

# The Critical Importance of Housing Finance in Solving Persistent Housing Problems

World Bank GSUURR Knowledge Forum

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# The Scale of the Problem and the Opportunity

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# The Challenge

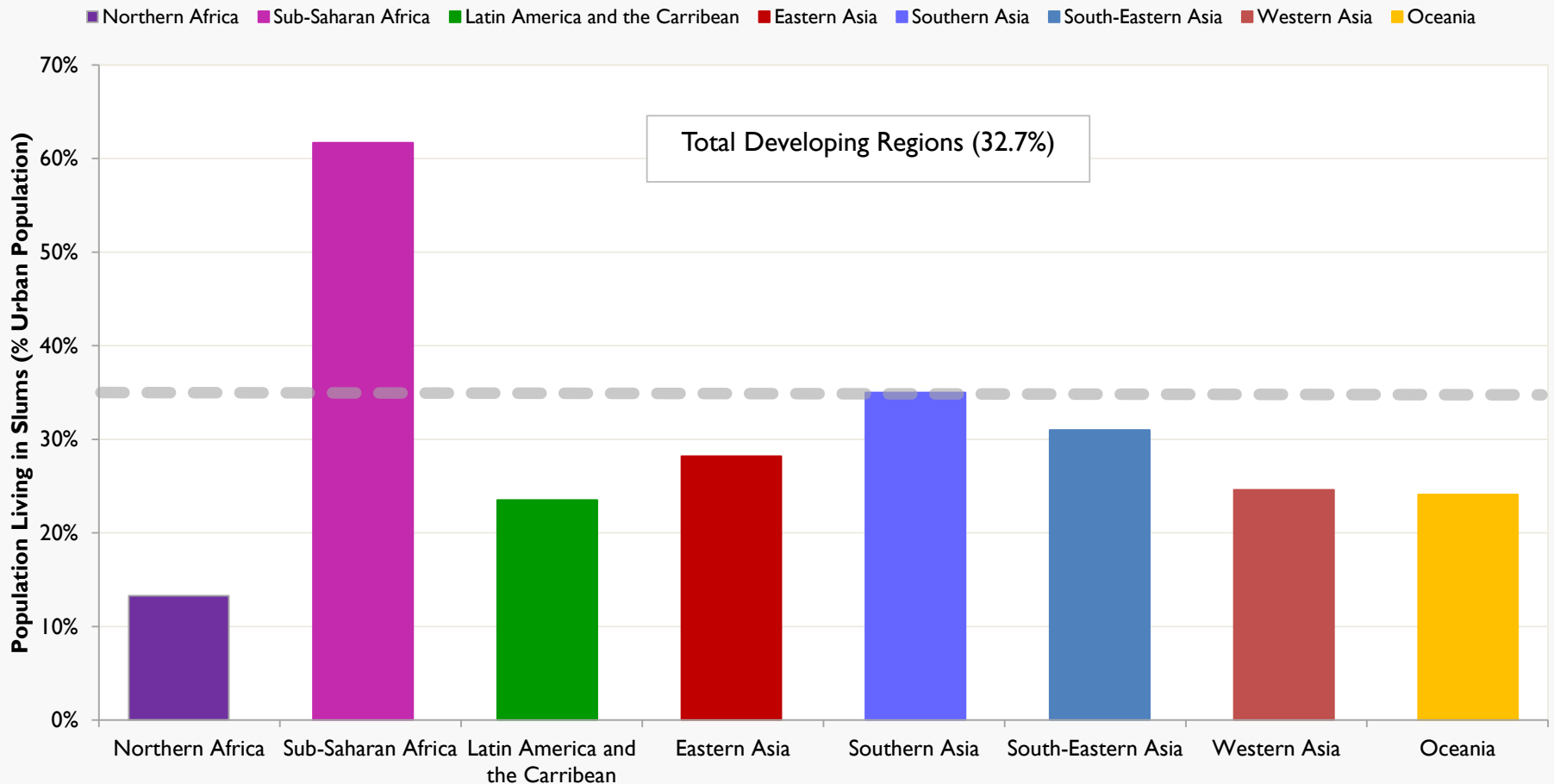
## How to Build a Billion New Houses By 2025?

- >50 million new urban dwellers each year
- Grossly inadequate stock
- Rising housing demand with rising incomes

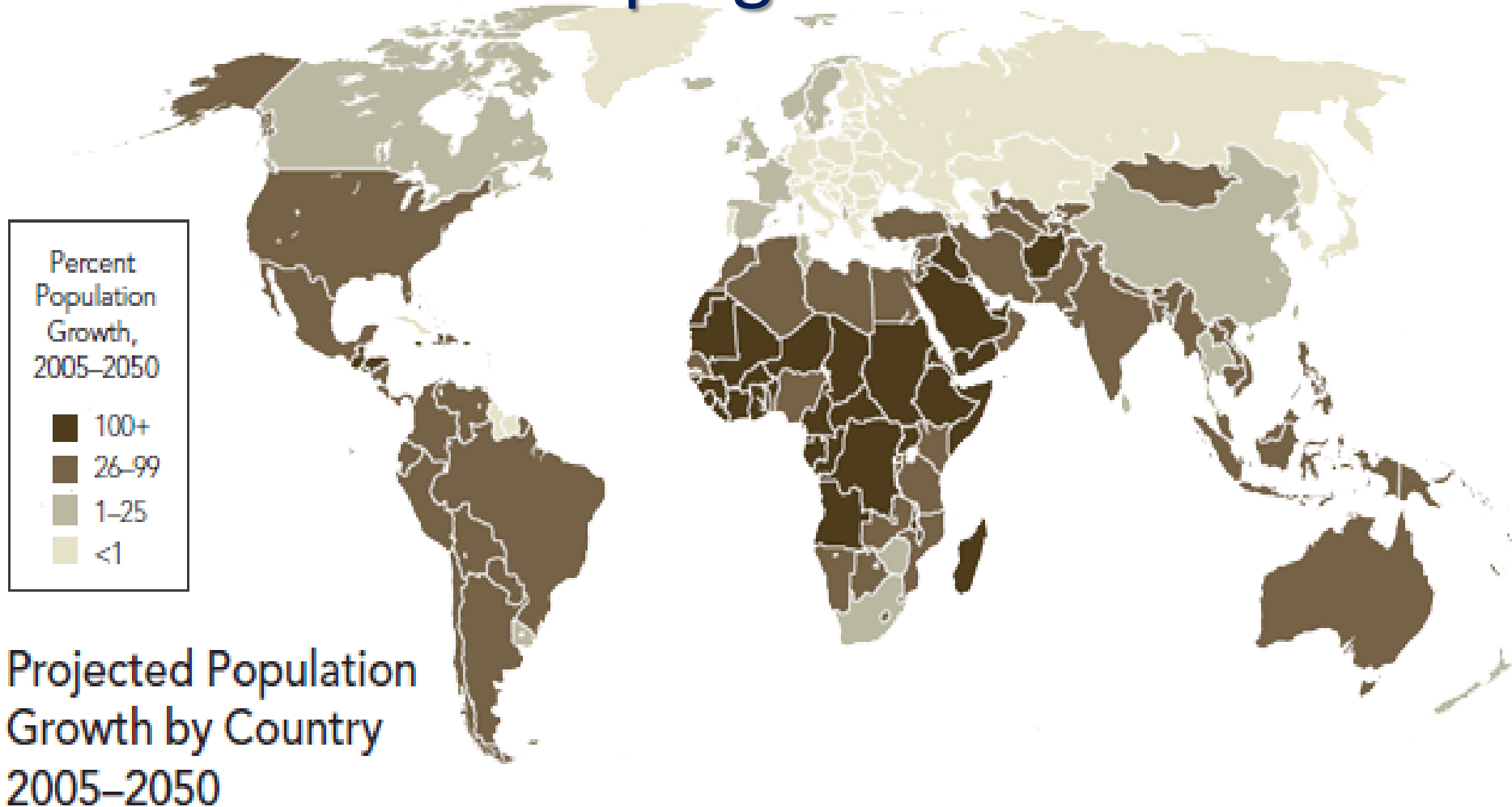


# One Third of Urban Population in Slums Number is Growing!

## Proportion of Urban Population Living in Slums

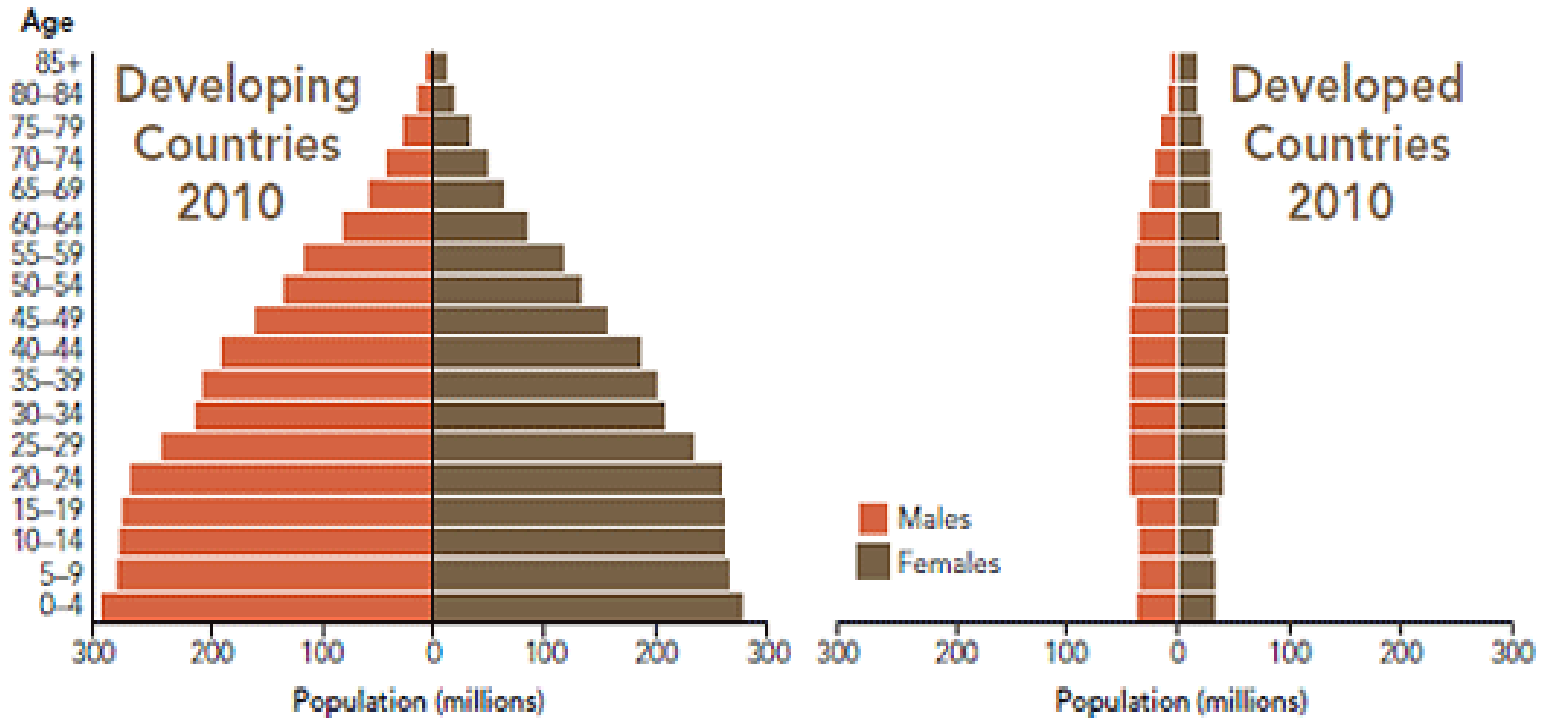


# Virtually All Population Growth until 2050 Will Happen in Emerging Market & Developing Countries



# Think About Impact on Scale and Type of Real Estate Development

Young and Growing  $\leftrightarrow$  Aging and Stable



SOURCE: UNPD, 2011

## By the numbers

**43%**

Population <15,  
sub-Saharan Africa

**3%**

Population 65+,  
sub-Saharan Africa

**16%**

Population <15,  
Europe

**16%**

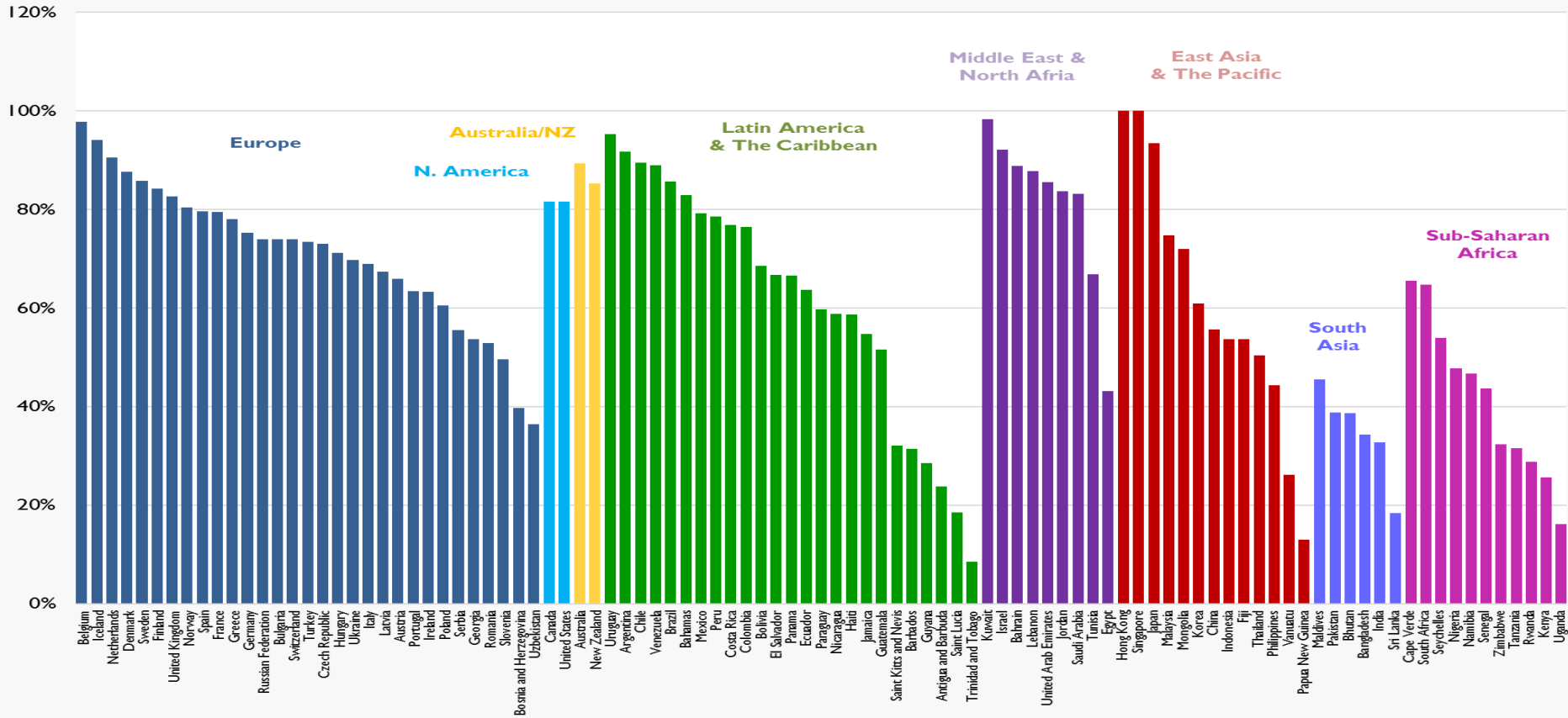
Population 65+,  
Europe

# Urban Growth Fastest in Least Urbanized Countries, African and Asia

## LEGEND

- Europe and Central Asia
- North America
- Australia and New Zealand
- Latin America and the Caribbean
- Middle East and North Africa
- East Asia and the Pacific
- South Asia
- Sub-Saharan Africa

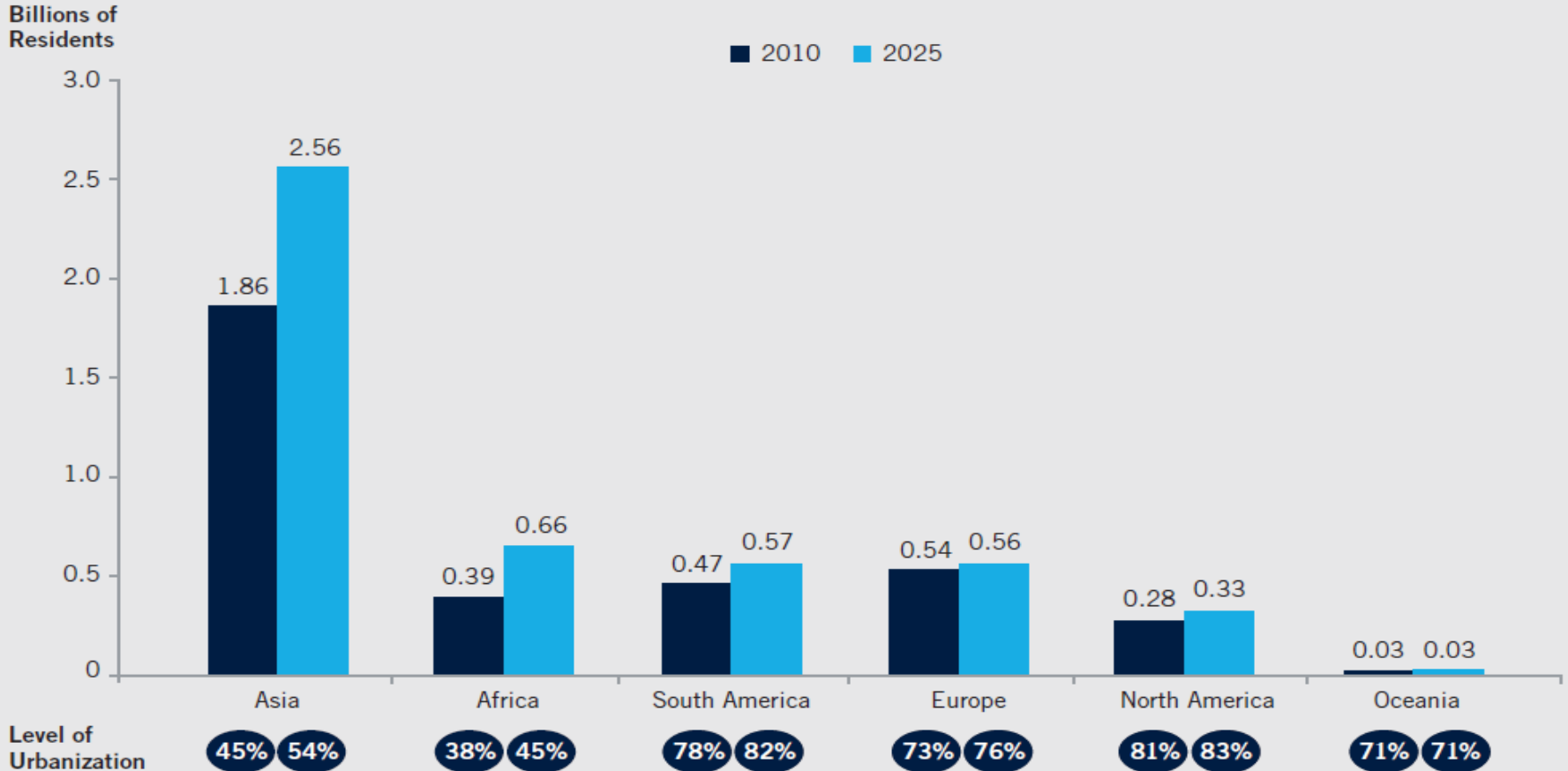
### Urban Population as % of Total Population (2015)



# Asia and Africa Face the Biggest Urban Housing Challenge

Between 2010 and 2025, Asia alone will add 700 million people to cities

Global urbanization – 2010 vs. 2025



Note: Urban vs. rural defined according to the criteria used by each area or country

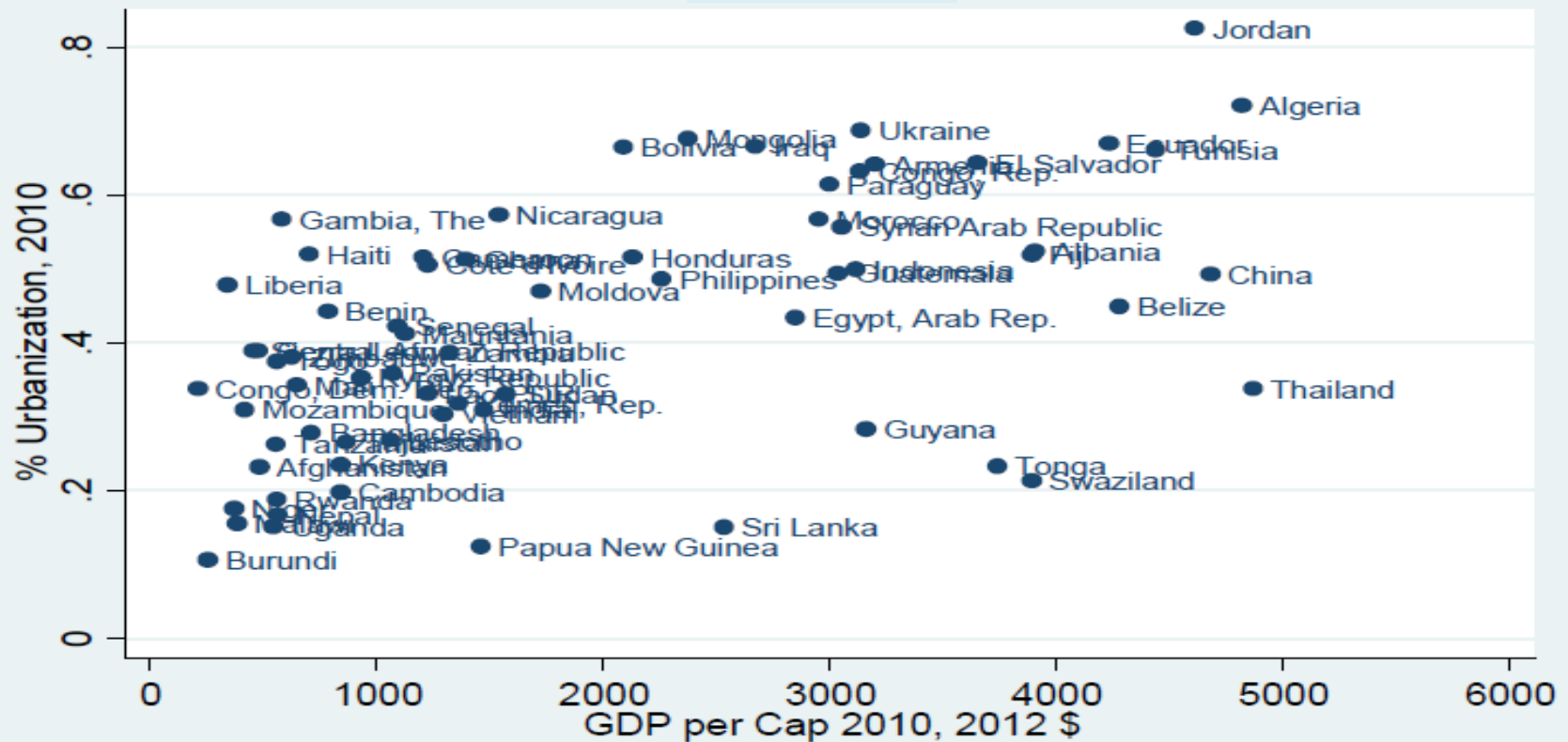
Source: UN Department of Economic and Social Affairs – Population Division

Source: *The Wealth of Cities: The investment implications of urban expansion*. Prudential Investment Management, 2015



# Challenge: Urbanization Happens at Lower Per Capita Income Levels than in the Past

(GDP per Capita < USD 5,000)



Source: World Bank

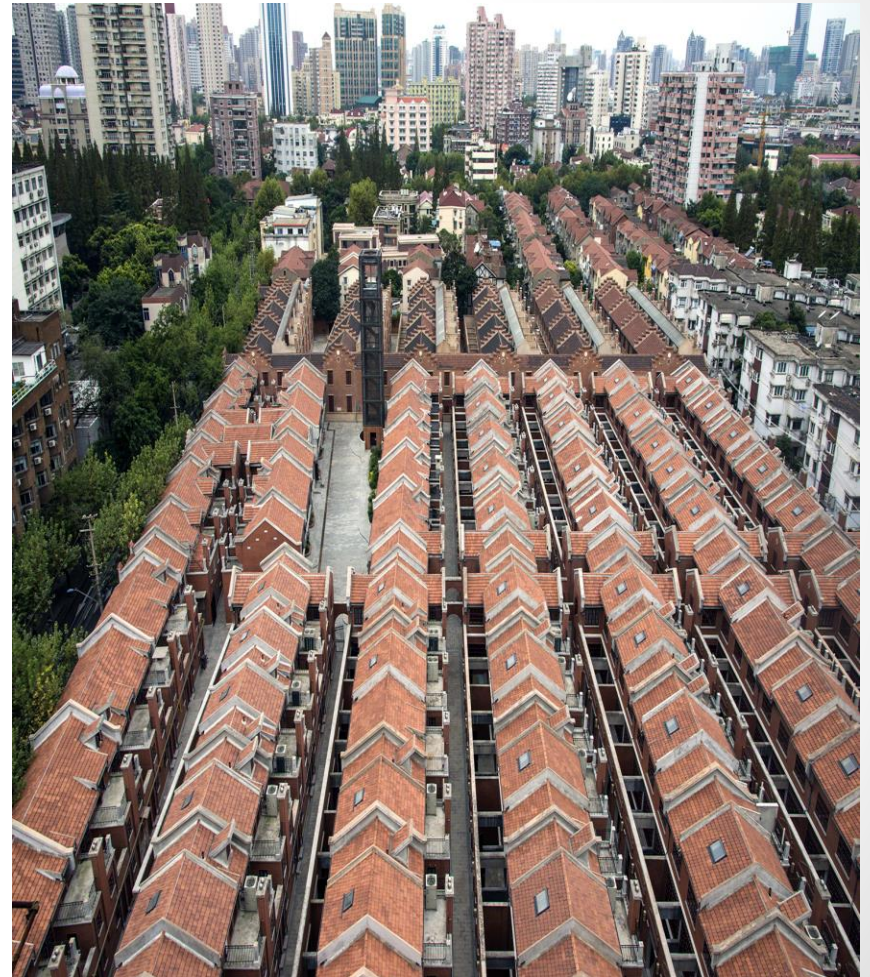
# Challenge: Investment in Housing is Lagging Behind Urbanization (Dasgupta et al)

- Housing Investment takes off at GDP per capita levels of \$3000 (PPP constant dollars)
- And tapers off at \$36,000 GDP per capita
- Investment generally follows growth in urbanization with some lag
- In Asia and Sub-Saharan Africa investment in urban housing lags demand (GDP/cap increase) by many years!
- **Messy urbanization process**



# What Can Be Done To Break the Cycle of Informal => Upgrading

- Expand private housing production for lower-middle and middle income households, e.g. teachers, nurses, clerical staff, traders
- This group can pay for ownership if access to long/med term loan is available
- Can pay for formal rental
- Frees up govt. funds for housing programs for lowest income groups, e.g., upgrading, core housing + subletting, rental PPPs



Portman Holdings

# Why is Housing Finance So Critical in Solving the Housing Problem?

...

# It All Begins with Finance!

Incremental housing cannot reach required scale (or density) in rapidly urbanizing countries

Mortgage loans allow buying a house now and pay for it over a long time

Increasing affordability

Security of (lien on) property makes mortgage loans cheapest form of credit

Access to mortgages makes formal private sector mass housing production possible – for ownership or renting

Developers will not enter mid-market if clients cannot access mortgage loans to pay for the house upfront

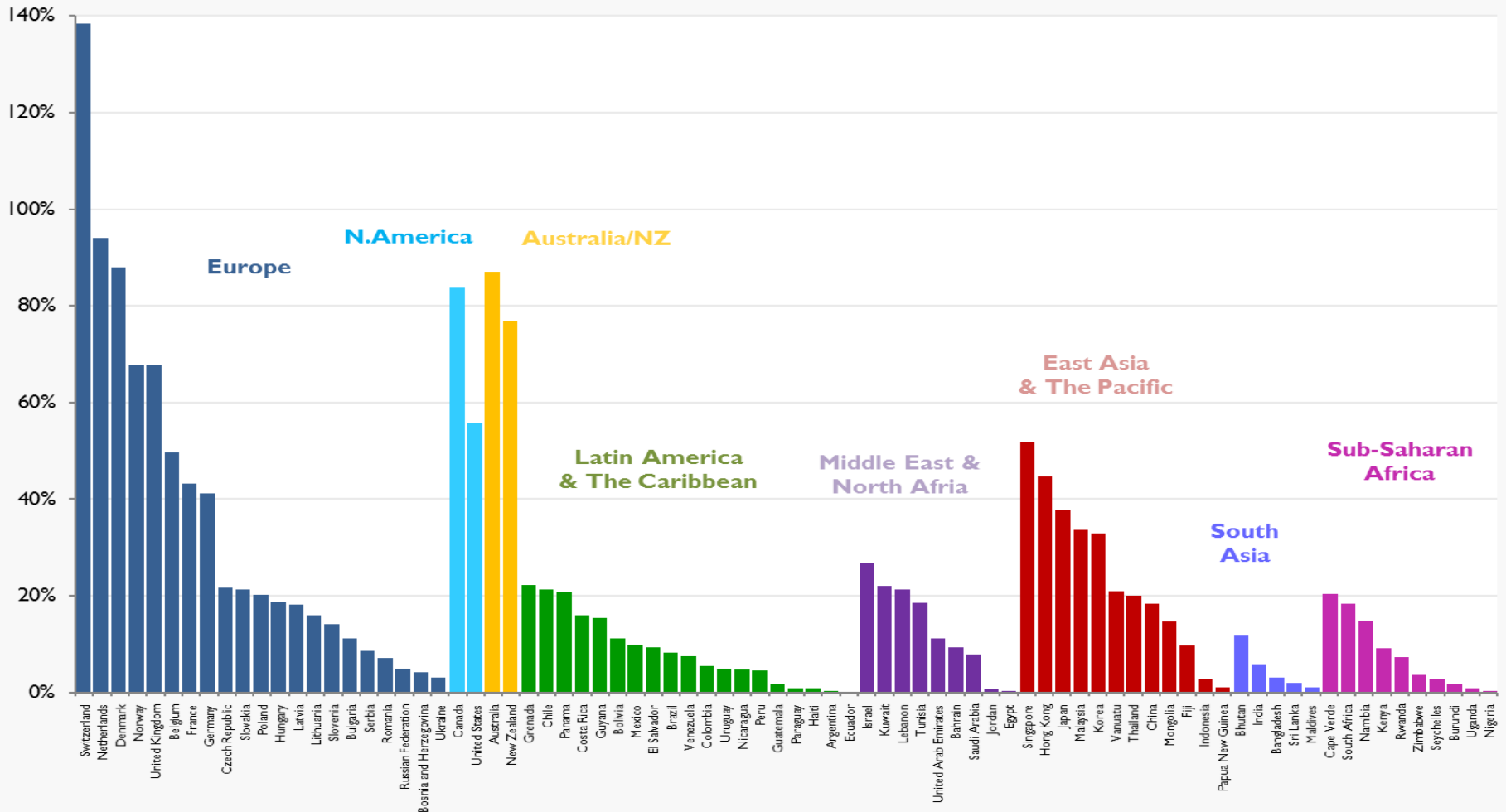
**Mortgage systems develop with growing GDP**

**But urbanization does not wait for this process to happen**

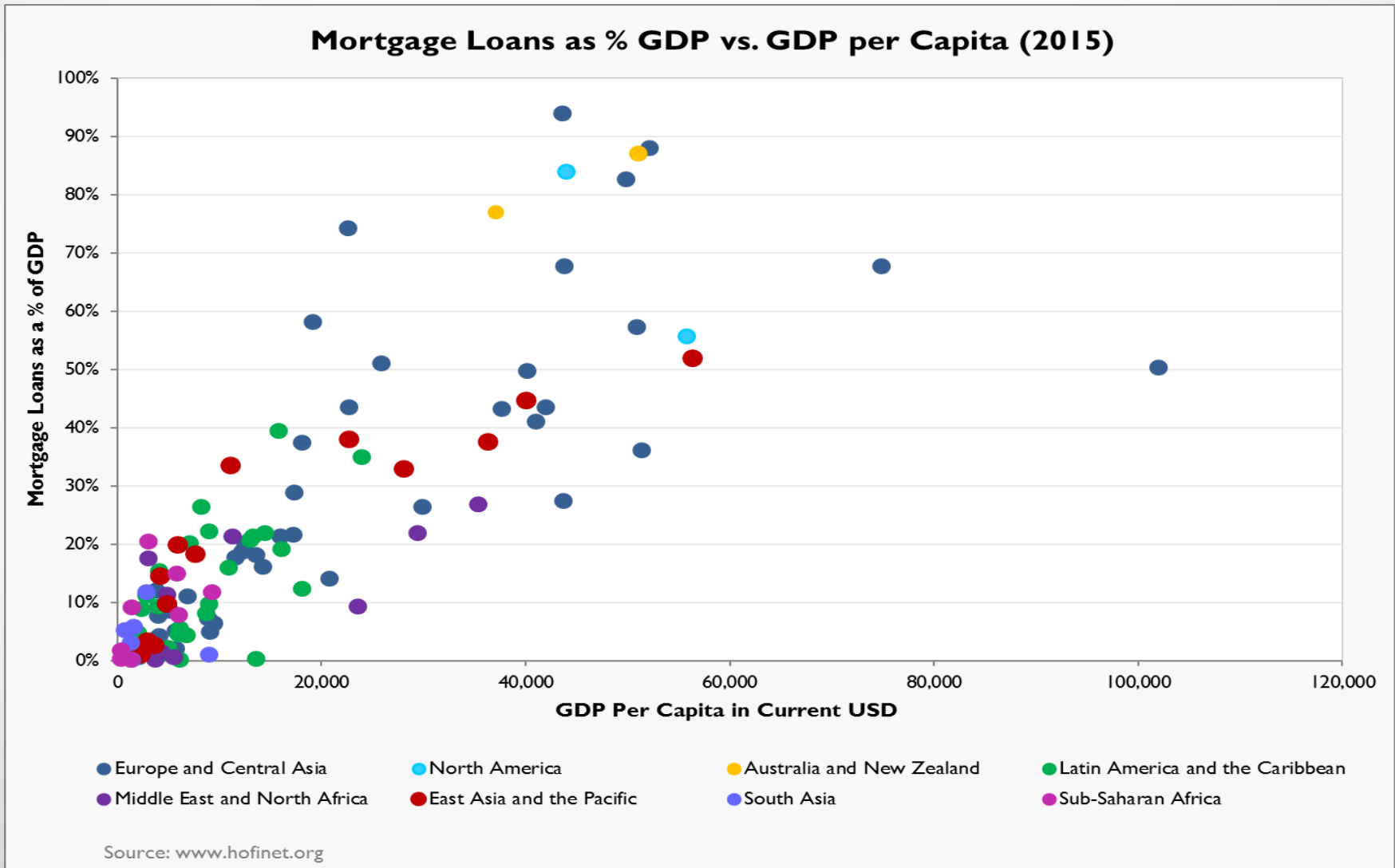
**Active policy support is needed**

# Scale of Mortgage Sector is Small in EM and Developing Countries

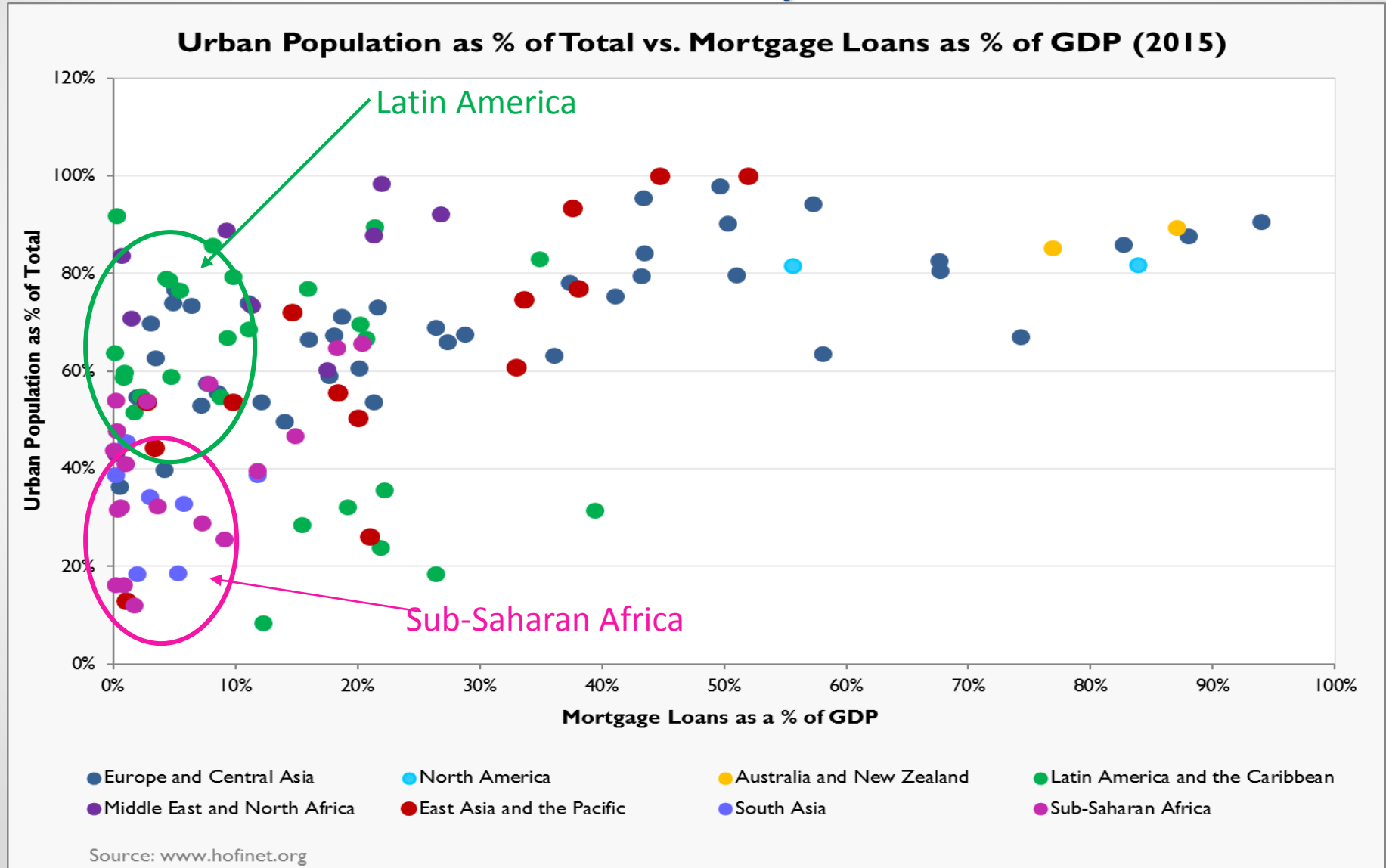
**Mortgage Loans Outstanding as a % of GDP (2015)**



# The Size of Mortgage Systems as % of GDP Increases with GDP, but with considerable noise

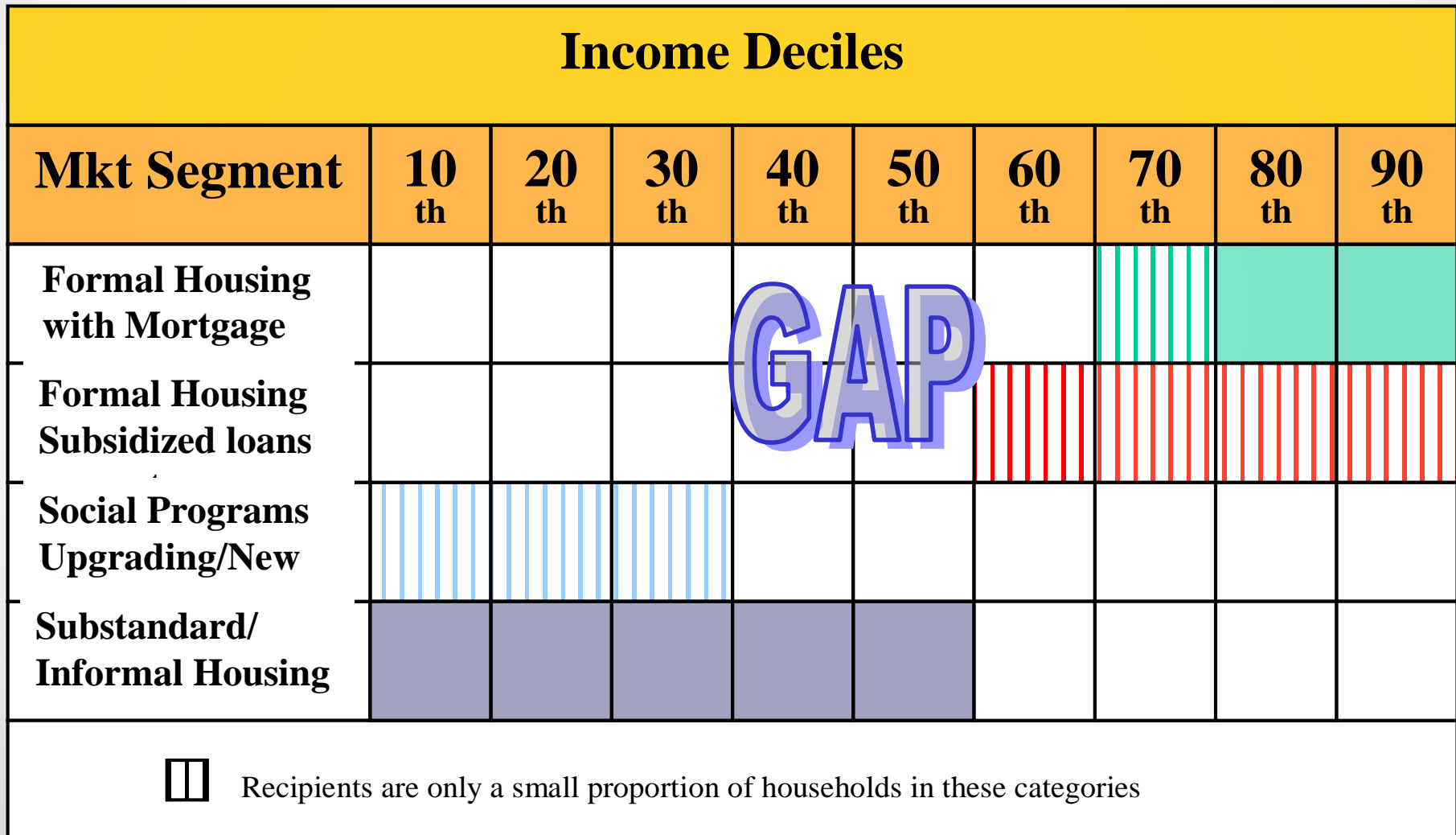


# Even in Countries with High Urbanization Level One Reason for “Messy” Urbanization



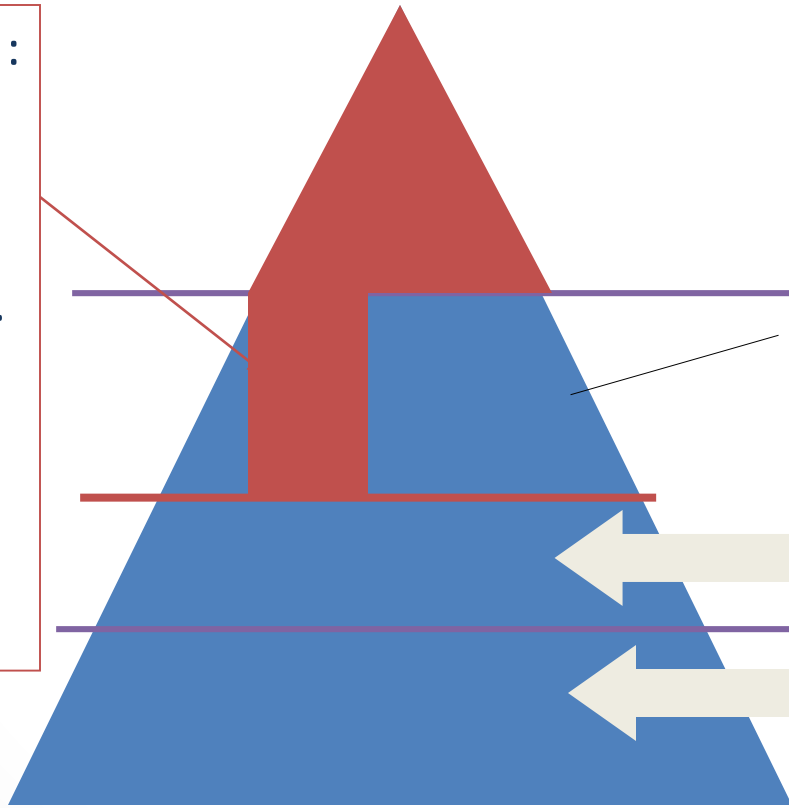


# Outcomes: Big Formal Supply Gap in Broad Middle-Income Segment



# Focus HF Policy Measures on the Expansion of Mortgage Coverage to Urban Median Income

Covered by **mortgage** :  
formally empl. and creditworthy  
informally empl; with mortgage-able house.  
Medium term, secured. May need **lender and developer incentives and/or hh subsidies initially**



**Gradually expand access to mortgages to 50% of urban income distribution**

+ Pension backed loans  
Installment loans

Microloans for others;  
+supply-side subsidies?

Supply-side Subsidies  
blending upgrading, new LIH

If middle/low income households cannot be served by mortgage- and developer market, housing problem is near unsolvable

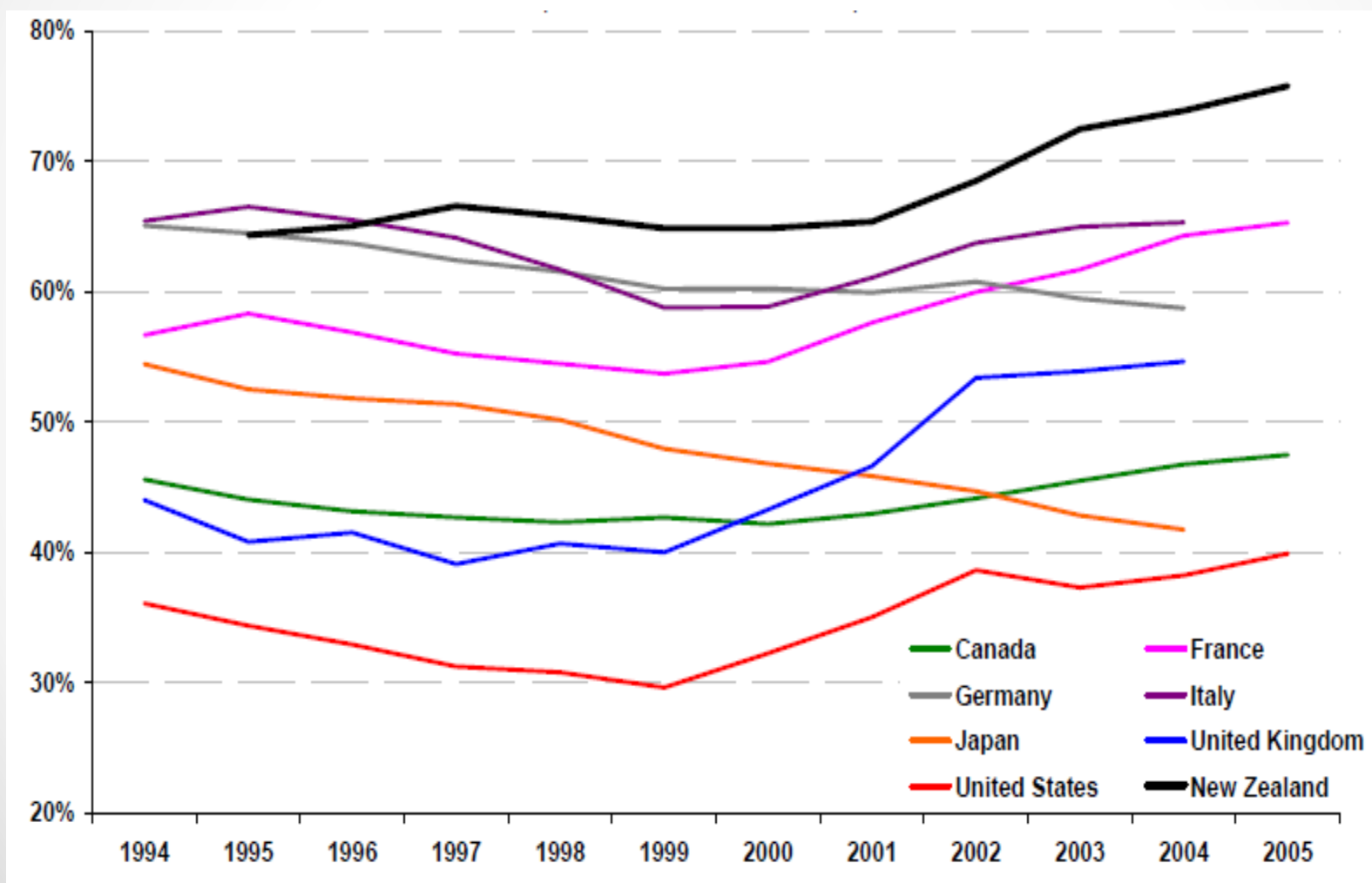
# What's Special about Housing Finance Systems?

- **Social and Economic Factors**
  - Big in personal budgets and personal balance sheets (assets/liabilities)
  - Housing is one of the biggest investment and consumption items in economy
  - Politically sensitive (key barometer of social welfare, often a channel for redistribution)

# Housing-related Entries in U.S. National Income Accounts – 2003 (pre-bubble)

	<u>\$billion</u>	<u>% of GDP</u>	<u>\$ per person</u>
Gross Domestic Product	<b>10988</b>	<b>100.0</b>	<b>37784</b>
Consumption			
durable goods			
<b>furniture and household equipment</b>	<b>334</b>	<b>3.0</b>	<b>1149</b>
services			
<b>housing services</b>	<b>1199</b>	<b>10.9</b>	<b>4121</b>
(rental amount, imputed rental value of owner- occupied housing)			
<b>household operation</b>	<b>426</b>	<b>3.9</b>	<b>1465</b>
(electricity, gas, other)			
Investment			
<b>residential</b>	<b>562</b>	<b>5.1</b>	<b>1934</b>
structures	554	5.0	1906
single family	302	2.8	1039
multi-family	34	0.3	118
other	218	2.0	749
equipment	8	0.1	28
<b>Total of housing related entries</b>	<b>2521</b>	<b>22.9</b>	<b>8669</b>

# Housing is Large Proportion of Total Household Assets/ Wealth in Advanced Economies



# What's Special about Housing Finance Systems (2)?

- Technical Factors

- Affordability increases with **length of term**, so emphasis on long term lending

- The alternative of relatively short installment sales or micro-credit limits affordability

- Difficulties of consumers to **bear financial risks**, so want to shift these to other parties

- **Mass product** (needs for simplicity and consumer protections)

# Housing Finance Expands Both Demand and Supply

- **Private developers** need to **off-load** housing upon completion; will not build without end-user finance
  - **If building for ownership**; access to mass mortgages required for targeted income group
  - **If building for rental**; rental investor needs access to mortgage loan – often most difficult part of housing finance (not in this course)
- Plus: Developers require short term **construction finance**

# Alternative Secured and Non-Secured Housing Finance Products Are Important to Expand Access to Improved Housing

- Alternative secured loans for housing ease legal requirements for registration of mortgage
- Micro-finance for housing does not require lien-based collateral
- Still require macro stability and competitive markets
- ...and regulatory system and legal infrastructure
- This workshop will cover different types of
- housing finance product



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