1st ASIA–PACIFIC HOUSING CONFERENCE 2022
Making Housing Affordable, Inclusive, and Resilient
8–9 November 2022 | Virtual

Opportunities and Current Challenges for the Affordable Housing Sector

Marja C. Hoek-Smit
Wharton School, University of Pennsylvania
HOFINET

Core Messages

- Past period of positive change in housing and housing finance policies in many emerging market countries
- Current string of economic shocks battered emerging market economies hard; with major impact for the housing sector
- Important to keep focus on housing's enormous opportunities
- Continue the positive policy trends despite macro and fiscal challenges
    - Equip primary and capital markets for housing with tools to withstand crises
    - Reform poor, costly policies that do not reach priority households
    - Rethink measures to unlock supply in underserved markets
    - Stimulate rental market

ADB

Decade Long Gradual Improvement in Housing and Housing Finance Policies in many EMDC

- Macro-economic stability => lower interest rates, expansion of commercial banks' participation in housing finance => growth of mortgage sector
- New loan products – not just mortgages but micro-mortgages, micro-finance products, rent-to-own by private and non-profit sectors
- Policy reforms -- subsidy systems, mortgage laws and enforcement, role of state housing finance and construction companies
- Policy/institutional innovations -- guarantee schemes to reduce credit risk, innovative underwriting and servicing systems, liquidity facilities, timid development of capital market instruments; green housing standards, etc.

Disrupted by Multiple Crises – Increased Volatilities

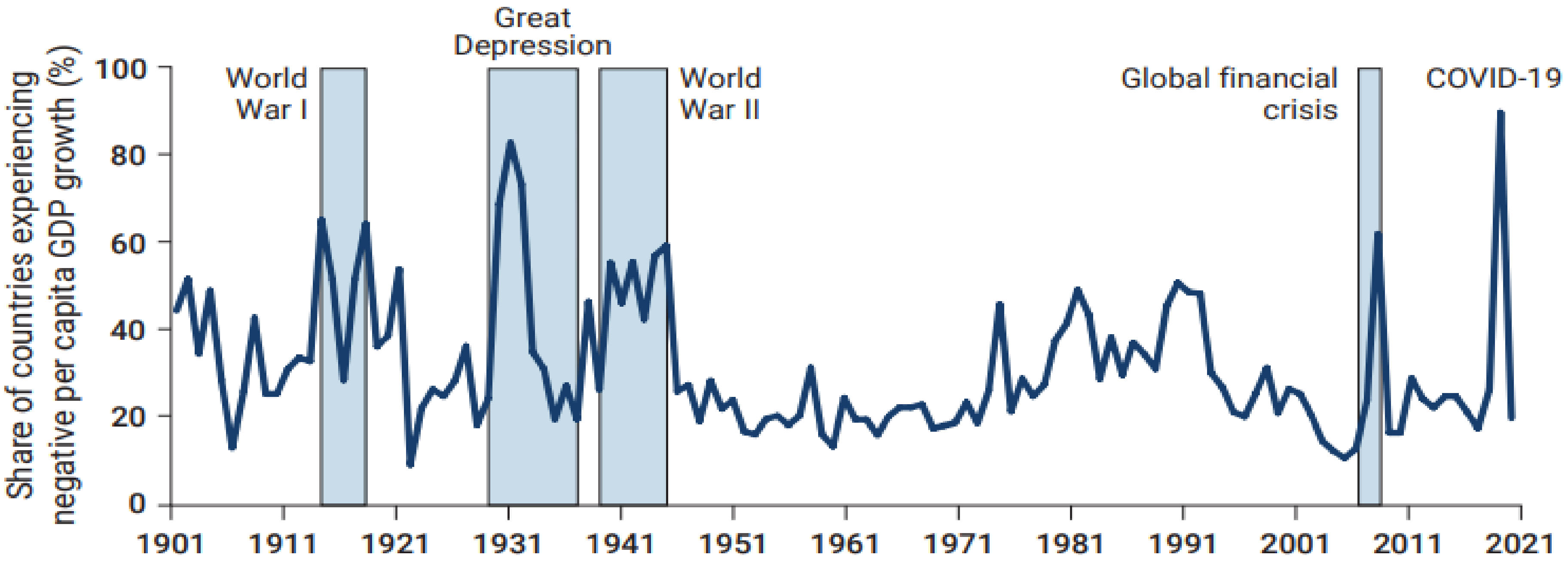
- Covid related decrease in economic growth (slide 5)
- Strained fiscal situation - higher debt levels
- Soaring global inflation – uncertain whether it remains in future (slide 8)
- Tightening of monetary policy in advanced and developing economies alike

Resulting in:

- Increase in employment volatility and poverty rates (slide 6)
- Interest rate volatility and decrease in long-term lending
- Increased sovereign spreads=> higher debt servicing costs
- Investors shift away from EM bonds – pressure on local currencies

ADB

Economic Impact of COVID-19 in Historic Perspective – % of countries with negative per capita GDP growth

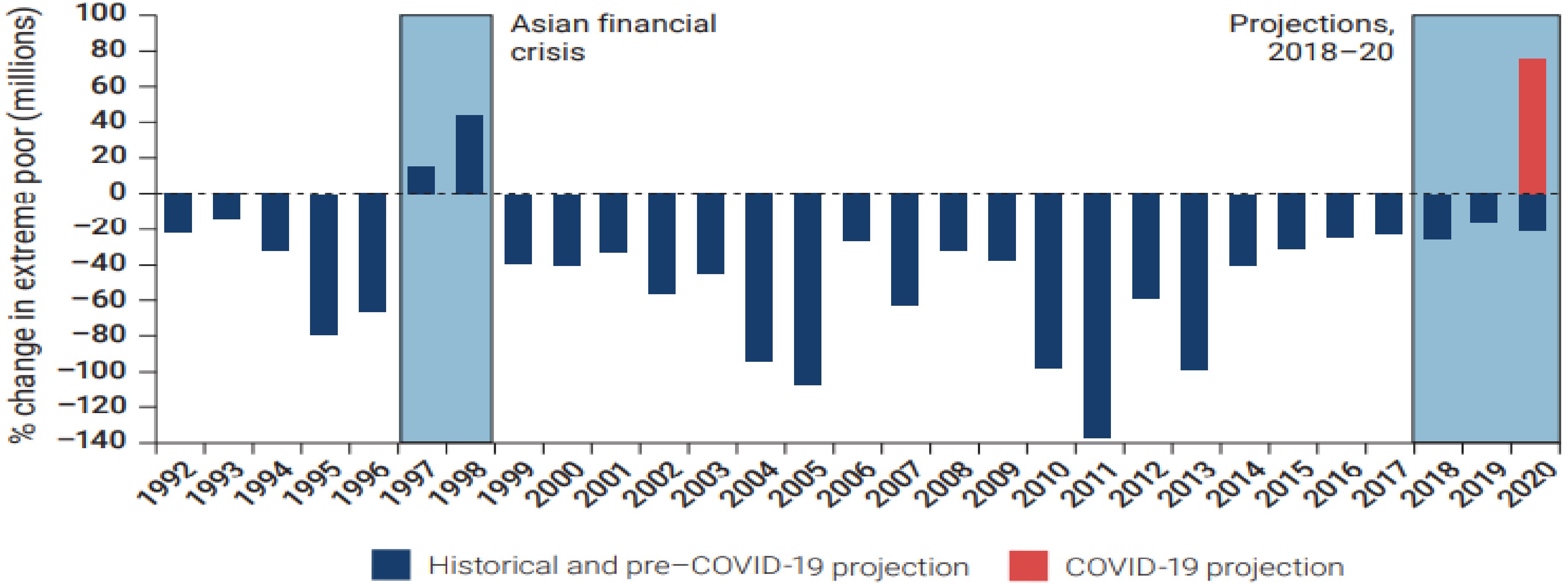


Source: Holston, Kaminsky, and Reinhart 2021, based on data from Groningen Growth and Development Centre, Maddison Project Database 2020, Faculty of Economics and Business, University of Groningen, Groningen, The Netherlands, https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2020; International Monetary Fund, WEO (World Economic Outlook Databases) (dashboard), https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases.

Note: The figure shows the percentage of countries experiencing negative growth in their per capita gross domestic product (GDP) from 1901 to 2021. Data are as of October 21, 2021.

Sourced from World Development Report 2022

Global Annual Change in Extreme Poor 1992-2020

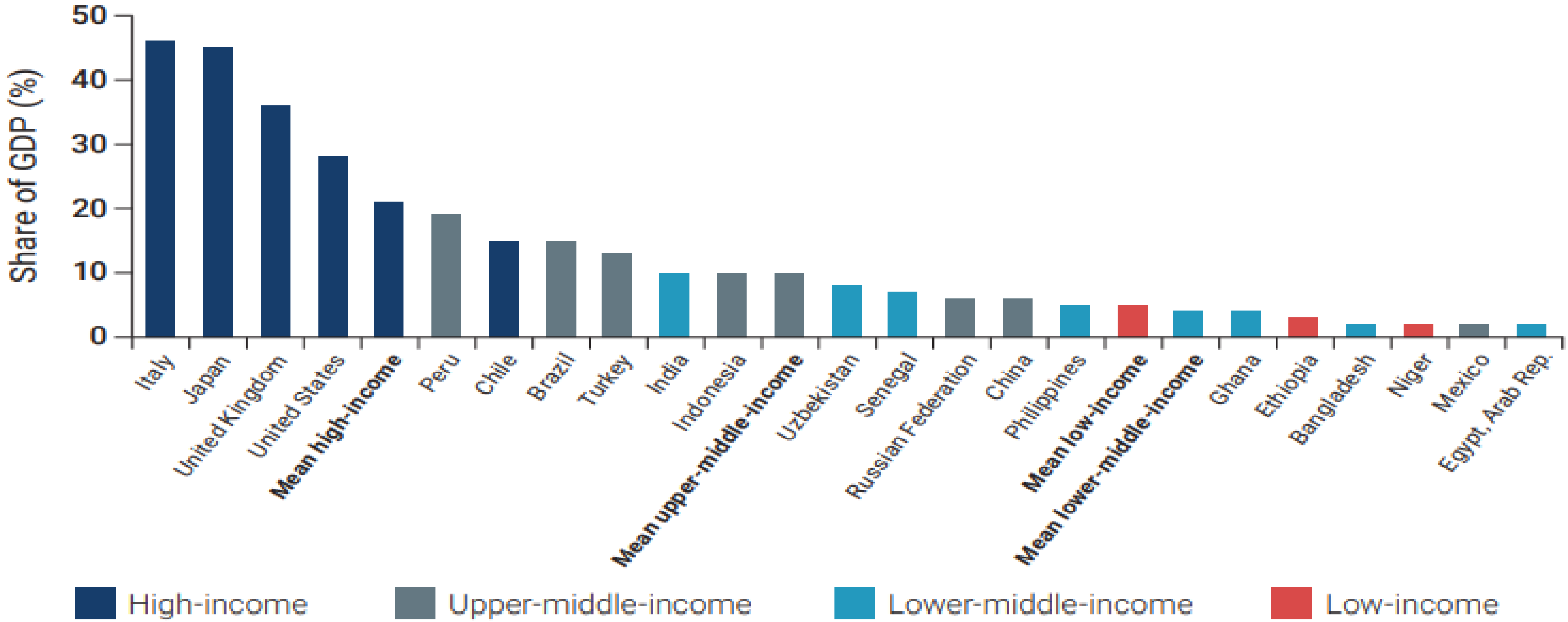


Sources: Lakner et al. 2020; Mahler et al. 2021; World Bank, Global Economic Prospects DataBank, https://databank.worldbank.org/source/global-economic-prospects; World Bank, PovcalNet (dashboard), http://iresearch.worldbank.org/PovcalNet/.

Note: The figure shows the global annual year-on-year change in the number of poor in millions, calculated using the international poverty line of $1.90 per person per day. Two growth scenarios are considered: "pre−COVID-19" uses the January 2020 *Global Economic Prospects* growth rate forecasts (World Bank 2020a), predating the COVID-19 crisis; "COVID-19" uses the June 2021 *Global Economic Prospects* forecasts (World Bank 2021a).

Sourced from WDR 2022

Fiscal Response to Covid Crisis, Selected Countries, by income group as % of GDP

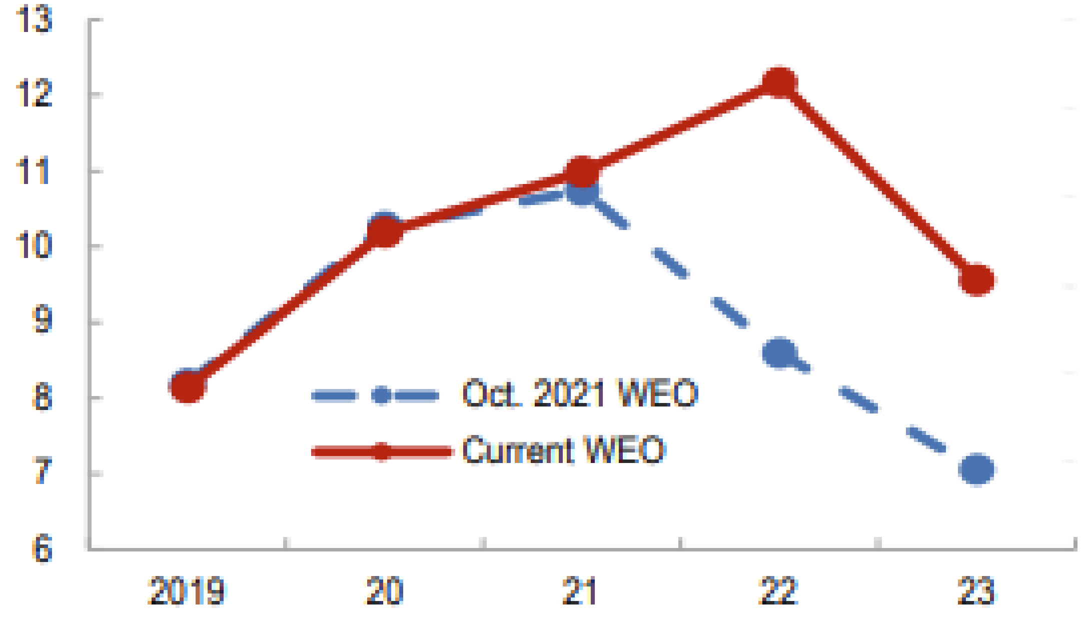


Source: WDR 2022 team, based on IMF (2021a). Data from International Monetary Fund, Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, Fiscal Affairs Department, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.

Note: The figure reports, as a percentage of GDP, the total fiscal support, calculated as the sum of "above-the-line measures" that affect government revenue and expenditures and the subtotal of liquidity support measures. Data are as of September 27, 2021.

Sourced from WDR 2022

Global Inflation Increased: Supply Chain and War



Source: IMF, World Economic Outlook database.
Note: WEO = *World Economic Outlook*.

-Resulting in global Central Bank tightening

-Projected to decline in 2023

-Related depreciation of currencies against the USD

What does this Mean for the Housing Sector?

Macro-economic Volatility and Housing Make Poor Bedfellows

- **Increase in interest rates/ interest rate volatility**:
  - **Reduces demand for loans** => decreases demand for houses or home-improvement
  - **Impacts supply of loans-** most mortgage lending is in fixed rate for life of loan; lenders cannot bear interest rate risk => reduces issuance of mortgages or developer loans
  - **Banks rather invest in high yield sovereign bonds** (risk free)
  - **Danger of stagnation in the housing sector**
- **Effects on house-prices relative to incomes:**
  - **In advanced economies**: increasing interest rates often lead to **house-price decreases and related concerns for financial stability** in the banking sector
  - **In EMDC**: mortgage sector is small; concerns focus on **price increases** - building materials (imported) + higher interest rates - **impacting affordability if incomes lag inflation**
- **Effects on Fiscal Space:** debt servicing costs higher; lower tax revenue; **limit ability to invest in basic infrastructure and services;** reduce availability of subsidy funds

Important to Keep Focus on Housing Sector’s Economic Opportunities

Best way to reach sustainable debt levels + fiscal balance is economic growth

Housing sector is large part of economy; ~ 16% of GDP in EMDC

- Through consumption and investment

Housing Sector can stimulate economic growth and, in the process, --

- Generate employment (skilled and unskilled)
- Improve urban productivity and environmental sustainability
- Improve household productivity, community health and educational outcomes
- And improve protection against physical disasters (floods, storms, earthquakes)

ADB

Core Areas for Action, Given Current Macro Constraints

- Danger of reversal to old refuted models such as caps on interest rates and rent controls, direct state funding of mortgages …
- Rather focus on four core areas:
  1. Equip primary and secondary housing finance markets to continue expansion despite macro-volatilities
     - E.g., new loan instruments, credit guarantees, secondary market instruments to access capital markets
  2. Reform/retract poorly designed & costly policies/subsidies (implemented during COVID) that do not reach priority households or market segments
  3. Implement innovative measures to unlock affordable housing supply
     - E.g., realistic sustainable green standards, land value capture mechanisms to pay for infrastructure, micro-housing projects/infill, loan guarantees for small developers, scaled self-construction support; use of blended funds for innovative housing projects
  4. Support affordable rental housing options preferably through private or non-profit sector

ADB

Conclusions

- Gradual improvement in housing policies in past decade
- String of economic shocks have battered developing economies
- With negative effects on economic growth
- And the expansion of the housing sector
- Housing has potential to drive economic recovery
- With a targeted approach on priority policy and investment areas
  - Derisking and expanding mortgage finance
  - Scaling up supply through regulation, innovation, etc.
- Requires buy-in from high level public and private policy-makers

ADB

Thank You

Marja C Hoek-Smit

mhoek@wharton.upenn.edu

ADB