Addressing the global affordable housing challenge

McKinsey Global Institute
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Overview

I. Recap of the affordable housing gap and how to bridge it

II. Thinking about housing finance, supply, and the journey to decent housing in an integrated way

III. How to move things forward in practice
I. The affordability gap in 2400 cities

Affordability gap, % of GDP

1 As defined by World Bank.

SOURCE: McKinsey Global Institute analysis
I. Four levers can narrow the affordability gap

Annualized cost

Land

Development

Operations and maintenance

Financing¹

Optimized cost

Subsidies & non-standard housing²

Area median income

1 Impact of reduced origination and funding costs is quantified; impact of increased access to financing is not
2 Transitional use of basic housing (with communal toilets and kitchens, for example) to serve very low-income households

SOURCE: McKinsey Global Institute
I. $8 trillion investment could be unlocked from low income people via financing – if complemented with land and poverty support measures

<table>
<thead>
<tr>
<th>USD trillion</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total investment</td>
<td>16</td>
</tr>
<tr>
<td>Land value</td>
<td>5-7</td>
</tr>
<tr>
<td>Construction capital outlay</td>
<td>9-11</td>
</tr>
<tr>
<td>Private investment</td>
<td>~8</td>
</tr>
<tr>
<td>Viability gap funding required</td>
<td>1-3</td>
</tr>
</tbody>
</table>

SOURCE: McKinsey Global Institute
## II. Clear opportunity to improve access to and cost of finance for owned and rented property

### Reducing mortgage rates – Rate break-down; %

<table>
<thead>
<tr>
<th></th>
<th>United States¹</th>
<th>Mexico²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevailing mortgage rate with fees</td>
<td>4.3</td>
<td>8.9</td>
</tr>
<tr>
<td>Fees</td>
<td>0.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Risk costs and margin³</td>
<td>5.0</td>
<td>13.5</td>
</tr>
<tr>
<td>Operating cost</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Cost of funds</td>
<td>0.8</td>
<td>1.7</td>
</tr>
</tbody>
</table>

¹ Prevailing rate for high income households is 4.3% and for low and moderate income households is 5.0%  
² Prevailing rate for high income households is 8.9% and for low and moderate income households is 13.5%  
³ Includes margins charged for risk premium and economic profit.  
⁴ Includes mortgage insurance risk premiums and Federal Housing Administration subsidies  
⁵ Reflects 30-year Treasury note rate with negligible capital charge due to the prevalence of securitization in the American mortgage market  
⁶ Blended seven- and 10-year bank note rate plus a capital charge of 50 basis points

### Improving conditions for developers and landlords

- **De-risking development**
- **Increasing equity**
- **Improving debt terms**
- **Providing tax relief**
- **Balance of pro-tenant vs. pro-landlord regulation**

**SOURCE:** Banxico; Comisión Nacional Bancaria y de Valores (CNBV); Global Banking Pools; Fannie Mae; US Treasury; McKinsey Global Institute analysis; McKinsey Global Institute analysis
II. Critical to also resolve supply constraints in sync – example London

London; Index, 2015 =100²

SOURCE: Building Societies Association; McKinsey Global Institute analysis

1 3y fixed, 75% LTV, January
2 2014=100 for completions
II. Tailored products needed for different income segments to improve the housing situation for all and provide a ladder up – example Middle East

<table>
<thead>
<tr>
<th>Monthly household income, SAR</th>
<th>Income segment</th>
<th>What the journey could look like – illustrative</th>
</tr>
</thead>
<tbody>
<tr>
<td>~ 21,000</td>
<td>High income</td>
<td>Saving program: Enroll in a 1-3-year saving program to build up equity towards down-payment. (Guaranteed) mortgage: Use savings to pay down-payment and unlock (guaranteed) mortgage.</td>
</tr>
<tr>
<td>~ 13,500</td>
<td>Upper middle income</td>
<td>Saving program: Enroll in a 1-3-year saving program to build up equity towards down-payment.</td>
</tr>
<tr>
<td>~ 9,000</td>
<td>Middle income</td>
<td>Rent-to-own program: Enroll in rent-to-own with continued saving program if units available. (Guaranteed) mortgage: Use savings to get guaranteed mortgage and buy rent-to-own or new unit.</td>
</tr>
<tr>
<td>~ 6,000</td>
<td>Low income</td>
<td>Rent support: Get rent subsidies for immediate housing situation relief through right-located rental unit to enable better social and financial situation. Partial ownership program: Leverage portion of paid rent towards building equity within existing unit (partial ownership) e.g., within a cooperative housing program. (Guaranteed) mortgage: Once income situation improves applicant would be qualified for guaranteed mortgage with existing equity.</td>
</tr>
</tbody>
</table>

SOURCE CDSI housing survey; MoH; REDF; team analysis
III. ‘Housing delivery labs’ methodology as an approach to mobilize all stakeholders and achieve fast track impact

Elements of success

Interdisciplinary teams and experts
Delivery labs call for interdisciplinary teams and experts to work together over a duration of ~8 weeks to co-create comprehensive but also pragmatic solutions to the problems at hand.

Effective stakeholder involvement
From day 1, stakeholders from the public sector (e.g., other Ministries) and the private sector (e.g., banks, developers) have been involved to be part of the solution.

Implementable plans
The focus of the delivery lab is not only to identify the solution but to plan the solution in such a detail – 3-foot planning – that allows its easy implementation.

SOURCE: McKinsey case study
Thank you!

The full report is available at McKinsey Global Institute
www.mckinsey.com/mgi
7th Global Housing Finance Conference

Sriram Kalyanaraman
Managing Director & CEO
India Economy

- India - The Fastest Growing Major Economy
- GDP growth seen at 7.3 – 7.4 per cent for the current fiscal year 2016-17
- The Reserve Bank of India cut the key rate last year besides tweaking monetary policy to boost liquidity and encourage credit growth
- Total Population: 1.2 billion
- No. of States/UT’s: 29 States/7UT’s
- No. of Urban Agglomerations with Population more than 1 million (% of Total Population): 14
National Housing Bank

REGULATION & SUPERVISION
- Issuing directions and guidelines for development of stable and sound housing finance system
- Supervision through onsite and off-site inspections
- Consumer awareness and consumer interests protection
- Inter-regulator coordination
- 73 Companies

PROMOTION & DEVELOPMENT
- Creation of new players through equity participation
- Strengthening existing network of lending Institutions
- Capacity Building for the sector
- Consumer awareness through training & seminars, etc.
- Knowledge partners to various stakeholders

FINANCING
- Sustainable housing finance system through refinance
- Project Financing to Public agencies
- PPP projects for targeted segments

RHF: $3.8 billion | 1.5 million units
UHF: $0.93 billion | 0.8 million units
TOTAL: $4.73 billion | 2.3 million units
Housing Finance - India

Trend in Yearly Outstanding Individual Loans of PSB’s and HFC’s

**NHB Estimates a Provisional Annual Growth of 19%**

90+ Delinquency = 1.50% | Total Amount of New Bookings = $42 billion
The Challenge

Estimated Urban Housing Shortage* in India: 2012-2017

- > 95% in EWS & LIG Segment

*Report of the Ministry of Housing and Urban Poverty Alleviation

Estimated Rural Housing Shortage** in India: 2012-2017

- > 90% in BPL Segment

**Working Group Report on Rural Housing

Household By type of Housing Conditions – Census 2011

- > 90% in EWS & LIG Segment

Percentage

- 62
- 26
- 12

Permanent Semi-Permanent Temporary

Estimated Annual Investment USD 150 billion

% HOUSEHOLDS BY TYPE OF OCCUPANCY- Census 2011***

- 87%
- 11%
- 2%

Owned Rented Others

***Source: State of housing in India a statistical compendium, Government of India, Ministry of Housing and Urban Poverty Alleviation, National Buildings Organisation 2013
Housing For All - Urban

1. "In situ" Slum Redevelopment
   - Using land as a resource
   - With private participation
   - Extra FSI/TDR to make projects financially viable

2. Central Sector Scheme – NHB as a Central Nodal Agency
   - Affordable Housing through Credit Linked Subsidy
   - Interest subvention subsidy for EWS and LIG for new house or incremental housing
   - All 4041 statutory towns as per Census 2011 would be covered under the Central Sector Scheme

3. Affordable Housing in Partnership
   - With private or public sector, including Parastatal
   - Central Assistance per EWS house in Affordable Housing Projects

4. Subsidy for beneficiary-led individual house construction
   - For individuals of EWS category requiring individual house
   - State to prepare a separate project for such beneficiaries
   - No isolated/splintered beneficiary to be covered

**Physical & Financial Progress**
- No of Cities Considered for Funding: 658
- Project Proposals Considered: 903
- EWS Houses: 610,519
- Central Assistance Involved: $1.42 billion
- Total Value of The Projects: $3.55 billion

**Rural**
- 2.83 million Beneficiaries Identified
- Average Ticket Size of $4000
- Subsidy of $2000

1, 3 & 4 implemented through State & UTs
Speed Breakers

- Shortage of Land Availability
- Unaffordability Due to Cost Escalation
- Regulatory Approvals
- High Risk Perception

- Limited Credit History Profile
- Risk Avoidance Attitude and Irregular Income and Unstable Cash Flows
- High Cost - to - Service
- Leveraging Effect of Subsidy

Government Interventions Through Subsidy Schemes

Credit Risk Guarantee Fund is Managed by NHB

SUPPLY & DEMAND MISMATCH

**SUPPLY**
- Land cost
- Infrastructure provision
- Housing construction
- Availability of housing units by market players
- Role of Public agencies and Pvt. developers
- Credit availability and delivery

**DEMAND**
- Increasing cost of dwelling units
- Availability of Credit
- Affordability of Credit
- Loan eligibility
- Subsidy component
- Risk Mitigants/Subsidy
Sustainable Housing Finance System

Availability of Land & Infrastructure

Affordability & Credit Accessibility

Involvement of Market Players to Supply Finance

Institutional Mechanism for Housing

Habitat For All

Housing For All
NHB Project Highlights – Financial Inclusions

2001 Gujarat Earthquake | Kutch | Gujarat

2004 Tsunami Relief | Andhra Pradesh

2015 Chennai Flood Relief | Chennai | Tamil Nadu

Dharavi Slum Re-development | Mumbai | Maharashtra

Rural Housing | Udaipur District | Rajasthan

CLSS Workshop | Bhopal | Madhya Pradesh
Annexure 1

Trend of Total SCB’s & HFC’s Credit to Outstanding Housing Finance

Overall Financial Credit Increases at 10% (2015) | The Housing Credit Increases at 22% (2015)
Annexure 2 – Home Loan Penetration

1. <2 %
2. 2% – 5%
3. 5% – 10%
4. 10% & above
Thank You
7TH Global Housing Finance Conference
Housing 2030

Session 1: Adequate, Safe and Affordable Housing

CONAVI

MAY 2016
The next 15 years, Mexico’s Population and Housing will increase 15% and 28%, respectively.

During the 60’s & 70’s, the highest population growth rate was observed, as a result of the natural (fertility policy) and social (migration) states.

Regarding Housing, the highest growth was registered during the 80’s and 90’s.

For the following 15 years, an annual average growth is expected as of 594 thousand housing units.
According to the National Household Income and Expenditure Survey (ENIGH, in Spanish) 2014, in Mexico there is a **housing deficit of 8.96 million dwellings**, which require housing solutions: **Extension/Improvement, and replacement**.

**Demand for housing solutions required**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Solutions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement only</td>
<td>67.4%</td>
<td>67.4%</td>
</tr>
<tr>
<td>Extension only</td>
<td>10.1%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Improvement and extension</td>
<td>13.5%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Replacement</td>
<td>9.0%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>


**Historically in Self-production, Homes are built with a range of value between USD $7,300 and USD $9,100 for people with net incomes from USD $360 (approx. 3 MW) and USD $600 (approx. 4.9 MW).**
In Mexico, 64.1% of the total housing stock has been built through a process of self-production; households in urban areas correspond to 51.3%, while households in rural areas correspond to 83.2%.

**Source:** CONAVI with information of INEGI 2014. Socioeconomic Conditions Module.

The self-production of housing is the process of construction and distribution of housing under the direct control of its members: individually or collectively, which may be developed by outsourcing or through processes of self construction.
Self-Production Vs. Self-Construction

**IMPROVEMENT**
- Repairing
- Structural reinforcement
- Redistribution of spaces
- Eco-technics, Eco-Technologies.
- Housing Finishing

**EXTENSION**
- Increase of built area.

**SELF-PRODUCTION**
- Direct user control
- A comprehensive technical assistance by an Executing Construction Organism (OEO, in Spanish)
- The beneficiary does not necessarily builds.

**SELF-CONSTRUCTION**
- Direct user control
- Not a comprehensive technical assistance.
- The beneficiary constructs itself the way he wants.
Self-Production – Regional Materials
Regional Materials: Mayan House, Campeche