

Housing and Housing Finance
Challenges and Initiatives
in OIC/IDB Member Countries

Real Estate and Housing Economics

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This presentation has six sections:

- Housing Scenario and Challenges around Globe, Asia-Pacific and the OIC Member Countries
- Affordability needs to be defined for Low-Income Housing (LIH)
- Supply-Side Challenges of Low-Income Housing
- Economic Impact of Real Estate/Construction Sector
- Demand-Side Challenges of Low-Income Housing
- Housing Finance Challenges in OIC Countries

- World Population today is 7.12 billion (bn), and by 2050 will be 8.92 bn plus.
- Almost half of the World live on less than \$ 2.50 a day.
- Worldwide, some 830 million people live in urban slums and by 2020, it is estimated the world slum population will cross 1 bn.
- Every second person on the globe lives in Urban areas. Expected to reach more than three out of four (70%) by 2050
- Slum Dwellers grew from 777mn to 830mn during 2000-2010.
- Positive factor: 227 million moved out of slums; doubling MDG goals
- World needs 4,000 houses an hour to keep up with demand (UN-Habitat)

In view of this population and urbanization explosion:

- The percentage of people without access to decent, stable housing is rising.
- Adequate housing is vitally important to the health of the world's economies, communities and populations.
- If we are to succeed in the fight against poverty, we must support the expansion of housing both as policy and as practice.

- Asia-Pacific represents:
 - 1/4th of the world's population, and including China nearly half of the world population
 - Nearly 1/2 of the World's Poor
- **Awareness:** Housing has become a popular political slogan.
 - “Housing for all”;
 - “Slum Free Cities”
 - “Maang Raha hai har Insaan - Roti, Kapra, aur Makan” (Every human demands food, clothing and shelter); etc.
- **Delivery:** In few countries it is SOME, but in most there is NONE
- Each country in the region has its own geo-socio-economic parameters, while all face a common issue of “shelterless poor”

- 57 countries are OIC members out of 193 UN members on a global scene
- The World population has crossed 7.2 Bn in 2012, whereas population of IDB member Countries was 1.6 Bn in 2009 (23%). Muslim population on the Globe is 2 Bn plus.
- The Muslim world represents 1 of 4 humans on the planet.
- Nearly the same share in number of countries.
- Represents 1 of 2 poor on the planet.
- An acute challenge of widening demand/supply gap and rising housing backlog ... leading to Social Unrest.
- Most of the housing backlog and short supply is in low-income segment of the population.
- Population growth and urbanization are further compounding the existing huge backlog.
- Rising costs (land, construction, construction materials) are making housing unaffordable for the poor.

- IDB member Countries need around 8.2 mn new housing units/year. To meet this yearly demand they will need US\$ 15.5 Bn/year of investment in housing sector.*
- The yearly requirement of housing in Muslim World is growing at 2.83% p.a.
- Sharia-Compliant Housing Finance in Muslim Countries is around 20% only.
- Muslim Population Share: Africa-53.0 %, Asia-32. 2%, Europe-7.6 %, N. America-1.8 %.**
- Urban population of IDB member countries is growing at 2.8% per year (Worldwide growth 0.5%).
- The total urban population of IDB member Countries was 731 Mn in 2010, representing nearly half of total population of IDB member countries.
- MD to GDP ratio is highest in Malaysia (32%), and lowest on Pakistan and Egypt(below 1%).
- Institutionalized housing finance is at infancy stage in most of these countries.

Housing is a 'Numbers' game – The Muslim World is no exception!

* IRTI-IDB Occasional paper, 2012. OIC and IDB membership is the same.

**www.IslamicPopulation.Com

- IDB/IRTI* study suggests housing needs of the Muslim World are at 8 mn units, nearly all in the Low-Income Segment. The estimate needs further analysis and breakdown:
 - MENA 3.2 mn;
 - Asia 2.7 mn; and
 - Africa/others 2.3 mn.
- Shortage: Egypt 1.5 mn, Iraq 1.0 mn, Morocco 0.6 mn, Saudi Arabia 0.4 mn
- Significant oversupply in upscale or luxury housing only, while low income segments/ communities remain neglected
- Rapid urbanization is a major issue for low income housing
- Need for new housing for 8 mn plus due to population growth is based on 5-5.5/HH and population growth rate of 2.8%
- Urbanization and population growth further increases the annual housing needs in major metropolitan cities
- On the other side, supply is 30-40% of new demand, all for high income segment

Housing Supply Shortages in OIC Countries – The figures speak

- Affordable Housing units being supplied by the market are considered ‘affordable’ since they cater to “market segment” that can “afford”
- This market segment represents middle and high income segment and does not address the real issue of affordability
 - Supply matches demand and at times may exceed it as well
 - The One Billion Dollar house in Mumbai-India was affordable, since Mr. Ambani could afford it
- Affordability is an issue of Low-Income segment, where housing backlog and incremental demand is massive, while market forces/developers do not come forward with supply on viability considerations
- Affordability issue genuinely arises in segments having an acute affordability mismatch between income, cost and mortgage affordability

Affordability is to reach and empower shelterless who can not afford it

Income Affordability :

- When 35-40% of the disposable income match the equated mortgage payments (EMIs)
- Loan to value (LTV) ratios are typically 70:30 or 80:20
- Loan Tenors are long term of 20-30 years

Cost Affordability:

- The cost of a housing unit is equal to 50-70 times (4-6 years) of monthly income and EMI is determined for long term loans

The above market norms are used for low and lower-middle income segments of population (LIH) and do not apply in case of housing microfinance (the Bottom of the Pyramid –BoP or EWS), where an entirely different business model would be used

Market Housing:

- Represents High and Middle Income Market Segments
- ***Market Segment*** is addressed by market forces on its own without any need for state-intervention or support
- Supply is there to meet the demand

Social Housing:

- Represents lower-middle and low-income market
- Social segment needs state intervention/support to facilitate affordable housing supply and an enabling environment –***LIH Segment***
- Bottom of the Pyramid: The candidates for housing microfinance, needing delivery through direct/indirect state subsidies. ***EWS Segment***

Developed World and Developing World:

- RE Sector contributes to 71 CMI's.
- Contribution to GDP is 7-10%.
- In developing world, contributes to over 42 CMI's, and contribution to GDP is 3-6%.
- The main industries are Steel, Cement, Wood, Electrical, Ceramics etc.

The case of India:

- Construction is the second largest employer after Agriculture.
- Investment of IRs.10 million (\$0.2 million) in construction generates employment to 22,000 unskilled, 23,000 semi-skilled and 9,000 technical man-days.
- Construction industry contributes 8% to GDP.
- IRs.1 invested in construction causes IRs. 0.8 contribution to GDP (Agriculture 0.2 and manufacturing 0.14).
- Investment in construction sector causes 4.7 times increase in income and 7.8 times in employment as compared to agriculture and manufacturing.

Economic impact of Real Estate/Construction Sector

- ISSUE: ***Supply of serviced land*** at affordable price: Availability of well-connected affordable land remains a main concern in major metropolitan cities of Asia. Affordable land is often not well connected to transportation and other public services.
- ANSWER: External Infrastructure support, in terms of physical and social infrastructure, to be a part of affordable supply of serviced land by the state.

- ISSUE: ***Rising Construction Costs***: According to developers across cities in India, their construction cost on yearly basis has increased by 15-20%. LIH is a ‘low-margin’ business, so not attractive, more so in case of delays.
- ANSWER: Fiscal support in terms of waiver of Sales Tax, Import duties, and other levies can solve the issues.

- ISSUE: ***Lengthy and Complex Approval Process***: This impacts construction timelines, project IRR, pricing. The approval fees/costs further add to the unit price.
- ANSWER: Simplified approval procedures, on-line status, monitoring, waiver or discount of approval fees etc.

- **ISSUE: *Developer /Construction finance*** from financial institutions and capital markets is not easily accessible, due to absence of Developer Finance Regulations in most of the countries. Developers fund the projects through short term in-house funding or through customer finance.
- **ANSWER:** The Central Banks and Securities Commission to play a proactive role in facilitating market based supply of Long Term Funding for the developers.

- **ISSUE:** Absence of or insufficient ***Fiscal Support*** to LIH projects.
- **ANSWER:** Business Models of indirect Cross-Subsidies and direct Smart Subsidies to LIH/EWS projects will provide fiscal incentives to developers to move towards LIH

- **ISSUE:** Absence of or insufficient **Regulatory Support** to LIH/BoP Segments.
- **ANSWER:** Regulatory incentives in terms of FARs, and wherever permissible, relaxation in Building Codes etc without compromising on strength.

- ***External Infrastructure:*** Govt needs to ensure that *Raw Land* for LIH Projects is supported by way of external infrastructure in terms of roads, transport, communication etc., as well as provision of health and education- *From Raw Land to Serviced Land*.
- ***Transport:*** At the initial stage of LIH Project, public transport be provided.
- Non-availability of ***Low-Cost Construction Technologies*** with the Developers. The Developers to be facilitated and supported to import and indigenize Low-Cost Construction Technologies for manufacturing g scale production
- ***Lack of Low-Cost Construction Materials(CMIs):*** The Govt to promote local development of Low-Cost construction materials, and regulate standardization of CMIs for use in LIH Projects.
- ***Manufacturing Scale Production:*** The development projects and the developers are of small size, thus denying the benefits of economies of scales, and use of proven low-cost construction technologies.

- Mismatch of Monthly Mortgage vs Income Affordability. At lower income levels, propensity to save is low and fragile
- Income assessment issues, informal income, issue of family vs individual income etc.
- Income sustainability for long term remains an issue, while longer tenors are needed to make mortgages affordable.
- Poor prefer FRMs, the lenders (PMLs) prefer ARMs
- Long term liquidity challenges
- Issues of title verification, lien registration costs/fees, lengthy and complex foreclosure process.
- Cost efficient loan delivery and servicing.
- Awareness on mortgage programs and fiscal/regulatory provisions.

- Specialized HFCs are needed to finance Low-Income segment
- Commercial banks-CBs prefer middle and high income market- Low-Income housing finance by CBs under priority lending regulations
- Housing Microfinance Institutions for BoP/EWSs.
- Ensure outreach and financial inclusion to low-income segments, through innovative channels like Physical Branches, Virtual Branches, Service Agents, Service on Wheels etc.
- Customers' lack of awareness on affordability, payment terms, registration & clearance of titles, and available fiscal/regulatory support.
- Delay in home delivery leads to simultaneous payment of rent and EMI
- Provide interest rate subsidy to low-income customers
- Waive or subsidize levies like VAT, Stamp Duty and Registration Fees for low-income customers

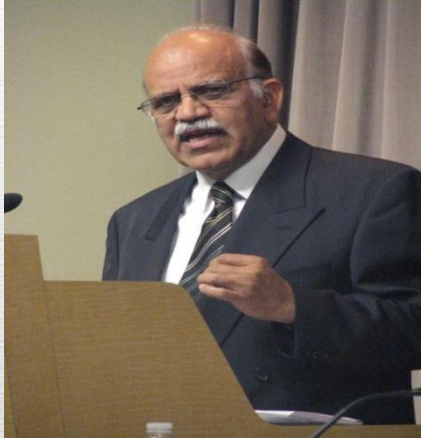
Demand Side

- Nearly 1/5th of the population in Muslim World is a candidate for HMF.
- Need for Faith- Sharia-Compliant Financing Models.
- Institutional Housing Finance is either non-existent or in infancy stages in most of the Muslim World (Afghanistan and some African Countries), and slightly advanced in some others (Malaysia, Turkey, Egypt, Morocco, Indonesia, etc.).
- Regulatory Framework needs strengthening.
- Additional challenges include Roles and Responsibilities of Housing Finance Institutions (HFIs) and Commercial Banks and Long Term Liquidity Facility Institutions and Instruments.
- Issues of Business Models, Financial Inclusion, Product Diversification, etc.

Supply Side

- Major challenge remains manufacturing scale production of Affordable Housing for Low-Income Segments, which as yet is very limited
- Lack of Developers equipped with Construction Technology, Construction Management, Skilled Manpower, etc.

Issues we know, Answers we need



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