanced growth on supply/demand side
  - Careful prudential supervision with early warning mechanisms needed to mitigate risks
### Success Case Study: Vinte, Mexico

IFC invested US$12.5 million in a revolver loan and US$10 million in equity in Vinte in 2008. IFC also provided a partial credit guarantee to boost Vinte’s first domestic bond issuance in 2011.

Vinte is a niche player in the low-and middle-income housing market in Mexico, with a customer offering that is differentiated by the use of innovative technology and modern infrastructure services. Customers are generally salaried workers such as schoolteachers, bus drivers, factory and office workers with annual household incomes ranging from $6,400 to $27,000.

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<th>Direct Benefits</th>
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<td>• Close to <strong>10,000 homes</strong> built in the last three years</td>
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<td>• Generated over <strong>US$38 million</strong> in EBITDA for FY2014</td>
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<td>• Close to <strong>US$7 million</strong> in taxes paid to the government in FY2014</td>
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<td>• Total Direct Employment: <strong>1,500 full time jobs</strong> + <strong>1,200 part time jobs</strong></td>
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<td>• Linkages to local economies &gt;<strong>US$100 million</strong></td>
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<tr>
<th>Indirect Benefits</th>
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<td>• <strong>Builds communities</strong>: Vinte provides ongoing estate management and puts in place community infrastructure e.g. community portal, broadband, parks, play areas and security systems.</td>
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<tr>
<td>• <strong>EDGE</strong>: Vinte extends sustainability to green buildings and is the first housing company worldwide to get WBG EDGE certificate.</td>
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<td>• <strong>Wealth creation</strong>: The purchase of a home is often times the first step to wealth creation for the lower income population.</td>
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What is ASHA?

- Guidelines developed by IFC to encourage developers to build socially sustainable communities
- Incorporated good practice from around the world (38 case studies from both developed and emerging markets)
- Evidence based information with a strong emphasis on “solutions”
- A global framework within which a more defined local context should be developed
- Available at [www.ifc.org/asha](http://www.ifc.org/asha)

What does ASHA include?

- **Predevelopment**
  - Location efficiency
  - Mixed use developments
  - Mixed income & diverse communities
  - Densities
  - Resident services
  - Design and planning strategy
  - Targeted marketing and allocation
  - Labor

- **Planning and Design Elements**
  - Site Planning
  - Open spaces and streets
  - Building design
  - Internal space design

- **Post Occupancy**
  - Resident capacity
  - Property management
  - Community building
  - Grievance process & monitoring mechanisms

- **Additional Features**
  - Roof top cultivation
    - VBHC, India
  - Variety of typologies
    - Via Verde, USA
  - Incremental construction
    - Elemental, Chile
  - Low maintenance open spaces
    - Vinte Mexico
  - Access to finance
    - VBHC India
  - Community building events
    - Canopus Brazil
Creating Housing Stock – 8,000 homes p.a.

- Across the value chain
- Financing for green construction/rental projects (IHS, Nedbank, FNB)
- Green mortgages (SAHL, Old Mutual, Real People), TUHF
- Capital markets products (securitization)

Impacts:

- Utility savings of ~20% passed to owners/renters
- 40,000 tCO2 p.a.
- Higher resale price
- Demonstration impact generates market demand and new supply

EDGE Homes Launched

IFC has partnered with the Green Buildings Council of South Africa (GBC SA) to launch EDGE Homes South Africa (Sept 2014)

EDGE Certification

Housing projects designed to meet EDGE standards (20/20/20) and certified by GBCSA

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