



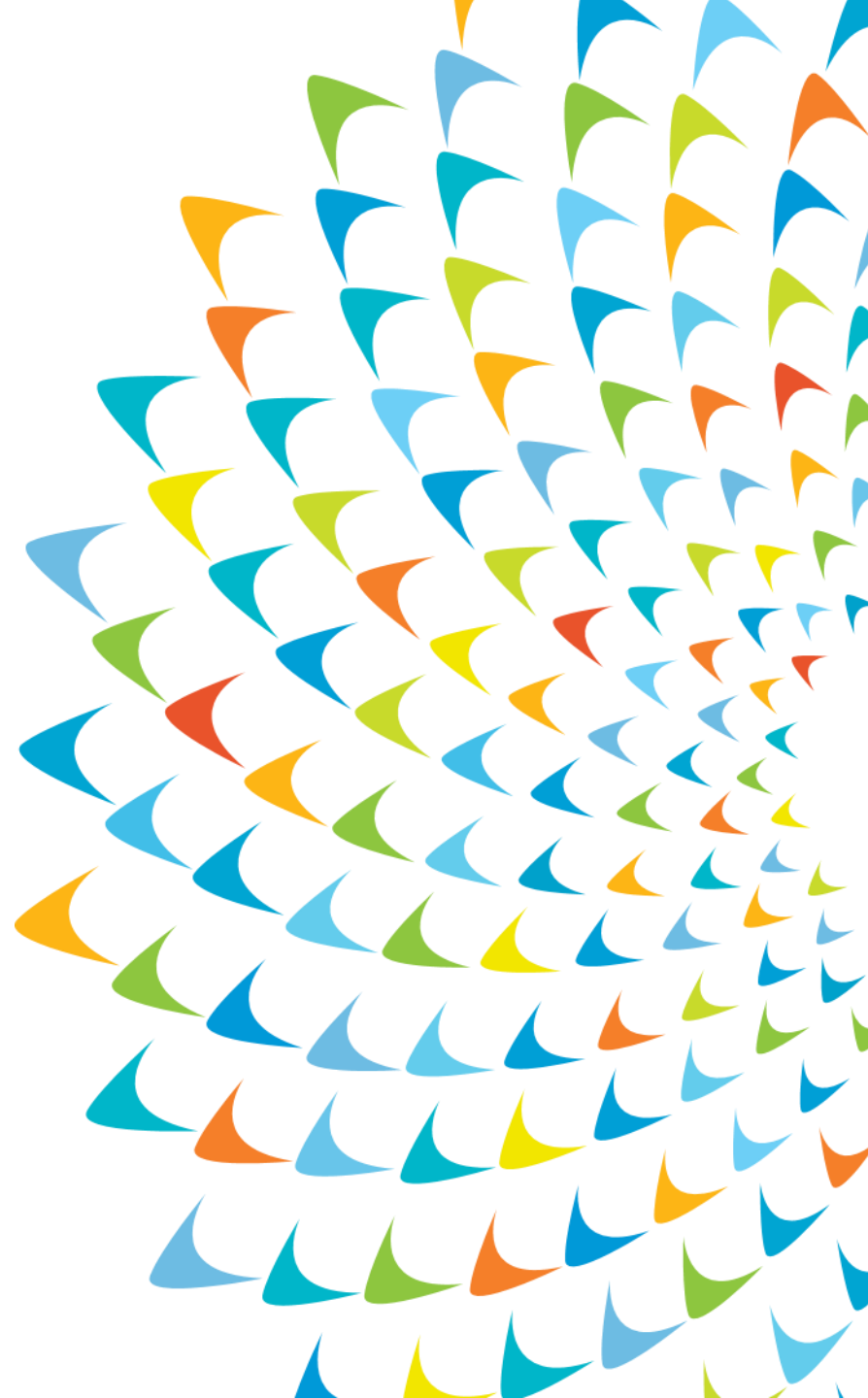
Affordable Housing: Challenges and Opportunities across Asia

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Motivation for Research

- Housing as **fundamental need**:
(1) Food (2) Clothing (3) Shelter
- **Individual benefits** of adequate housing:
 - 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 and collateral)
- But: Difficulties throughout Asia in providing enough affordable and adequate housing.



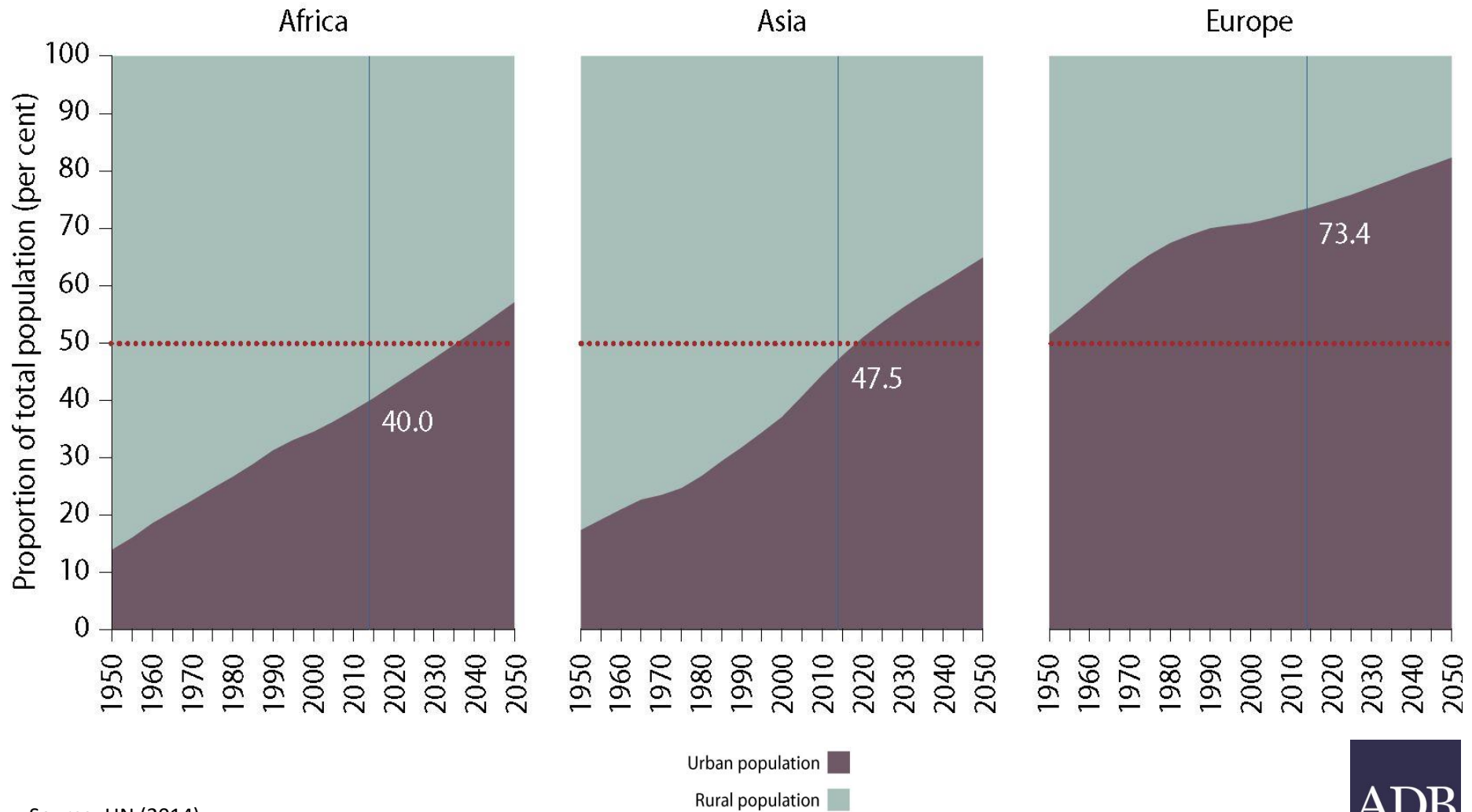
Reasons for Housing Shortage

- Rapid urbanization
- Unplanned urbanization
- Uncertain property rights
- Shortage of developable land
- Limited access to (housing) finance
- Banks often uneager to provide housing finance
- ...



Rapid Urbanization

Figure 1: Urban and rural population as proportion of total population (1950–2050)

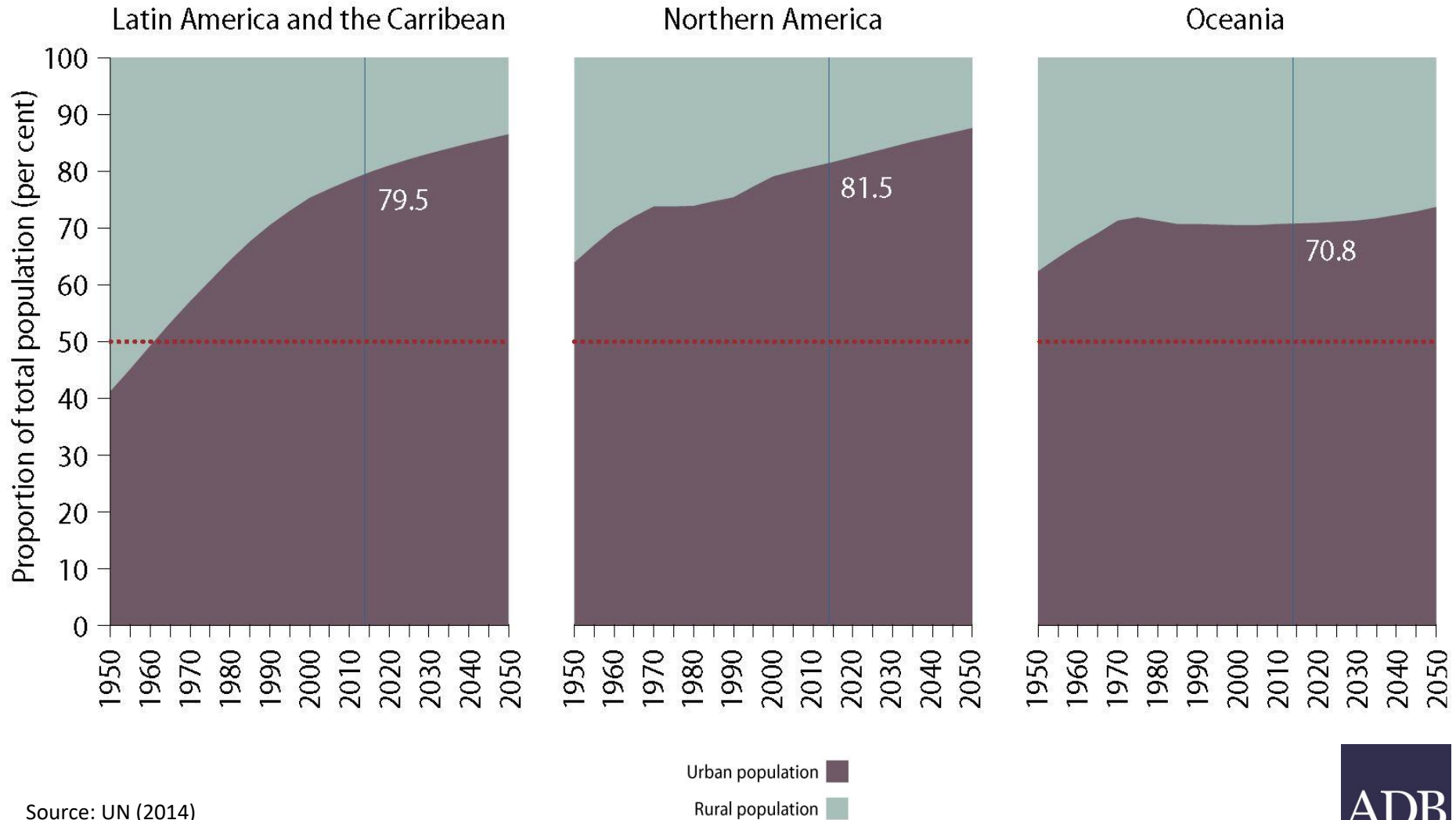


Source: UN (2014)



Asia Catching up

Figure 2: Urban and rural population as proportion of total population (1950–2050)



Source: UN (2014)

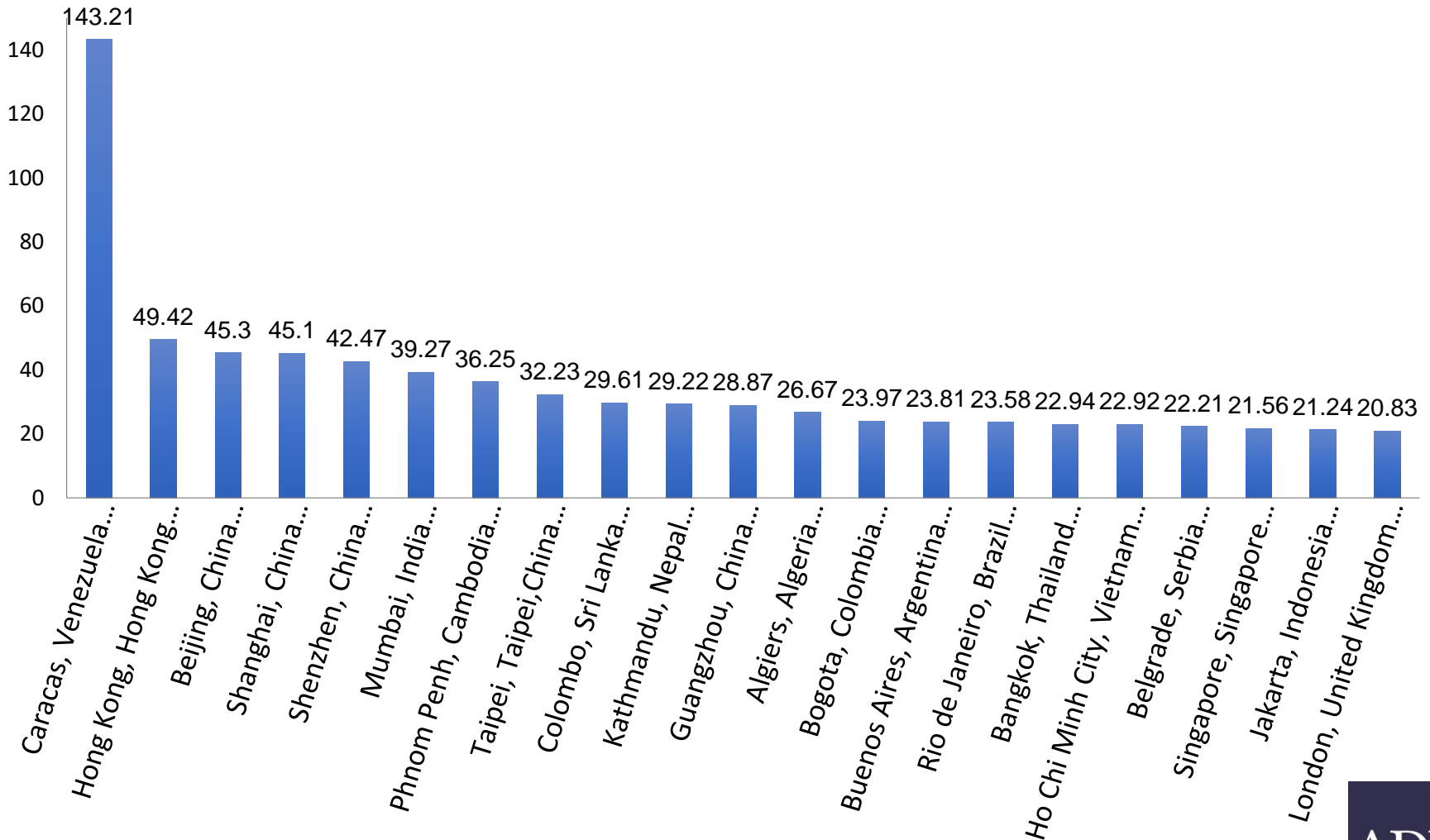


Reasons for Housing Shortage

- Rapid urbanization
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- High price of construction materials
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9 out of the 10 most expensive cities in the world are in Asia (Price to Income Ratio)



Source: Numbeo Property Prices Index (2019)



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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
- **Down-payments typically too high** for average borrower
- **Conservative mortgage lending** with flexible interest rates

Result:

- **Mortgage debt-to-GDP ratio** is often below 15 % (compared to more than 50 % in many developed countries)



What can governments do?



THE HOUSING CHALLENGE IN EMERGING ASIA

Options and Solutions

Naoyuki Yoshino and Matthias Helble, Editors



Available for free at:

<https://www.adb.org/sites/default/files/publication/190060/adbi-housing-challenge-emerging-asia-options-solutions.pdf>

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PART I: Understand the Economic Mechanism

- Theoretical housing policies model:
 - Two-period demand model of housing (homeownership and rental) combined with supply model (stock and flow)
- Objectives:
 - To better understand main economic mechanisms behind housing policies.
 - To assess various housing policies quantitatively and compare the effectiveness of policies.
- Results:
 - Best housing policies give recipients freedom to use additional income optimally.



Scope of Analysis

	Owner-occupied Housing Market	Rental Housing Market
Demand Side	<ul style="list-style-type: none"> + Cash benefits for housing + Housing subsidy + Mortgage interest rate reduction + Mortgage interest deduction from income tax ± Upgrading quality standards – Property tax on housing purchases – Loan to value (LTV) and debt to Income (DTI) ratio regulations – Restriction of new purchases 	<ul style="list-style-type: none"> + Fixed amount cash subsidy + Rental subsidy + Rent certificate + Housing vouchers + Rent control
Supply Side	<ul style="list-style-type: none"> + Public housing + Subsidy to suppliers ± Upgrading quality standards 	<ul style="list-style-type: none"> + Public housing + Subsidy to suppliers + Slum upgrading

Source: Yoshino and Helble (2016)



PART II: Learn from Past Experience

Analysis of housing policies (merits, demerits and lessons learned) in 9 economies:

- **Rep. of Korea** (*K.-H. Kim and M. Park*)
- **Japan** (*M. Kobayashi*)
- **Singapore** (*S.-Y. Phang and M. Helble*)
- **Switzerland, UK and US** (*C. Hilber and O. Schoeni*)
- **India** (*P. Tiwari and J. Rao*)
- **PR China and Hong Kong, China** (*J. Li*)



Housing Policies to Promote Homeownership

Policy	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

Source: Yoshino and Helble (2016)



Housing Policies to Assist Low-Income Renters

Policy	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	Rep. of Korea, US	US, Switzerland	Japan, UK	India

Source: Yoshino and Helble (2016)



10 Lessons Learned (1-5)

- 1. Collect housing market data and make it publicly available.**
- 2. Remove supply-side constraints to encourage housing markets.**
- 3. Evaluate market vs. non-market solutions.**
- 4. Facilitate access to housing finance.**
- 5. Mitigate risks of mortgage defaults due to interest rate volatility.**

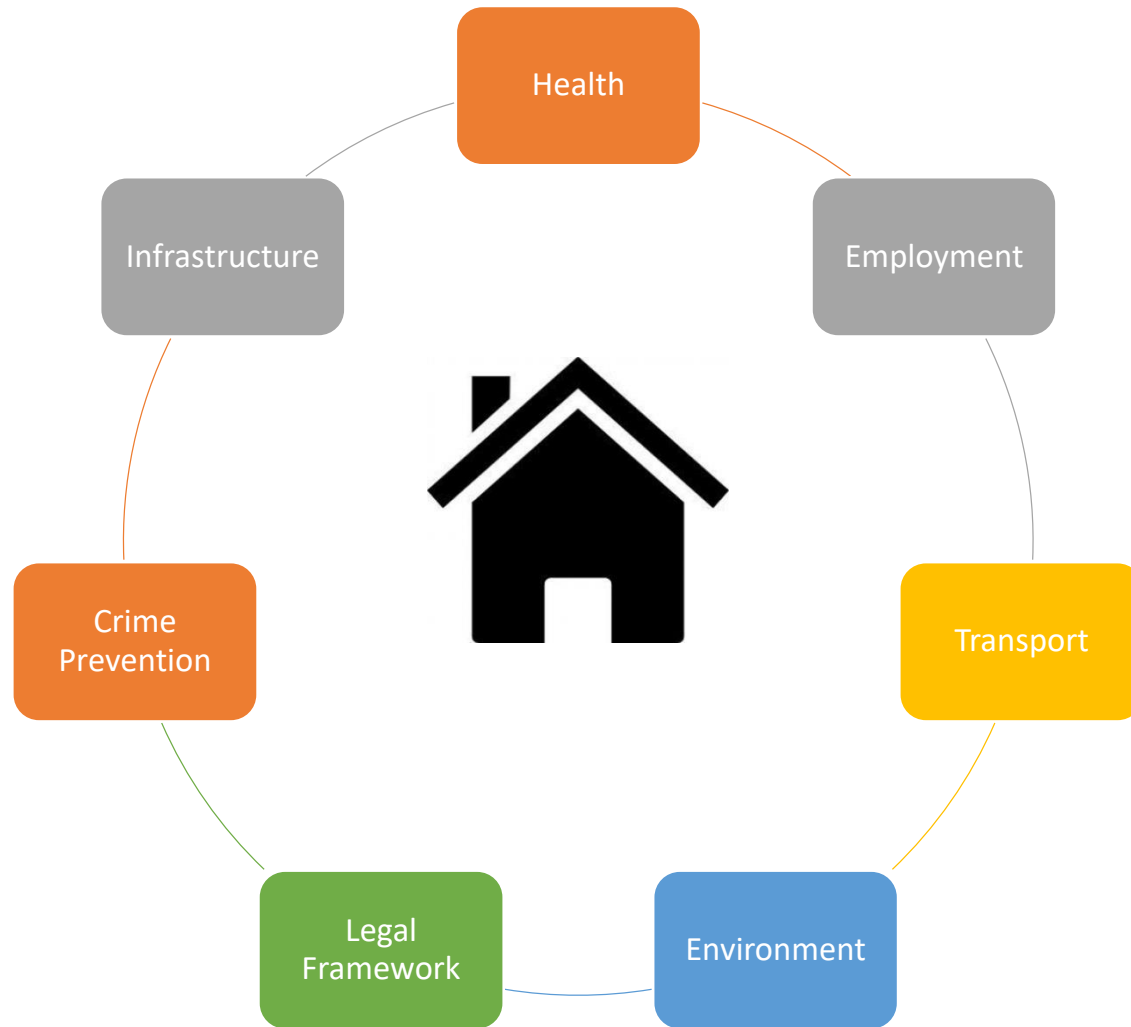


10 Lessons Learned (6-10)

- 6. Coordination between central and local governments.**
- 7. Housing policies that reach the poor.**
- 8. Promote various tenure choices.**
- 9. Continuously improve housing quality while ensuring affordability.**
- 10. Maintain existing housing stock to preserve pleasant living conditions.**



The Context of Housing Policies



Source: Yoshino and Helble (2016)



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