



International Conference 25-28 June

Sustainable Urban Areas

Rotterdam 2007

Abstracts

W01- Housing Finance

Last update: 13 June 2007



www.enhr2007rotterdam.nl

Housing finance in developing countries: The genie is out of the bottle

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On a world wide basis housing finance is growing at unprecedented rates. In the last decade the outstanding mortgage debt increased by more than \$7 trillion, that is enough to finance at least an additional half trillion dollars of housing investments per year. Figure 1 suggests that this increase is almost universal in developed economies – with 10 of the 11 developed economies showing rapid increases. And while Figure 2 suggests that a significant number of emerging markets are also experiencing rapid increases, what it does not show is that this increase is highly concentrated in a limited number of countries. That is, while most people in the world now have access to market-based housing finance most countries do not. This paper provides an overview of this experience and places it in a historical context to show the various links between housing finance and the broader economy and policy framework. The objective is to describe this experience, pointing out the related cautions and opportunities associated with it.

Social benefit and housing financing

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For the vast majority of people the use of the housing good is only possible thanks to financing. Now we would like to know to what extent a specific financial measure contributes to easing the problem of access to housing and how to place a social value to society on the possibility of having the resource 'housing financing'.

This paper presents a methodology to quantify the increase in social benefit to be derived through the use of various home financing systems as well as the changes in social benefit caused by changes in the terms and conditions of housing financing tested using data on the needs of young people for housing in the province of Madrid (Spain). The results obtained indicate that the methodology is a good tool to assist in decision making in the area of housing policy and to help governments reduce expenditure in this area.

Through changes to the relevant determinants and the quantification of their effects, it is abundantly clear the array of possibilities that this methodology can offer. It allows one to look for types of housing financing and loan conditions that make it possible to increase the well-being of society through housing financing.

Whatever the case may be, the same methodology can be used to determine what housing financing strategy will produce the greatest social benefit. It can also be used by managers in both the public and private sector to aid and assist in their decision making.

The study on interest rate variability in Europe

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The study aims to compare the different interest rate variability mechanisms that exist in EU member States using the latest data for gross residential mortgage lending and where available, outstanding residential mortgage loans.

There is a broad spectrum of mortgage products and interest rate types offered in the different countries that participated in the study. Some markets are dominated by fixed rate products whereas others are more biased towards variable rate products. There is also a vast range of products, which fall somewhere between long term fixed and variable rate mortgages. Such information is of particular importance with regard to two main policy issues:

- The transmission mechanism for monetary policy, - the impact of a rise in interest rates will vary from one EU members State to another, and will notably depend on the country specific mortgage features, which govern how sensitive the mortgage stock is to adjustments in interest rates by the Central Bank.
- Mortgage market integration - there is evidence of gaps in the product range in several EU mortgage markets. It is thought that further integration could be a means of filling some of these gaps.

Sustainable governmental housing finance programs

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Generally, in developing countries the construction of dwellings of low-income families is normally carried out incrementally over a long period of time. This happens, in most cases, without any state support and or bank loans. Generally, access to governmental programs for the financing of construction projects for low-income families is extremely difficult.

The problems are well known and can be summarized as follows:

- Financial institutions usually have little incentive to provide credit with favorable conditions to borrowers.
- Governments have not created sufficient incentives for the construction of houses for low-income groups.
- The private building sector achieves lower profit margins with low-cost housing than building for middle-income and high-income families.

Low income families have no or insufficient access to financing schemes for housing, supported by formal institutions. Usually, they are not able to meet the necessary requirements and can provide very little savings. In illegal settlements, legal land tenure is difficult to prove, therefore access to mortgage loans is difficult. Irregular income from informal jobs prevent regular and long-term credit payments. Seemingly, neither the public nor the private sector are in a position to face the rising challenge to provide adequate shelter needed by the low-income families, and to provide lasting solutions to the housing shortage.

A number of countries have responded to this challenge by designing housing programs. Most of them provide subsidies, supported by national funds or international loans.

The paper analyzes several existing representative examples of housing finance programs from the South (Chile, Ecuador, Thailand, South Africa).

The questions are:

- Do the programs reach the low-income families?
- What makes governmental housing finance programs sustainable?
- Differences and common ground will be sifted out.
- Emphasis will be given to analyze the specific roles of the participating institutions.

Revitalising East German historic cities with private funds

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Although massive public and private funds were directed into real estate projects in Eastern Germany especially in the 90s an important part of the precious historic building ensembles of the historic inner cities of the region is endangered or already lost. The deplorable state of many cityscapes is a source of various pecuniary and technological externalities hampering economic development and quality of life.

Given the pace of the deterioration of the building structure public funds are insufficient for the preservation of the historic cityscapes. It is however extremely difficult to attract private funds

for the restoration of historic buildings. A research project funded by the interior ministry of the Free State of Saxony has given a review of the situation in the historic inner city of Zittau. Although investments in historic buildings are subsidized with tax exemptions and direct funding in some cases private restoration funds flowing into the historic buildings are insufficient. The reasons for this reluctance are diverse, but neighbourhood externalities due to maintenance arrears play an important role here.

The paper gives a review of the technical, legal and commercial impediments to private investment based on the results of the research project. As an alternative to individual private investment the prospects for the attraction of institutional investment funds from Closed and Open End Property Funds, Real Estate PLCs, Real Estate Investment Trusts and Public Interest Organisations, i.e. gAG: gemeinnützige ('kleine') Aktiengesellschaft, are evaluated.

Promoting investment in affordable rental housing via Housing Bonds in Austria and Australia

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Unlike many other social housing systems across Europe and North America, the Austrian system of provision has not been pauperised or residualized and bricks and mortar subsidies have not been displaced by the growth of demand assistance schemes. How this has been achieved is worthy of investigation.

There are two vehicles for supply assistance in Austria: low interest public loans and private investment raised via the sale of housing construction convertible bonds. The sale of bonds have been very successful in raising capital for government approved, limited profit low to moderate income housing.

Whilst the supply of rental housing in Austria is adequate to meet demand, the situation is rather different in Australia where a real crisis in provision looms especially in the inner city areas. For more than a decade Australian housing policy researchers have been developing and promoting various models to increase investment in affordable rental housing. Two models have concerned the sale of bonds. To date, neither model has been implemented. This paper reviews these models for housing bonds in light of the Austrian experience.

Owner-occupiers withdrawal of equity during a house price bubble

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The dramatic increases in Danish housing prices from 2003 to 2006 cannot be explained satisfactorily by 'fundamentals' but only by using special bubble criteria. In many economic cycle analyses it has been argued that the owner-occupiers' housing equities showed similar strong increases.

This paper analyses whether owner-occupiers' equities have increased more than housing prices, as seen by higher equity/housing wealth ratios, or whether owner-occupiers' debt has increased just as dramatically as prices. Despite major changes in housing market cycles in the years 1987-2003, the owner-occupiers' capital structure was stable, as their distribution according to the size of their net liabilities/housing wealth ratios remained unchanged throughout these years (Lunde, 2005).

Based on these experiences it might be expected that the owner-occupiers raised their equity in parallel with the housing price increases. The opposite could also be argued: equity /housing wealth ratios increased as many owner-occupiers recognized the existence of a house price bubble ' a temporary house price rise ' and therefore avoided the greater risks associated with taking out more loans. Similarly, relatively more established owner-occupiers may have 'traded up' during the house price bubble and used the larger equity in the former flat or house as a

down payment on their new home, which would have lowered the net liability/housing wealth ratios.

The addition of new data for 2004 and 2005 to the Danish tax statistics makes it possible to analyze whether the owner-occupiers' capital structure changed during the house price bubble.

Enhancing rotating credit systems as a means towards financing incremental housing for poor families in Zambia

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In addition to an effective housing policy, housing finance is one of the most important aspects to the delivery of adequate housing for low income groups in poor countries such as Zambia. The poor economic climate, which has prevailed over the country, and high bank lending rates which were until 2005 pegged at 40 percent, have rendered most households ineligible to access finance for housing delivery. In the absence of formal housing finance systems, micro-finance especially rotating credit systems has been used by poor members of the community, especially women, to save money to finance capital expenditure such as house materials purchase and construction, which they could not ordinarily afford.

Rotating credit societies have existed in almost all low income areas of the world, they are known as 'kye' in Korea, 'ooi' in Hong Kong, 'char' in Thailand, they also exist as socie-dades mufuales in Latin America. In Africa they are known by a variety of names: 'tontine' in parts of West Africa, 'esusu' in Nigeria, 'ekub' in Ethiopia, 'sanduka' in Sudan, 'gamiya' in Egypt, 'harambee' or 'obilimba' in Kenya and 'kaloba' or 'ichilimba' in Zambia. Despite being a very common savings method in all these parts of the world, their viability as a housing finance method has not been seriously looked at.

This paper wants to demonstrate how to adapt and use this rotating system as a means through which poor female headed households can donate materials instead of cash and use this to deliver affordable housing incrementally. It aims to answer the question, 'How can we enhance and adapt rotating credits to become the main source of capital for incremental housing delivery amongst poor income groups in Zambia?'

The necessity of increasing sustainable sources of housing finance as a way to diminishing urban deterioration in Brazil

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Since the 1940's, Brazil has been passing through changes that have transformed it into a predominantly urban country. An exponential population growth together with a rapid migration to urban areas have created a great demand for housing and an increasing housing deficit. The rapid growth of large and medium cities brought as consequence an urban problem, with the low-income population agglomerating themselves in the peripheries of the cities in substandard structures, occupying areas of risk, generally invaded properties, contributing for urban and environmental deterioration.

This paper will confront the housing necessities of the Brazilian low-income families and their capacity to pay the lowest price for an adequate housing unit offered by the formal market with the availability of housing finance.

The analysis will start with the discussion of the possible allocation of a share of the low-income familiar budget to housing and the available options for purchasing an adequate housing unit in the formal market using the housing finance programs offered in Brazil. Moreover, it will be analyzed the sufficiency of the available housing finance recourses for low-income families to attend the existing housing deficit together with the annual growth of the number of low-income families.

Considering the demand for housing and the availability of programs and resources directed to finance low-income families, this paper will result on the size of the necessary financing

resources to face the housing necessities of low-income families in Brazil and on suggestions for increasing sustainable sources of housing finance to facilitate the access of those families to the housing formal market, as a way to diminish urban deterioration.

Low income housing finance post independence experiences, prospects and policy implications for Zimbabwe

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The paper focuses on Zimbabwe's past and present experiences with low income housing provision, taking into cognisance the fact that housing is a highly visible dimension of poverty and as such it represents such a poignant issue in so many Third World Cities. The Zimbabwean experience is discussed against the background of relevant socio-economic issues, the experiences of other countries and the stated objectives of the national housing policy framework. The paper also focuses on the scope of the housing problem in Zimbabwe since independence while also acknowledging the impact of the pre-independence colonial legacy such as land and residential segregation.

With Zimbabwe's transition to majority rule in 1980, years of restrictions on rural to urban migration ended. Urban population already high at 23 % of total population in 1980 reached 33% by 1990 which put serious pressure on the country's major cities creating a severe shortage of housing for the urban poor. At independence the government of Zimbabwe embarked on a national development programme aimed at the provision of decent and affordable housing and security of tenure for the urban low income groups.

Realising that the task of improving human settlements cannot be achieved by the public sector alone, the government pursued a policy which encouraged the participation of the private sector, employers, individuals, non-governmental organisations and community based organisations in the provision of shelter. Most importantly the government depended to a great extent on multi-lateral institutions.

The paper explores the challenges that remains today for the establishment of the right policy framework that brings into the fold multi-lateral lending institutions, non-governmental organizations and the private sector to arrest the unrelenting low-income housing finance crisis.

Is housing wealth inequality socially sustainable?

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Should we be concerned about the housing wealth inequality implications of the massive capital gains experienced in parts of the UK and other home owning democracies over the past decade? Is wealth inequality among homeowners and between owners and renters increasing and what are the socio-economic implications if it is? This paper considers this question in the light of evidence on spatial differences in house price accumulation and the impact on work incentives, access to education, segregation, and class-reproduction. The paper questions the social-sustainability of housing wealth polarisation and surveys the range of policy tools at our disposal.

The return of the private landlord

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There has been a good deal of research charting the resurgence of the private rented sector in the UK after a century of decline. New meanings and purposes are being ascribed to private renting – in terms of both supply and demand. Nonetheless there is much still unknown about how this sector functions, and even less known about how the sector might respond to an economic and/or housing market downturn. The paper will summarise some of the key factors underlying this resurgence of the private rented sector, the characteristics of key niche markets within the sector, and its changing uses.

The paper will then focus on the multiple implications of the resurgence of private renting for the wider housing market in the UK. The paper will review the ways in which the sector is conceptualised, and consider the continued appropriateness of government housing policies that were developed when the private rented sector was viewed as a peripheral and declining sector of the market.

Are mortgage markets in developed countries becoming more risky?

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Anecdotal and statistical evidence indicates that mortgage markets in developed countries are evolving in similar ways. Regulation has loosened and house prices have risen steadily in many countries and lenders have responded by introducing a range of new products. These include interest-only mortgages where no repayment vehicle is specified and increased mortgage terms (of up to 50 years in some cases).

Using information provided by local experts, this paper brings together the latest evidence from several countries (mostly European) about the range and type of mortgage products offered, ease of access to mortgage finance, and regulatory constraints on lending. We analyse trends over the last 10 years, and ask whether mortgage markets are generally more risky as a result of these developments.

A graphic view of the spatial structure of the cost of urban residential land in Spanish cities

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As the demand for development land it is derived from the construction of housing and enjoyment of which is a constitutional right, urban land for residential use is not only an economic good, but also a social good. This twin dimension causes urban land to be the subject of constant analysis and daily news reports. The aspect of urban land which justifies the interest in it and its news worthiness is its price, and more specifically the repercussion it has on fixing the final selling price of housing.

The increase of land prices has had serious repercussion in the Spanish housing market, as the cost of land now represents approximately 60% of the final selling price of housing in many of the larger cities. Housing developers are asking financial institutions to provide higher levels of financing for the same type of housing and as a result there is a higher level of credit risk for these types of loans.

Because of the on-going interest and with EUROVAL's data base of housing valuations for the first quarter of 2006, we have elaborated this paper that has three primary objectives:

- To discover the spatial structure of the cost of land and its impact on the final selling price of housing in communities in different cities in Spain.
- Try to explain the unique heterogeneousness of this spatial structure.
- To graphically represent the spatial structure of the cost of land variation over time.

Financing intermediate market housing

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A number of countries are trying new ways of providing affordable housing for those unable to access owner-occupation because house prices are increasing faster than incomes. There have been significant innovations in this area over the last year. This paper will identify the major typologies that are being developed in a range of countries; updating work presented to the Workshop in 2006.