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)
Reasons for Housing Shortage

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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?
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

<table>
<thead>
<tr>
<th>Owner-occupied Housing Market</th>
<th>Rental Housing Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demand Side</strong></td>
<td></td>
</tr>
<tr>
<td>+ Cash benefits for housing</td>
<td>+ Fixed amount cash subsidy</td>
</tr>
<tr>
<td>+ Housing subsidy</td>
<td>+ Rental subsidy</td>
</tr>
<tr>
<td>+ Mortgage interest rate reduction</td>
<td>+ Rent certificate</td>
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<tr>
<td>+ Mortgage interest deduction from income tax</td>
<td>+ Housing vouchers</td>
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<tr>
<td>± Upgrading quality standards</td>
<td>+ Rent control</td>
</tr>
<tr>
<td>– Property tax on housing purchases</td>
<td></td>
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<tr>
<td>– Loan to value (LTV) and debt to Income (DTI) ratio regulations</td>
<td></td>
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<tr>
<td>– Restriction of new purchases</td>
<td></td>
</tr>
<tr>
<td><strong>Supply Side</strong></td>
<td></td>
</tr>
<tr>
<td>+ Public housing</td>
<td>+ Public housing</td>
</tr>
<tr>
<td>+ Subsidy to suppliers</td>
<td>+ Subsidy to suppliers</td>
</tr>
<tr>
<td>± Upgrading quality standards</td>
<td>+ Slum upgrading</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Policy</th>
<th>Cash benefits for housing / Housing subsidy</th>
<th>Mortgage interest rate reduction</th>
<th>Mortgage interest deduction from income tax</th>
<th>Upgrading quality standards</th>
<th>Construction of housing or provision of land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand/Supply</td>
<td>Demand</td>
<td>Supply</td>
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<td>Supply</td>
<td></td>
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<tr>
<td><strong>Merits</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Lowers housing costs for HH</td>
<td>Lowers financial cost to purchase housing</td>
<td>Lowers housing financing costs</td>
<td>Enhances living standards and durability</td>
<td>Accelerates the construction of houses</td>
<td></td>
</tr>
<tr>
<td>Simple to implement and to understand for HH</td>
<td>Enhances competition</td>
<td></td>
<td>Contributes to environmental policies</td>
<td>Ensures quality of houses</td>
<td></td>
</tr>
<tr>
<td><strong>Demerits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash benefits used for other purposes</td>
<td>Crowds out private banks and investors</td>
<td>Less effective for low-income groups</td>
<td>Implementation costs for HH and government</td>
<td>Overstretched supply capacity</td>
<td></td>
</tr>
<tr>
<td>Eligibility criteria</td>
<td>Increases HH debt</td>
<td>Increases HH debt</td>
<td>Makes housing less affordable for low-income groups</td>
<td>Lack of diversity</td>
<td></td>
</tr>
<tr>
<td>Fiscal burden</td>
<td>Fiscal burden</td>
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<tr>
<td><strong>Country examples</strong></td>
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Source: Yoshino and Helble (2016)
### Housing Policies to Assist Low-Income Renters

<table>
<thead>
<tr>
<th>Policy</th>
<th>Rent certificate</th>
<th>Housing voucher</th>
<th>Rent control</th>
<th>Public housing</th>
<th>Subsidy to suppliers</th>
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<td>Demand/Supply</td>
<td>Supply</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Merits</strong></td>
<td>Increases housing consumption</td>
<td>Gives HH more choices</td>
<td>Mitigates the burden of rent hikes</td>
<td>Addresses housing shortage</td>
<td>Accelerates the construction of houses</td>
</tr>
<tr>
<td></td>
<td>Incentivizes maintance (owner)</td>
<td>Incentivizes maintance (owner)</td>
<td></td>
<td>Guarantee minimum standard</td>
<td></td>
</tr>
<tr>
<td><strong>Demerits</strong></td>
<td>No incentive to find inexpensive housing</td>
<td>Subsidy might be used for other purposes</td>
<td>Excess demand</td>
<td>Limits HH choice</td>
<td>Overinvestment</td>
</tr>
<tr>
<td></td>
<td>Fiscal burden</td>
<td>Fiscal burden</td>
<td>Low incentive for new construction</td>
<td>Crowds out private suppliers</td>
<td>Fiscal burden</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Inefficient allocation</td>
<td>Eligibility</td>
<td></td>
</tr>
<tr>
<td><strong>Country examples</strong></td>
<td>US</td>
<td>Rep. of Korea, US</td>
<td>US, Switzerland</td>
<td>Japan, UK</td>
<td>India</td>
</tr>
</tbody>
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Source: Yoshino and Helble (2016)
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)