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HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance

- Examining the Biden administration's approach to racial disparities in housing wealth
- Swiss franc mortgages: European banks are profiteering from Polish subprime loan plight
- The impact of the Covid-19 pandemic on the housing market and policy in Australia
- Innovation in housing decarbonisation: United Kingdom
- Affordable housing finance for informal workers during the pandemic: context, experience and lessons
- Partnership and financial innovation part II: Reall, affordable housing markets and Covid-19 in urban Africa and Asia

International Union for Housing Finance

Housing Finance International

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Paying for Covid? House prices and the pandemic

It is always good to welcome back old friends. Alex Pollock is a long -time supporter of the journal (and of the IUHF) and we are therefore very pleased to see him back at the helm of our North America column. In fact, it is Alex's column in this issue that provides the starting-point for my ruminations on a subject that may seem surprising in the middle of a Pandemic- rising house prices.

House prices are rising rapidly in both the US and Canada as evidenced by the key house price indices, showing 13% rises in the US for the year to March 2021 and a 7% rise in Canada for the year to May. Just as striking are the figures for Australia, where house prices are still rising at the rate of around 6% with a large increase in mortgage credit transactions. In New Zealand, according to our Asia-Pacific regional article, rises have been so rapid at 23% year-on -year, that Prime Minister Jacinda Arden has warned of the risk of a "housing bubble".

Here in the UK, which has had one of the highest rates of Covid-related deaths in the world per head of population, the house price situation is less extreme but nevertheless has confounded many commentators with an annual rise of 9.5% according to the Halifax index for May 2021.

There are, of course, plenty of examples of markets where prices are cooling (such as Indonesia), but there is a collection of relatively mature economies where prices continue to rise substantially, as they have through the pandemic.

One can point to causal factors in individual countries. The impact of the central banks in buying up mortgages in the US and Canada is cited by Alex in his column. In the UK there has been a stamp duty exemption which has undoubtedly fuelled the market and there is some evidence that the pandemic-related downturn in the commercial property market has encouraged investors to switch into residential markets. In Australia, as Alan Morris points out in his article, lack of action by central authorities and activity by investors are both factors.

However, are specific national factors enough to explain the phenomenon of a number of major markets booming during the pandemic? After all, although some individuals have escaped major losses and even had a chance to save while working at home, the picture for many more has been bleak. In the UK for instance, although many people have paid off debt during 2020 and 2021, a minority have seen their indebtedness increase substantially even without taking into account the widespread use of suspended mortgage payments. Many have seen their incomes drop due to illness or lockdowns, and overall, economic output is lower than it would otherwise have been. These are phenomena that can be seen across the globe.

The question of why these markets have continued to see a rapid growth in prices is not just an academic one. If, as the New Zealand Premier has hinted, these rises have some of the characteristics of a bubble, then there may be the prospect of that bubble bursting as many of the support measures put in place to help individuals and businesses through the pandemic are progressively lifted and governments impose a range of fiscal measures designed to claw back the cost of that support. A large-scale housing market downturn in countries that have so far appeared to be immune would be anything but welcome. This is an area where further research and analysis are urgently needed.

Our first main article in this issue focusses on the USA and examines a key challenge facing the new Biden Administration. In 2020, Joseph Fraker published a significant article on the differing homeownership prospects for white and black homeowners.[1] The article exposed the significantly lower values experienced by black homeowners as well as the much slower rate of house price appreciation. In his latest article *Examining the Biden administration's approach to racial disparities in housing wealth*, Fraker sets out the challenge for the new administration and assesses their proposals so far.

Many of us considered that the problems of foreign currency-denominated or indexed mortgages and the consequent foreign exchange risks posed to customers were a thing of the first decade of the century. Apparently, that is not the case. In a fascinating article Przemek de Skuba Skwirczynski highlights the grim situation for many in Poland where Swiss franc-indexed mortgages have been issued until relatively recently and have caused major problems for borrowers who thought they were taking on a better mortgage deal. He also goes on to highlight the continuing responsibility of the authorities in Poland to deal comprehensively with the issues.

Australia has had relatively few Covid cases compared to much of the rest of the World and has relied heavily on strict controls on entry and exit from the country. Alan Morris returns to the pages of HFI with his article *The impact of the Covid-19 pandemic on the housing market and policy in Australia*, which looks at the impact of the pandemic on the homeownership, private rental and social housing sectors and the government policy response. He draws particular attention to the expansion in borrowing and rise in house prices.

We continue our series of articles on the all-important topic of decarbonisation of homes with an article by Andy Sutton: *Innovation in housing decarbonisation: United Kingdom*. The article points to definitional issues hampering the UK efforts and identifies the failure of the much-touted Green Deal. We hope to add articles on decarbonisation in Australia and Brazil in forthcoming issues.

Regular readers will remember our competition for articles on affordable housing held jointly with the World Bank last year. The two winning articles were by Andrew Jones and by Widya Estiningrum, Yesi Septiani and Wahyu

[1] HFI Summer 2020 issue

Lubis. Both articles proposed radical schemes to promote development of and/or access to affordable housing for those on lower incomes. Since those articles were written, the pandemic has put unprecedented strains on the affordable sector in many countries. In the light of that we have commissioned two follow-up articles by the authors setting out the challenges of the pandemic and the response by their schemes.

All in all, the Summer 2021 issue presents a challenging set of articles to help the analysis of "interesting times". Enjoy.

Andrew Heywood
June 2021

Contributors' biographies

Claudia Magalhães Eloy is a consultant on housing finance and subsidy policy in Brazil, who currently works for FIPE [Fundação Instituto de Pesquisas Econômicas] and has worked for the World Bank (TA) and for the Brazilian Ministry of Cities and Companhia de Desenvolvimento Urbano e Habitacional of São Paulo (CDHU). Claudia has also participated in the development of the National Housing Plan, in the analysis of the Housing Finance System. She holds a PHD in Urban Planning at the University of São Paulo (USP), a Master in City Planning at the University of Pennsylvania, a Master in Public Administration at Bahia's Federal University (UFBA) and a BA in Architecture and Urban Planning (UFBA), with a specialization in Real Estate Finance at the Brazilian Economists Order (OEB). She also attended Wharton's International Housing Finance Program.

Widya Estiningrum is an Indonesian citizen, born in 1985. Received a Master of Science Management degree in finance from University of Indonesia in 2014. As a housing practitioner, she has a passion for exploring the housing financial model for non-formal communities. Having 10-years' experience in the banking and financial industry, currently she works at PT Sarana Multigriya Finansial (PT SMF), the secondary mortgage company in Indonesia as Group Head of Financing and Mortgage Purchasing. She has experience as a project leader, in building the first housing finance information system (www.hfis-smf.co.id) in Indonesia. Visit her blog to read her research papers on https://widyaestiningrum.blogspot.com/

Joseph Fraker works as an urban planner in New Orleans, Louisiana. He received his Master's degree in Urban and Regional Planning from Virginia Tech in 2019 and writes occasionally on on topics related to public policy and the built environment. Email: jfraker@vt.edu

Andrew Heywood is an independent consultant specialising in research and analysis of housing and mortgage markets, regulation and policy with both a UK and international focus. He is a research fellow with the Smith Institute. He is also Editor of the Journal, Housing Finance International. Andrew writes for a number of publications on housing and lending issues and publishes reports commissioned by a wide range of clients.
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Andrew Jones is Research & Policy Manager at Reall. He is a PhD-qualified multidisciplinary researcher and policy professional, Andrew works on demonstrating the commercial viability and sustainable developmental impact of Reall's global affordable housing interventions. This includes recent peer-reviewed research on end-user housing finance innovations (Environment & Urbanization, 2020) speaking slots at the 10th World Urban Forum, and leading research on a DFID-funded project to unlock mortgage finance for informally employed people in Kenya and Nigeria through innovative credit assessment.

Wahyu Lubis is a senior associate at PT SMF. He is an economics and policy graduate from University College London with interests in Housing, Energy, and Urban Planning. He is experienced in working with urban development stakeholders – government, NGOs, private sector, local communities, and donors in the governance and public policy field. He is very enthusiastic about having conversations related to his interests, so do not hesitate to contact him via https://www.linkedin.com/in/wahyulubis/

Alan Morris is a research professor at the Institute for Public Policy and Governance at the University of Technology Sydney. He works mainly in the areas of housing and marginality. His most recent book, The Australian Dream: Housing Experiences of Older Australians, compares the impact of housing tenure on the everyday lives of older Australians dependent solely or primarily on the government age pension for their income.

Alex J. Pollock is a Distinguished Senior Fellow Emeritus of the R Street Institute, Washington DC. He has served as the Principal Deputy Director of the Office of Financial Research, U.S. Treasury; President and CEO of the Federal Home

Loan Bank of Chicago; and President of the IUHF. [2.21]

Zaigham M. Rizvi is currently serving as Secretary General of the Asia-Pacific Union of Housing Finance and is an expert consultant on housing and housing finance to international agencies including the World Bank/IFC. He is a career development finance banker with extensive experience in the field of housing and housing finance spread over more than 25 countries in Africa, the Middle-East, South-Asia, East-Asia and the Pacific. He has a passion for low-cost affordable housing for economically weaker sections of society, with a regional focus on Asia-Pacific and MENA.
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Kecia Rust is the Executive Director of the Centre for Affordable Housing Finance in Africa, and manages the Secretariat of the African Union for Housing Finance. She is a housing policy specialist and is particularly interested in access to housing finance and the functioning of affordable property markets. Kecia holds a Masters of Management degree (1998), earned from the Graduate School of Public and Development Management, University of the Witwatersrand. She lives in Johannesburg, South Africa.

Yesi Septiani is an Indonesian citizen, born in 1994. Yesi Septiani joined PT SMF in 2019, as a member of the Graduate Development Program. In 2017, she received her Bachelor of Economics degree from Brawijaya University. Currently, she is as a Senior Officer in the Financing and Mortgage Purchasing Division of PT SMF and responsible for marketing activities for that segment of the Finance Company.

Przemek de Skuba Skwirczynski is an economist who, having graduated from the London School of Economics and Political Science, pursued a career in derivatives and structured products, and whose work included, amongst others, sales policy for J.P. Morgan, as well as structuring and stress-testing for both UBS and Credit Suisse. [2.21]

Andy Sutton is Sero's Co-Founder and Director of Design & Innovation is a chartered architect, past president of the RSAW, and was previously an Associate Director for the BRE for almost a decade. Amongst other activities, he is active on the Welsh Government's "Decarbonisation of Existing Homes" and "Innovative Housing Programme" steering groups.

Mark Weinrich holds graduate degrees in political science and economics from the University of Freiburg, Germany. He is the General Secretary of the International Union for Housing Finance and the manager for international public affairs at the Association of Private German Bausparkassen.

Asia-Pacific Region

By Zaigham M. Rizvi

Australia

Home loan commitments remain strong despite February fall

New loan commitments for housing fell 0.4% to $28.6 billion in February 2021 (seasonally adjusted). This is the first fall since May 2020, however exceptional growth in recent months saw commitments remain close to record high levels. Australian Bureau of Statistics (ABS) Head of Finance and Wealth, Katherine Keenan, said: "The value of new loan commitments for owner occupied housing fell 1.8% in February 2021, although it remained 55.2% higher than in February 2020. The fall in February was driven by reduced loan commitments for existing dwellings, although the value of these loan commitments remained 39.7% higher than in February 2020." The value of new loan commitments for investor housing rose 4.5% to $6.9 billion in February 2021 (seasonally adjusted), to be 31.6% higher than in February 2020. "Investor lending continued an unbroken period of growth since reaching a 20-year low in May 2020", Ms Keenan said.

(Source: https://www.abs.gov.au/media-centre/media-releases/home-loan-commitments-remain-strong-despite-february-fall)

Social and Affordable Housing: the response to Australia's growing crisis

Australia has a significant and growing crisis in social and affordable housing after decades of under-investment by federal and state governments. In 2018, the Australian Bureau of Statistics estimated that there were 116,000 homeless people in Australia at any given time spread over our cities, suburbs and regional areas. Women over 55 years of age were the fastest growing cohort. Of the growing number of homeless people, 17% comprised children under 12 years of age and 10% comprised teenagers between 12 and 18 years of age. The statistics also paint a bleak picture in terms of social and affordable housing and the chronic shortage in supply. In 2019:

Anglicare survey found that fewer than 1% of properties in Greater Sydney and Illawarra were affordable for singles and families on low incomes. The report noted that New South Wales (NSW) would need 200,000 more affordable homes by 2025; and UNSW (University) City Futures Research Centre report claimed that there would be a need for 650,000 affordable or social housing homes in Australia nationally over the next 15 years.

As at October 2020, there were approximately 430,000 people on waiting lists for public housing and thousands more on Disability Housing NDIS plans. The shortfall in social housing is estimated to be around 450,000 dwellings.

(Source: https://www.lexology.com/library/detail.aspx?g=765a18bf-70cc-4562-b386-2be52e452fdb)

Looming debt disaster in Australia – Government thinking about changing safe lending laws

The Federal Government is looking to wind back safe lending laws, which are considered to cause debt disaster by overly protecting the home borrowers. The Government assures observers that there are other adequate protections available for consumers. Reserve Bank Governor Philip Lowe this week said the central bank would be keeping an eye on lending practices by the banks. But Katherine Temple from the Consumer Action Law Centre is part of a coalition of consumer groups that have written to financial regulators, including the Reserve Bank, detailing their strong opposition to the proposed law. Ms Temple said axing safe lending laws during a pandemic was risky and would fuel an already overheating housing market. She said more than 33,000 Australians and 125 community groups had signed the open letter against the National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020. Federal Treasurer Josh Frydenberg has, however, argued that responsible lending obligations would still apply to small amount credit contracts (SACCs) below $2,000 and consumer leases. He also noted the Government had introduced several reforms that have strengthened consumer protection. These, he said, included handing more power to corporate watchdog the Australian Securities and Investment Commission (ASIC), a best interest duty for mortgage brokers, increased financial sector civil and criminal penalties, enhanced protections for credit card customers and establishing the Australian Financial Complaints Authority (AFCA).

(Source: https://www.abc.net.au/news/2021-03-13/fears-of-a-debt-disaster-on-the-horizon-as-property-market-runs/13241594)

Bangladesh

Housing sector sees almost complete rebound

The real estate and housing industry passed a relatively good year thanks to policy support for purchasing property with untaxed income as well as cheap bank loans. In the budget of the current fiscal year, the government allowed the use of untaxed income to purchase property, land and apartments in certain areas, without having to answer for the source. Besides, banks provide home loans at very cheap interest rates of below 10% as a secured investment for the lenders, according to industry players. With this backdrop, the real estate industry enjoyed a quick rebound from the Covid-19 fallout.

"The relief is that the ongoing pandemic did not cause as much damage as we had expected for the country's housing sector as apartment sales witnessed a rising trend during July to December last year," said Alamgir Shamsul Alamin, the President of the Real Estate and Housing Association of Bangladesh (REHAB).

According to him, less than 5% of the clients are expatriates while the rest are Bangladeshi residents, proving that the government initiative to revive the housing sector was fruitful. It is believed that if the government continues to provide this scope, the real estate sector will do good this year and recover from the loses faced during early stage of the pandemic, when around 6,000 projects were halted.

"But now, almost all those apartments have been sold," he said, adding that there is now a scarcity of finished apartments for sale.

(Source: https://www.thedailystar.net/business/news/housing-sector-sees-almost-complete-rebound-2023725)

China

China Caps Mortgage Loans to Ward Off Housing Bubbles

China on Thursday ordered banks to cap loans to homeowners and property developers as the latest effort by the Government to rein in a real estate bubble that has erupted in cities. The directive, which applies only to Chinese lenders and not international banks operating in China, will go into force Friday.

The biggest banks, such as the Industrial and Commercial Bank of China and the China Construction Bank, will face a new cap of 32.5% of all outstanding loans that can be lent as home mortgages. Medium-sized banks, such as China Merchants Bank, now have a 20% cap, while the smallest village and town banks will only be allowed to lend out 7.5%, according to a joint statement from the People's Bank of China and the China Banking and Insurance Regulatory Commission. Loans to real estate companies will be limited to 40% for the top tier and 12.5% for the lowest, according to a five-tier ranking.

The new mechanism represents a reversal from the financial easing policies put in place to counter the fallout from the coronavirus outbreak. But given the fragile economic recovery, regulators are not expected to go as far as raising interest rates. Banks whose balance of home-mortgage loans exceed the assigned caps have been told to lower the balance in phases. Those less than 2 points above the ceiling are given a two-year grace period to bring the level below the threshold. Banks surpassing their caps by 2 points or more are granted a four-year window.

(Source: https://asia.nikkei.com/Business/Markets/Property/China-caps-mortgage-loans-to-ward-off-housing-bubbles)

Fiji

Examination of house price bubble in the real estate sector in Fiji

A study of price escalation in Fiji has found that, real income, land cost, building material price, inflation rate, volatility, household size and wealth have a positive impact on house prices, whereas user cost of capital and political disturbances have a negative impact. The study further indicated that, the Fijis' housing market does not constitute a house price bubble. This study of the impact of price bubbles in the Fiji housing market was conducted for the first time around the month of February 2021. It gave a comprehensive empirical approach to assess the equilibrium-housing price in Fiji. It also drew policy implications for a small developing state, like Fiji, and other similar economies.

(Source: https://www.emerald.com/insight/content/doi/10.1108/IJHMA-05-2020-0056/full/html)

Hong Kong SAR

Hong Kong Has a housing crisis that goes beyond a critical shortage of land

Annual housing supply in the coming five years is expected to be 38,280 units, based on figures in last week's budget, falling 11% short of the government's target of 43,000, according to Bloomberg Intelligence's Patrick Wong. Public housing supply will be 33% below the annual goal of 30,100. By contrast, regional rival Singapore, which runs a comprehensive public housing program, has a glut of apartments. A year ago, Hong Kong Financial Secretary Paul Chan said the government was pressing "full steam" ahead with the recommendations of a task force set up to examine inadequate land supply, though that line didn't feature in the 2021 presentation. The government will sell 15 residential sites in the coming year, capable of providing a mere 6,000 homes.

Hong Kong has a housing crisis. As of 2016, the city of 7.5 million had an estimated 210,000 people living in subdivided apartments, tiny spaces carved out of existing dwellings where low-income residents pay exorbitant rents, often in older, crumbling buildings that have exceeded their serviceable life.

In 1997, Hong Kong's first post-colonial chief executive, Tung Chee-hwa, adopted an ambitious target of building 85,000 apartments a year. Almost immediately, the city was engulfed by the Asian financial crisis and property prices plunged. Tung's housing policy helped to spook the market and was quietly dropped. The government stopped selling land and dismantled its highly successful public housing program, liquidating its land bank, as the late Leo Goodstadt, an academic and adviser to the pre-handover government, recounted in his 2018 book, A City Mismanaged: Hong Kong's Struggle for Survival.

(Source: https://www.bloomberg.com/opinion/articles/2021-02-28/hong-kong-s-property-crisis-has-no-easy-solutions)

Legco funding bid by city's government for new border town

The Legislative Council of the Hong Kong Special Administration Region (LegCo) received a government proposal for building a new town near the border with mainland China. The first phase of the project, covering 320 hectares across Lok Ma Chau and San Tin, will yield 31,000 flats for 84,000 people, with the first population intake in 2032. It will create 64,000 jobs across different sectors, including innovation and technology, as well as commerce.

The Development Bureau submitted a paper to the Legislative Council, stating that it would make a funding request in the second quarter of the year for HK$994.6 million (US$128 million) to conduct investigations and detailed works design for the first phase of the New Territories North (NT North) project, and to kick-start planning and engineering studies for the second phase. The project is earmarked as one of the two long-term sources of land supply for Hong Kong, along with a reclamation plan off the waters of Lantau Island, according to the bureau.

(Source: https://www.scmp.com/news/hong-kong/society/article/3132128/hong-kong-rural-leaders-groups-cry-foul-over-shockingly)

The present housing scenario in Hong Kong – and the Government's role in housing

The Hong Kong government is deeply involved in the housing market, with 50% of the population living in public housing, a phenomenon that dates back to the post-war years.

There are three main contributing factors: Firstly, increasing housing supply following World War II was difficult due to the implementation of a rent control policy in 1947, which made it nearly impossible to evict tenants for redevelopment purposes, and because of the constraints imposed on the private redevelopment of urban housing. Secondly, the number of immigrants to Hong Kong during the post-war years increased dramatically, resulting in the population skyrocketing from 600,000 in 1945 to 2.3 million by the end of 1951. As a result, the demand for housing also increased rapidly, resulting in a severe housing shortage and the prevalence of squatters. 300,000 squatters occupied land that could have otherwise been developed. Lastly, due to hostility towards private housing developers, many of whom had participated in housing development for squatters, the government was reluctant to support private housing development and thus took on the task themselves.

Developers have to bid for the land that the government leases, and whoever makes the highest bid is granted the lease of the land. The bid has to reach a minimum standard, the estimated value of the land, which is based upon restrictions on how the land can be used, the conditions of the lease, and market developments. If this minimum standard is not reached by any of the bids, the government will cancel the sale of the land and instead try and resell it in the future.

(Source: https://usceconreview.com/2020/11/15/hong-kongs-housing-crisis/)

Hong Kong's housing is the most unaffordable in the World

Hong Kong Chief Executive Carrie Lam has an ambitious "Lantau Tomorrow Vision" plan to ramp up housing, but the experts say that she should perhaps focus more on the efficient use of land. The chronic shortage of affordable housing in Hong Kong pushed it to become the first few cities in Asia to develop public housing. The Hong Kong Housing Authority is now one of the biggest social housing providers with a rental stock of over 832,000 units that accommodated 29% of the city's population in 2018. Median income households have to spend 20 years of their earnings to buy a 60 sq. m flat at an average cost of US$1.24 million. The biggest hurdle for buyers is the huge 40% down payment on the value of the flat. Even then, they still have to devote nearly 60% of their monthly income repaying the mortgage. Renting is equally expensive, and so multiple occupant flats are in high demand among lower income households.

(Source: https://www.channelnewsasia.com/news/commentary/hong-kong-affordable-housing-lantau-vision-tomorrow-carrie-lam-12699850)

China targets Hong Kong wealth gap, housing woes after political purge

China's leaders plan to target the city's yawning wealth gap and lack of affordable housing that Beijing blames for fuelling social unrest. Senior officials are discussing ways to broaden the city's tax structure and increase land supply in an effort to mitigate inequality and high living costs in one of the world's most expensive cities, according to people familiar with the discussions. The deliberations could lead to far-reaching overhauls of Hong Kong's economic and social-welfare systems, although specific proposals haven't been put forward, the people said. Changes to Hong Kong's low-tax system would raise revenue for more social spending, but one challenge is how to do so without undermining the city's attractiveness as a financial and business hub. Land-policy reforms can help improve access to cheaper homes, although officials must overcome the entrenched influence of local property tycoons whom Beijing regards as too passive in their support of government goals.

(Source: https://www.wsj.com/articles/china-targets-hong-kong-wealth-gap-housing-woes-after-political-purge-11615813651)

Public housing in the global cities: Hong Kong and Singapore at the crossroads

Affordable Housing, the basic human necessity has now become a critical problem in global cities with direct impacts on people's well-being. While a well-functioning housing market may augment the economic efficiency and productivity of a city, it may trigger housing affordability issues leading crucial economic and political crises side by side if not handled properly. In global cities e.g. Singapore and Hong Kong where affordable housing for all has become one of the greatest concerns of the Government, this issue can be tackled capably by the provision of public housing.

In Singapore, nearly 90% of the total population lives in public housing including public rental and subsidized ownership, whereas the comparable figure only amounts to about 45% in Hong Kong. Hence this study is an effort to scrutinize the key drivers of success in affordable public housing through following a qualitative case study based research methodological approach to present successful experience and insight from different socioeconomic and geo-political contexts. As a major intervention, this research has concluded that housing affordability should be backed up by demand-side policies aiming to help occupants and proprietors to grow financial capacity e.g. subsidized rental and subsidized ownership can be an integral part of the public housing system to improve housing affordability.

(Source: https://www.researchgate.net/publication/346496489_Public_Housing_in_the_Global_Cities_Hong_Kong_and_Singapore_at_the_Crossroads)

India

Housing demand recovery surprisingly strong, says HDFC Chairman

High demand for housing has surprised observers, however, it is structural and here to stay, said HDFC chairman Deepak Parekh. He said demand for larger homes in alternative locations due to the shift to work-from-home and Indian Prime Minister's "Housing for All" scheme (PM Awas Yojana,) under which over 1 crore homes have been bought, are among major drivers.

"In my 44 years of working in the housing sector, I must say the strong demand that one has seen for housing in the recent period has certainly surprised on the upside. Growth in home loans has been aided by low-interest rates, softer or stable property prices and continued fiscal benefits on home loans," the head of the country's largest mortgage lender said, speaking at the One World One Realty Global PropTech Summit 2021. Parekh added that the housing demand was structural, not pent-up, and it is here to stay. On the global economy, Parekh said the massive liquidity infusion to deal with the impact of the pandemic has pushed up prices of financial assets.

(Source: https://timesofindia.indiatimes.com/business/india-business/housing-demand-recovery-surprisingly-strong-parekh/articleshow/82203882.cms)

India's IRs.25,000 crore (IRs 250 bn) zombie-home experiment starts to pay

A Rs 25,000 crore ($3.5 billion) fund set up by India's government to complete stalled housing projects is set to deliver its first finished apartments in 2021, offering a template for a problem that has washed out savings of thousands of home buyers and bankrupted developers. The fund will hand over some 16 projects or more than 4,000 homes in the financial year starting April 1, said Irfan A Kazi, Chief Investment Officer at SBICAP Ventures Ltd (https://sbicapventures.com/), the government-appointed manager of the alternative investment fund. The 'Special Window for Completion of Construction of Affordable and Mid-Income Housing Projects' (SWAMIH) fund was announced in November 2019. At the time, India had an estimated $63 billion of such stalled projects as an economic slowdown and a credit crisis cascaded through the sector.

Builders were unable to service their loans, forcing banks to write off the debts and worsen what was already one of the world's biggest bad- loan piles. Prime Minister Narendra Modi's government created the fund as one measure to unclog the financing pipes. Irfan A Kazi, chief investment officer at SBICAP Ventures Ltd, the government-appointed manager of the alternative investment fund, said "We have given approvals to around 159 projects involving investment of about Rs 14,500 crore, which will complete around 100,000 homes. Of this, about 47 projects (Rs 5,000 crore) have received final approval but 112 are at early-stage approvals, where due diligence is pending. We don't disclose the disbursal amount as we give funding only against project progress; two projects will complete construction by April".

(Source: https://timesofindia.indiatimes.com/business/india-business/indias-rs-25000-crore-zombie-home-experiment-starts-to-pay-off/articleshow/81107856.cms)

Delhi Master Plan 2041 to focus on affordable housing

Delhi's Master Plan 2041 will include parking management and congestion pricing, freight and logistic movement, creation of affordable housing and supporting infrastructure for contract and freelance workers, according to the Delhi Development Authority (DDA). DDA has prepared the draft Master Plan – MPD 2041 as per the provisions of Delhi Development Act 1957. The MPD 2041 is a 'strategic' and 'enabling' framework to guide future growth of the city and it builds upon the lessons learnt from the implementation of the previous plans of 1962, 2001 and 2021, DDA said.

(Source: https://economictimes.indiatimes.com/news/india/delhi-master-plan-2041-to-focus-on-affordable-housing/articleshow/81782095.cms)

Strong Government support behind India's residential construction sector: Fitch

Driven by the sustained demand for housing and supportive government policy, residential building will see a strong rebound in 2021 and robust growth over the coming decade, according to Fitch Solutions. This growth will be a key driver of the robust recovery of India's residential and non-residential construction industry overall which Fitch forecasts will expand in real terms by 7.9% in 2021 followed by average yearly growth of 6.5% up until 2030.

Underpinning the positive outlook on residential building in India, Fitch noted strong government support at the national level for housing sector, reflected in the allocation of sizeable funding for housing within the national 2021 Budget including Rs 50,000 crore (One Crore=Ten Million) allocated to the Ministry of Housing and Urban Development (MoHUA) as well as the creation of 3.5 billion dollars (about Rs 25,300 crore) fund to support completion of stalled housing projects. Fitch also expected the Pradhan Mantri Awas Yojana (PMAY) programme, which aims to provide affordable housing to all urban poor by 2022 through initiatives like financial support, to continue to be a driver of growth.

"While we do not expect the project to be completed by the 2022 deadline, it will contribute to the wider goals of the MoHUA and is indicative of the strong government support for residential construction."

(Source: Strong govt support behind India's residential construction sector: Fitch | Business Standard News (business-standard.com))

New housing projects to commence after progress on old ones, states told

No new affordable housing projects will be sanctioned till old ones are completed, the Centre has told the states, as barely 22% of the houses sanctioned under the flagship programme have been completed. The Ministry of Housing and Urban Affairs has told the states that no new projects would be sanctioned under affordable housing until the old projects get off the ground and show progress. Over five years after the launch of the Pradhan Mantri Awas Yojana (Urban), the Housing for All flagship mission, the affordable housing programme has seen poor achievement of targets. According to ministry statistics provided to the Economic Times, 23,31,229 houses have been sanctioned. Of this, 22% have been completed. Even after completion, the states have been struggling to allot these to beneficiaries. Only 9% of the completed houses have been occupied.

(Source: https://economictimes.indiatimes.com/news/india/new-housing-projects-after-progress-on-old-ones-states-told/articleshow/81980472.cms)

The Affordable Rental Housing Complexes (ARHC):

The Scheme is a sub-scheme of the Pradhan Mantri Awas Yojana (Urban), meant to provide a decent living standard to the urban poor.

On July 8, 2020, the Ministry of Housing and Urban Affairs confirmed that the Affordable Rental Housing Complexes (ARHC) scheme had received the nod from the union cabinet and would continue as a sub-scheme of the Pradhan Mantri Awas Yojana (Urban), meant to provide a decent living standard to the urban poor.

The much-awaited Budget 2021-22 did give a boost to affordable rental housing in India. Finance minister (FM) Nirmala Sitharaman proposed to allow tax exemption for notified affordable rental housing projects. As of now, the government allows 50% additional FAR/FSI, tax reliefs at par with affordable housing, concessional loan at priority sector lending rate, etc., to private developers to develop ARHCs on their own vacant land for 25 years.

In August 2020, the Central Board of Direct Taxes added 'affordable rental housing complex' to the list of infrastructure projects that can get foreign investment, via debt or equity. Income from dividends, interest and long-term capital gains from investments in rental housing for low-income groups were also made exempt from tax. 'Affordable Rental Housing Complex; was also included in the Harmonized Master List of Infrastructure Sub-sectors by adding it in the category of 'Social and Commercial Infrastructure', with a footnote that said Affordable Rental Housing Complex. Foreign investors could also directly, or through vehicles like AIFs or alternate investment funds or infrastructure investment trusts (InvITS), invest in rental housing projects. This was meant to boost ARHC in India.

While more details about the new announcement made in the finance minister's budget speech are awaited, the tax exemption seems to be headed in the right direction.

Indonesia

Low-cost property dominates market demand in year's first half

Consumer interest in low-cost housing dominated the property market demand in the first half of the year, while sales started to pick up amid the impact of the pandemic on the sector, online property marketplace 99 Group data shows. According to Singapore-based property marketplace start-up 99 Group, which owns 99.com and rumah123.com, says low-cost residential property, priced below Rp 300 million (US$20,528). was the most searched for housing type on the websites in the first six months of the year. "Overall demand from January to June is still dominated by properties in a price range below Rp 300 million, which accounts for around 30 percent of all searches." 99 Group Indonesia country manager Maria Herawati

(Source: https://www.thejakartapost.com/news/2020/07/18/low-cost-property-dominates-market-demand-in-years-first-half.html)

Indonesia's housing market continues its lacklustre performance

Indonesia's housing market is now evidently cooling, with the residential prices in the country's 14 largest cities falling by 0.52% during the year to Q2 2020, following y-o-y declines of 1.2% in Q1 2020. House prices dropped slightly by 0.02% q-o-q during the latest quarter. Residential property sales dropped sharply by 25.6% in Q2 2020 from a year earlier, following a decline of 43.2% in Q1 2020, according to Bank Indonesia. Sales saw double-digit rises from 2013 to 2015. Housing loans disbursed by banks increased by a modest 3.5% y-o-y in Q2 2020, a slowdown from annual growth of 4.34% in Q1 2020.

Meanwhile, Indonesia's economy shrank by 5.32% in Q2 2020 from a year earlier, its first contraction since the 1998 Asian Financial

Crisis, as household spending and investment growth dropped rapidly amid the COVID-19 outbreak.

The Indonesian Government revised its 2020 economic estimates for the country to a range of -1.1% to 0.2%, down from its earlier estimate of -0.4% to 2.3% and its 2019 growth of 5%. In June 2020, the government unveiled a stimulus package worth around IDR 677.2 trillion (US$46.3 billion) to boost the slowing economy.

(Source: https://www.globalpropertyguide.com/news-indonesias-housing-market-continues-its-lacklustre-performance-4124)

Malaysia

BNM warns of numbers of unsold properties remaining at elevated level

Bank Negara Malaysia (BNM), the country's central bank warns that unsold properties in the country have remained at an elevated level as at end-2020. These are mainly the serviced apartments, small office home office (SOHO) units, and houses priced above RM500,000 in less popular locations. This was despite a rebound in transaction volumes in the housing market to a pace comparable to the average quarterly growth seen before the Covid-19 pandemic, according to BNM's Financial Stability Review for Second Half 2020 report. The central bank highlighted that the growth in housing market activity was more concentrated in the mid- to higher-priced segments, mainly in the secondary market, where buyers are more likely to be those whose incomes have been less affected by the pandemic. This, BNM said, resulted in a growth in average house prices, as measured by the Malaysian House Price Index (MHPI), although prices increased at a more moderate pace during the third quarter of 2020. Meanwhile, the central bank said shopping malls have fared a little better, with some recovery in footfalls especially towards the end of 2020. But online purchases are likely to persist and will continue to partly weigh on demand for retail space amid pre-existing excess supply.

(Source: https://www.theedgemarkets.com/article/number-unsold-properties-still-very-high-bnm)

Problems in having affordable housing in Malaysia

Houses priced beyond the regular wage earner have been a problem even before the pandemic but have become more pronounced over the last year, with unemployment, income loss and a weak economy converging to make home ownership a distant dream for many. According to the Malaysian House Price Index from the National Property Information Centre, the average property price in Malaysia has nearly doubled since 2010. For many who do not qualify for government-supplied housing such as People's Housing Project (PPR) flats and PR1MA Homes, their only option is the increasingly expensive private market, leaving many in the upper B40 and the M40 in limbo between the two. (The 1Malaysia Housing Programme or Perumahan Rakyat 1Malaysia (PR1MA) is a housing development programme in Malaysia. Here, income segments are referred as B40, M40 and T20 which stand for Bottom 40%, Middle 40% and Top 20% respectively.)

As land becomes scarce and more sought after, costs increase to meet demand, with developers all bidding for the same pieces of real estate. Builders are responsible for the infrastructure costs to supply utilities to their properties, such as electricity and water supply. Developers are also tasked with building affordable units as a condition of construction approval, with a cap on their sale price. As such, whatever profit they lose on these cheaper units, they make up by raising the prices of units they can control, i.e., Cross-Subsidy model. This is on top of development charges levied by local and state governments, such as land premiums and planning approval fees.

According to a study carried out by Abdul Lateef Olanrewaju, Abdul Rashid Abdul Aziz and others of Universiti Tunku Abdul Rahman, Kampar, Malaysia, the annual supply of housing in Malaysia is approximately four units per 1000 of the population; this is less than the recommended 8-10 units per 1000 in developing countries, implying that the Malaysian housing deficit is likely to be on the increase. While the market is the most efficient way to determine housing prices, the capital market for affordable housing has a very weak mechanism that if left unregulated will be ineffective and inefficient. The cost of accommodation continues to increase despite various government measures in the form of taxes and subsidies. Through a case study approach and survey questionnaire, this study examines the operation of affordable housing market the factors that determine the cost of affordable housing.

(Source: https://www.freemalaysiatoday.com/category/nation/2021/04/06/why-is-affordable-housing-not-so-affordable/)

HOC (Home Ownership Campaign) Malaysia 2020–2021

The Home Ownership Campaign (HOC), which ran throughout 2019, was designed to encourage the increase in home ownership among Malaysians. And now, it's back again till 2021. In order to "support businesses and strengthen the nation's economy", the Prime Minister introduced the Short-Term Economic Recovery Plan (PENJANA). Amongst the many initiatives that were presented, the reintroduction of HOC-2021 was one of them. The HOC was a government initiative designed to support homebuyers looking to purchase property. At the same time, it also encouraged the sales of unsold properties in Malaysia's housing market.

The campaign was targeted to run from 1st January 2019 through to 30 June 2019, but it was extended till 31 December 2019 in an announcement by the Housing and Local Government Minister Zuraida Kamaruddin. And now, Prime Minister Tan Sri Muhyiddin Yassin has announced that HOC is back, taking effect from June 2020. With a growing desire for home ownership amongst Malaysians, particularly in popular urban areas, the HOC initiative was designed to match aspiring home seekers with all those empty homes.

(Source: https://www.propertyguru.com.my/property-guides/home-ownership-campaign-hoc-2020-all-you-need-to-know-15274)

Maldives Islands

India's Exim Bank to fund $130 million Maldives housing project

India Exim Bank will provide funding of $130 million to finance 2,000 Housing units in Maldives. The Exim Bank had exchanged a Letter of Intent (LoI) with Fahi Dhiriulhan Corporation of Maldives for the design and construction of 2,000 dwelling units in Hulhumale. This funding is proposed to be provided under the Buyer's credit program under National Export Insurance Account (NEIA) Scheme. The project is expected to improve the socio-economic well-being of Maldivian citizens and is in line with the Government's policy of 'Neighbourhood First'. India Exim Bank had earlier supported road network development in Hulhumale, Maldives under the NEIA scheme.

(Source: https://www.tribuneindia.com/news/world/exim-bank-to-fund-130-million-maldives-project-217781)

IFC aims to improve infrastructure and sustainability in Maldives

In Maldives, IFC aims to improve infrastructure and sustainability in Maldives by supporting key affordable housing as well as climate resilient infrastructure projects. IFC is also working to improve access to financial services for micro, small and medium entrepreneurs and women. It is enabling disruptive models of

digital finance to foster social inclusion through better gender parity,

The Republic, with its population of over 515,000 people, relies almost exclusively on tourism and related industries for economic growth and job creation – with the sector contributing almost two thirds of the country's GDP. The COVID-19 pandemic has adversely impacted Maldives. For IFC, a key focus has been to help mitigate the impacts and pave the way for a sustainable resilient recovery. In 2020, IFC made a $175 million investment in John Keells Holding (JKH), as part of IFC's broader efforts to create quality jobs, and work for a sustainable future, with a proportion of the proceeds set to boost the supply of green hotels in Maldives to meet expected future demand.

(Source: https://www.ifc.org/wps/wcm/connect/REGION__EXT_Content/IFC_External_Corporate_Site/South+Asia/Countries/Maldives/)

China debt helps Maldives' 'Bridge to Prosperity'

A 2.1km (1.3-mile), four-lane bridge was built with a $200m (£148m) from China, to join two main islands in this south Indian Ocean's archipelago, thus not only increasing earning capabilities of local people by easing the commute between two main islands, but also opening up opportunities for increasing housing facilities in this archipelago. The bridge, the first built between any islands in the Maldivian archipelago, has led to a boom in new property and commercial developments on the nearby island of Hulhumale, easing congestion in the capital for its 140,000 residents. Chinese infrastructure projects in developing countries have been criticised, but the Sinamale bridge – or the China-Maldives Friendship Bridge as it's also known - could be seen as a real success. The bridge was one of several major projects built under Abdullah Yameen, a pro-China president elected in 2013. He wanted to kick-start the economy and borrowed hundreds of millions of dollars from China to do so.

(Source: https://www.bbc.com/news/world-asia-52743072)

New Zealand

New Zealand slaps taxes on investors to cool housing market

New Zealand on Tuesday introduced a raft of measures to cool its red-hot housing market, slugging investors with new taxes and promising to boost supply after housing affordability fell to its lowest ever level. Prime Minister Jacinda Ardern also pledged more support for first home buyers and foreshadowed further steps to come, with the country's central bank currently reviewing proposed curbs on some types of lending. "The need for further action is clear," Ardern told a news conference. "The last thing our economy needs right now is a dangerous housing bubble. But a number of indicators point towards that risk."

Westpac Bank said the moves could see home prices settle around 10% lower in the long term, with potentially greater swings in the short term as some investors exit the market. A tax policy change that no longer allows rental property owners to deduct mortgage interest from their expenses was a "game-changer", Westpac economist Michael Gordon said in a note. Ardern also doubled the country's so-called bright-line test – the time that investors need to hold on to a property to avoid paying tax when selling – to 10 years. New Zealand's success in combating the coronavirus has fuelled an already hot property market, as returning Kiwis and investors parked their funds in real estate, pushing house prices up 23% in just 12 months, far ahead of wage growth.

(Source: https://www.reuters.com/article/newzealand-housing-idUSL1N2LK2NX)

New Zealand moves to rein in runaway housing market with billion-dollar plan

The New Zealand government has announced a series of billion-dollar measures aimed at tackling the country's housing crisis as prime minister Jacinda Ardern warns there is "no silver bullet". House prices have been driven up 23% in just 12 months, far ahead of wage growth, pushing younger and lower-income buyers out of the market. On Tuesday morning Ardern announced a package intended to address problems of housing supply and demand and help shift the balance away from investors. "New Zealand's housing crisis is longstanding and will take time to turn around. There is no silver bullet … (but) the need for further action is clear," said Ardern. "The last thing our economy and homeowners need is a dangerous housing bubble, but a number of indicators point towards that risk."

First-homebuyers will be able to access more government help, with the income cap on the government's First Home Grants and loans lifted from $85,000 to $95,000 for single buyers, and from $130,000 to $150,000 for two or more buyers. Regional price caps have also been increased to reflect increased prices.

(Source: https://www.theguardian.com/world/2021/mar/23/new-zealand-moves-to-rein-in-runaway-housing-market-with-billion-dollar-plan)

Report Shows, New Zealand housing market slowing

New data has found a reduction in demand in nationwide housing valuations, which could be the first signs of the housing market slowing. CoreLogic's House Price Index tracks property value changes and its latest report has found a reduction in demand for valuations, down 11% compared to the previous six months. "There are signs that there are fewer buyers talking to banks about issuing them mortgages to buy another property," CoreLogic Head of research Nick Goodall said.

(Source: https://www.nzherald.co.nz/business/first-signs-of-new-zealand-housing-market-slowing-report/CRDFJR4AWDCMKLM6YDTB2G7JHM/)

Nepal

India hands over another NPR 1 billion tranche of Nepal Housing Reconstruction Project

India had announced the reconstruction drive in Nuwakot and Gorkha District of the Himalayan nation after it was severely hit by the 2015 earthquake. India has pledged to construct a total of 50,000 houses in two districts where the UNDP and UNOPS are providing the technical and other consultation supports. It handed over a cheque of NPR 1 billion to the Nepal government as reimbursement of Nepal Housing Reconstruction Project. The Government of India (GoI) which has been lending its hand in the reconstruction of houses in Nepal has partnered with United Nations Development Programme (UNDP) and United Nations Office for Project Services (UNOPS) for providing Socio-Technical Facilitation to the house owners to ensure that they rebuild their homes as per the government of Nepal's earthquake-resilient norms.

(Source: http://www.businessworld.in/article/India-hands-over-another-NPR-1-billion-tranche-of-Nepal-Housing-Reconstruction-Project/03-11-2020-338964/)

Pakistan

Islamabad's Capital Development Authority (CDA) to build 4,400 housing units

Islamabad's city managers took a major decision to construct 4,400 low-cost housing units. The Capital Development Authority (CDA) Board held a meeting with Chairman Amer Ali Ahmed in the chair. It decided to construct the apartments in Alipur Farash. The apartments will be allotted to displaced persons of katchi abadis or slums, through the CDA and the beneficiaries of Naya Pakistan Housing and Development Authority through auction.

(Source: https://www.dawn.com/news/1612715/cda-to-build-4400-housing-units-raise-metropolitan-police)

ECC approves changes to Naya Pakistan housing scheme

The Economic Coordination Committee (ECC) of the cabinet held a meeting and discussed many issues on the agenda, including housing. It approved a revised eligibility criterion, subsidy structure and public-private partnership for Naya Pakistan Housing Programme. The Naya Pakistan Housing and Development Authority (NAPHDA) chairman presented the revised eligibility criteria for selection of applicants, modalities for payment of the cost subsidy and the mechanism for release of funds with reference to the special incentive package for the housing and construction sector, announced by the Prime Minister in July last year.

The ECC approved the stipulated eligibility criteria and payment mechanism for an upfront 10% cost subsidy against the first 100,000 housing units to be constructed during Phase-I by the end of the year. The committee urged the NAPHDA to facilitate access to housing finance at affordable rates for expanding housing ownership in accordance with the vision of the Prime Minister, enabling low-to-middle income groups to the avail low-cost housing facility according to affordability criteria.

The ECC approved a summary of the NAPHDA seeking permission to enter into negotiated procurement agreements for the construction of low-cost housing units through public-private partnership. The committee also approved NAPHDA's summary about revision of key parameters of the Mark-up Subsidy Scheme for housing finance, as recommended by the State Bank of Pakistan, to ensure maximum participation for access to quality housing at an affordable price by fulfilling a relatively relaxed eligibility criterion.

(Source: ECC approves changes to Naya Pakistan housing scheme - Newspaper - DAWN.COM)

Punjab Government announces 'Affordable' Naya Pakistan Housing Project in Lahore

The 'Naya Pakistan Housing Project' has also started in the provincial capital, announced Chief Minister Punjab Usman Buzdar.

Under this initiative, 35,000 apartments will be constructed offering affordable installment plans for the low-income groups.

Prime Minister Imran Khan performed the groundbreaking ceremony on December 25, 2020, which Housing Minister Mian Mahmood-ur-Rashid had announced earlier.

To further promote construction activities, the provincial government had incorporated major changes to the functionality of the Lahore Development Authority (LDA), allowing builders and developers to obtain No Objection Certificates (NOCs) from the authority. In addition, the authority was also directed to approve housing plans within 60 days.

The plight of low-income groups, in terms of unavailability of low-cost housing finance was also highlighted by the housing minister.

To promote low-cost housing financing, all banks have been directed by the State Bank of Pakistan (SBP) to allocate at least 5% of their borrowing for the housing sector, among other incentives for both, low-income groups and banks.

(Source: https://blog.graana.com/punjab-govt-announces-affordable-naya-pakistan-housing-project-in-lahore/)

Karachi needs pro-resettlement approach to address encroachment problems in the mega city

Karachi, the major metropolitan city of Pakistan, with an official population estimate of over 24 million, has faced massive urbanisation and urban congestion. It is stated to be nearly half occupied by slums and illegal habitats, it is estimated that there are more than 800 slums of different sizes. The Karachi Municipal Corporation (KMC) has been conducting an anti-encroachment drive aimed at reclaiming illegally occupied land. The operation is likely (and predictably) going to cause many of the city's urban poor to become homeless overnight, since the drive is being pursued without offering any alternate housing solution. In the past any such slums eviction drives, simply forced people to abandon one place and resettle at another illegal habitat.

It goes without saying that evictions commonly – if not exclusively – target the urban poor. There has always been a simplistic assumption baked into Karachi's Master Plans that if low-income settlements are somehow eradicated (or hidden), the city will miraculously prosper. What ends up happening time and again is that ambitious development projects do little more than repackage changes in the city's built form as progress, and that too at the expense of depriving many a secure space in Karachi.Civil society activists might well chafe at this thought given the demonstrable failure of previous resettlement projects in Karachi. One need only to look at the fallout from the Greater Karachi Resettlement Plan in the 1960s, which, according to a 2016 United States Institute of Peace report, created underserviced and underutilized housing communities in Korangi and, counterintuitively, caused an uptick in informal housing. Given the progress made by the Orangi Pilot Project (OPP), an acknowledged slums resettlement project of the past, many argue that Karachi needs to contextualize its planning approach, focusing on "slum improvement" followed by "slums redevelopment" models in already existing low-income settlements rather than new housing schemes. Under the current planning regime, an elite vision of the world class city – replete with expressways, parks, and high rises – pulls state and market levers to dispossess the poor and relegate them to the city's peripheries. But no amount of high visibility projects can replace the economic, social, and cultural value that comes from urban inclusion. For a city to be vibrant and sustainable, it must engender cohesion instead of fragmentation. An integrated approach to housing is a way to achieve that goal and reverse the current reliance on bulldozers that not only deprives the urban poor of shelter, but also excludes them from Karachi at both a physical and socioeconomic level.

(Source: https://tribune.com.pk/article/97321/why-karachi-needs-pro-resettlement-not-anti-encroachment-housing-policies)

Pakistan central bank issues mechanism for housing loan re-payment

The State Bank of Pakistan (SBP) has developed a complete mechanism for payment of mark-up subsidy for housing finance and sent it to banks and development finance institutions (DFIs) who are working as Executing Agencies (EAs) for the facility. In a detailed circular to all banks and DFIs, the EAs have been advised to submit their claims to Development Finance Support Department (DFSD), SBP BSC, Karachi within 15 working days from the end of each quarter. The SBP has advised banks about how to calculate equal monthly instalments (EMIs) for borrowers.

For first five years EMIs, amortization schedule would be prepared for full tenor of financing at mark-up rate i.e. 3%, 5% or 7% depending upon the financing tier detailed below. Under the Scheme, loans are segregated into four tiers. Another major step aimed at promoting housing finance, is to declare housing/mortgage finance under "Mandated Credit". Banking Inspection Department of State Bank's inspection report section on 'Mark-up Subsidy on Housing Finance' shall be used as

an important input for reviewing the Scheme and assessing its effectiveness in fulfilling the Government objective of promoting home ownership in the country.

Under the Scheme, loans are segregated into four tiers:

1. Tier 0 (T0) – (a) House up to125 sq yds (5 Marla) and (b) flat/apartment with maximum covered area of 1,250 sq ft.

   Pricing: Customer: 5% for first 5 years & 7% for next 5 years; Bank: 1 Year KIBOR + 700 BPS

2. Tier 1 (T1) – (a) House up to125 sq yds(5 Marla) with maximum covered area of 850 sq ft and (b) Flat/apartment with maximum covered area of 850 sq ft.

   Pricing: Customer: 3% for first 5 years & 5% for next 5 years; Bank: 1 Year KIBOR + 250 BPS

3. Tier 2 (T2) – (a) House up to125 sq yds (5 Marla) and (b) flat/apartment with maximum covered area of 1,250 sq ft.

   Pricing: Customer: 5% for first 5 years & 7% for next 5 years; Bank: 1 Year KIBOR + 400 BPS (Spread may vary)

4. Tier 3 (T3) – (a) House up to250 sq yds (10 Marla) and (b) flat/apartment with maximum covered area of 2,000 sq ft.

   Pricing: Customer: 7% for first 5 years & 9% for next 5 years; Bank: 1 Year KIBOR + 400 BPS (Spread may vary)

For loan tenors exceeding 10 years, market rate i.e. bank pricing will be applicable for the period exceeding 10 years.

(Source: https://www.dawn.com/news/1619417/sbp-issues-mechanism-for-housing-loan-payment and https://pkrevenue.com/sbp-issues-payment-mechanism-for-housing-finance-markup-subsidy/)

Housing: construction finance portfolio of banks passes Rs.200 Billion

The housing and construction finance portfolio of the banking sector has recorded an unprecedented surge as it reached Rs.202 billion in March 2021 from Rs.148 billion by the end of June 2020. A growth of Rs.54 billion or 36% in three quarters of FY 20-21 compared to a stagnant position in earlier quarters is manifest that housing and construction finance by the banking sector has been progressing significantly and a momentum in the sectors has been building up as a result of the recent measures by the GoP and SBP under the "Mera Pakistan Mera Ghar Housing Finance Scheme". A joint statement of SBP and Pakistan Banks Association (PBA) has further informed that up to April 20, 2021, banks had received applications for financing of more than Rs.52 billion from the general public under the scheme. Of those, the banks have approved financing of more than Rs.15 billion to the applicants while the remaining applications were at different stages of the evaluation and approval process.

The government of Pakistan envisions increasing the number of housing units manifold in coming years and has taken several measures to improve the housing sector and boost economic activities in the county. A key element to ensure a sustainable increase in the construction of building activities was the provision of financing both to the supply and demand side players of the housing and construction sector. The SBP has taken several measures since July 2020 to support the provision of financing for the housing and construction sector by way of giving incentives and targets to the banks, it added.

The central bank has assigned mandatory targets to banks to increase financing for mortgages to builders and developers while banks were required to increase their H&C finance portfolios to at least 5% of their private sector advances by end December 2021.

1USD = 153.30 Pakistani Rupee on May 7, 2021

(Source: https://nation.com.pk/04-May-2021/housing-construction-finance-portfolio-of-banks-crosses-rs200-billion)

SBP takes notice of delayed loan approvals for housing finance

Taking cognizance of complaints about delays in the loan process, the central bank has asked banks to speed up approvals under the government mark-up subsidy scheme to promote housing finance. "SBP has been receiving a number of complaints especially regarding delayed processing, long turnaround time and no mechanism to track the financing application after submission," the State Bank of Pakistan (SBP) said in a circular, referring to the government mark-up subsidy for housing finance. Banks/development finance institution are advised to put in place within 30 days from the date of the circular an online e-tracking mechanism and a phone-based help line to provide, on query by the applicant, the status and expected time required for decision on the application. The SBP has told banks to devise a system to monitor 30 days' turnaround time for decision on applications received, it added. Banks are required to increase their housing and construction finance portfolios to at least 5% of their private sector advances by end December 2021, under the Mandated Credit directive.

The banks' housing and construction finance portfolio has increased from Rs148 billion at the end of June 2020 to Rs202 billion in March 2021. This represents a growth of Rs54 billion or 36% in three quarters of FY21 compared to a stagnant position in earlier quarters.

(Source: SBP takes notice of delayed loan approvals for housing finance (thenews.com.pk)_

Philippines

DHSUD Program pushes for housing microfinance strategy for climate-resilient homes

The Department of Human Settlements and Urban Development (DHSUD) is pushing for a housing microfinance strategy that will grant low-income families access to climate-resilient homes at affordable costs. Secretary Eduardo del Rosario said DHSUD will hold consultation meetings and workshops with financial institutions, private developers, and other stakeholders to establish the Inclusive Green Housing Microfinance (IGHM) program. "With the high price of land, especially in urban areas, affordability remains a major stumbling block to homeownership for many Filipinos who fall below the poverty line," del Rosario said in a statement Sunday. A total of 6 virtual meetings are scheduled between April and May this year. It will involve the formulation of frameworks and the creation of long-term targets for the rollout of IGHM. "The department is committed to finding alternative means such as housing microfinance to help them afford their dream homes," del Rosario said.

"We are reaching out to our stakeholders, especially the microfinance institutions that are already implementing housing microfinance in the communities to gather insight, capture best practices, and ease barriers for an effective nationwide implementation," del Rosario said. These microfinance institutions include Microfinance Council of the Philippines and Alliance of Philippine Partners in Enterprise Development, ASA Philippines Foundation, Kasagana-Ka Cooperative, and Habitat for Humanity.

(Source: https://www.pna.gov.ph/articles/1137188)

ADB, Habitat for Humanity to support housing microloans for vulnerable communities

The Asian Development Bank (ADB) has teamed with Habitat for Humanity International

to help microfinance institutions (MFIs) deliver housing loans to low-income families in rural and peri-urban areas of Bangladesh, India, Indonesia, and the Philippines. The collaboration will expand ADB's Microfinance Risk Participation and Guarantee Program to include microloans for housing, home improvement, and water and sanitation for vulnerable and climate change-exposed communities. ADB will help MFIs obtain financing for these purposes from commercial banks of up to $30 million in the first phase. Habitat for Humanity will build the MFIs' capacity to design, pilot-test, and roll out the loans, with technical assistance from ADB.

"Low-income families find it difficult to build resilient houses as they lack adequate and affordable financing options due to the collateral requirements of commercial banks," said ADB Private Sector Financial Institutions Division Director Christine Engstrom. "MFIs have the networks to reach these communities, but often lack the technical capacities to deliver housing microloans to them. Building on Habitat for Humanity's technical and training expertise, this inaugural partnership will enable ADB's Microfinance Program to better address this market gap."

(Source: https://www.adb.org/news/adb-habitat-humanity-support-housing-microloans-vulnerable-communities)

Mongolia

Mortgage loan interest cut to 6%

During the parliamentary discussion held on October 16, 2020, on Mongolia's budget bills, such as the State Budget bill for 2021 and the Social Insurance and Health Insurance Budget Bills for 2021, Minister of Construction and Urban Development B. Munkhbaatar announced that commercial banks had already started issuing mortgage loans with a lowered interest rate of 6 percent to eligible borrowers. Minister B. Munkhbaatar has also updated observers that MNT 50 billion and MNT 40 billion of financial resources have been made available by the central bank and commercial banks respectively to lower the interest rate of mortgage loans to 6%.

He also told reporters that 38 borrowers had received mortgages with 6% interest, worth MNT 2.5 billion in total since the decision has been made. Minister Munkhbaatar clarified that those who have already took out the central bank's subsidized mortgage loans at 8% and currently are paying are not eligible for the mortgage with newly reduced interest.

With loan funding from the Bank of Mongolia, commercial banks have been providing Mongolian citizens aged above 18 years, with mortgages at a subsidized interest rate of 8% per annum for a maximum of 30 years for the purchase of an apartment of up to 80 square meters.

(Source: https://montsame.mn/en/read/240123)

Mortgage loan program able to fund for 12,000 apartments annually

Minister of Finance B. Javkhlan has announced that the housing mortgage loan program will continue as normal as part of the Government's MNT10 trillion economic recovery and health protection plan presented by Prime Minister L. Oyun-Erdene last week. According to the Finance Minister, around 15,000 apartments are newly commissioned each year in Mongolia and around 12,000 of them have a smaller size that meets the requirement for the purchase of an apartment of up to 80 square meters under the mortgage program. "Therefore, the mortgage program is available to provide loans with subsidized interest rates for around 12,000 apartments yearly." The economic plan sets out to enhance the loan amount and accessibility of mortgage loans and repurchase agreements by the Bank of Mongolia through commercial banks, and MNT 3 trillion will be earmarked for the mortgage loan program and development of Youth I, II and III apartment complexes in Ulaanbaatar and their infrastructures. Since the decision was made to lower mortgage loan interest rate from 8 percent down to 6 in October 2020, more than 1,200 new mortgage agreements totaling MNT 95 billion were made only in December 2020, marking the highest value of mortgage loans to be issued within one month.

(Source: https://www.montsame.mn/en/read/253589)

Building affordable, green houses in Mongolia's Ger districts

Mongolia's so-called Ger districts are unplanned neighborhoods where brick houses or traditional Mongolian tents perch in small family plots allotted by the government. These neighborhoods have expanded rapidly in recent years with migrants from the countryside unable to find or afford high-priced homes in developed parts of the city. The Ger areas lack key infrastructure such as connection to the electric grid, necessitating the use of coal. Homes with access to utilities, public services, and greenspaces, commonplace in the city center, are beyond the means of most, given that banks demand down payments of 10%-20% of the house value while mortgage interest rates are typically around 15%-16% per year. ADB's Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Sector Project aims to provide these amenities by establishing new eco-districts in the Ger areas that are gentler on the environment, provide better services, and provide reasonably priced homes.

(Source: https://www.adb.org/results/building-affordable-greenhouses-mongolia-s-ger-districts)

Republic of Korea

South Korea considering longer mortgage terms

Korea Housing Finance Corporation, a state-run housing financial institution better known as LH, is gearing up to launch the nation's first 40-year mortgage product this year. There was talk of longer-term options ahead – as well as concern about whether longer-term mortgages are appropriate for the local housing market. The policymaking Financial Services Commission said that the state-backed 40-year option would be introduced for younger people and newly married borrowers as early as July. The 40-year mortgage is likely to be offered to a wider range of borrowers and could serve as a steppingstone for longer-term options, depending on its success, industry watchers said. The launch of the 40-year option will mark the longest-term deal ever offered here, surpassing the existing 30-year state-backed mortgages offered by LH.

The 40-year mortgage's lending terms will fundamentally follow those of LH's 30-year option, which is available to households with annual income of less than 70 million WON ($62,078) and homes priced below 600 million WON. It allows borrowers to receive up to 300 million won depending on their circumstances, with an annual interest rate of some 2.5%. The rate is not fixed.

(Source: http://www.koreaherald.com/view.php?ud=20210405000885)

South Korea guards against potential jitters in housing prices: Finance Minister

Finance Minister Hong Nam-ki has said that the government is guarding against potential instability in the housing market, as home prices in Seoul picked up amid expectations for eased rules on redevelopment housing projects. The Minister also said the government plans to unveil measures next month to overhaul the Korea Land and Housing Corp., the public housing developer at the center of a land speculation scandal involving public

officials. "The government remains firmly wary of the possibility that the housing market could become unstable again," Hong said at a pan-government meeting on housing policy. The minister said authorities are closely monitoring housing prices and the trend of the housing reconstruction market. Runaway housing prices showed some signs of let-up after the government in February unveiled a plan to increase the number of new homes by up to 836,000 nationwide during the next four years.

(Source: http://www.koreaherald.com/view.php?ud=20210421000123)

South Korea to supply 460,000 homes in 2021 to Cool housing market: Finance Minister

In yet another attempt to stabilize the over-heated real estate market, the South Korean government will supply 460-thousand homes next year, including 319 thousand apartments. This is according to Finance Minister Hong Nam-ki Tuesday, who said sufficient supply will cool the market. An estimated 2,78,000 the homes will be provided in the greater capital area, with 83 thousand within Seoul. Of the new apartments, 188,000 will be in the capital area, with 41,000 in Seoul. Hong said plans will be reviewed depending on market conditions and demographic changes. The amount of new housing supplied in South Korea this year is expected to hit an all-time high. Finance Minister Hong Nam-ki also said on Thursday that roughly 500-thousand new homes will go onto the market in 2021. This includes private housing, which will account for around 360,000 to 390,000 units. Public housing is forecast to be at 92,000 units. The government will announce new sites for public housing this month as it aims to cool the overheated real estate market.

(Source: News Main | Arirang TV | www.arirang.com › news / https://www.youtube.com/watch?v=pWxkSBw2bnc)

Sri Lanka

Sri Lanka state workers to get housing and solar power loans at controlled rates

Sri Lanka's state workers will get loans for housing at a 7.0% controlled rate and solar power at 4.0% which will increase their incomes by 5,500 rupees a month on average, under budget proposals that are now effective, the Finance Ministry said. A controlled rate of 7% had been decreed for housing loans given by state banks to state workers.

Under the proposal, which is effective from 10th December 2020, the state banks will reduce the rate on existing and new loans to 7% for loans between one and three million SRupees. The first 500,000 rupees would be charged at only 3%. The controlled rates will provide the equivalent of a 2,500 SRupee salary hike for a state worker who has a 2.0 million SRupee housing loan. State workers will also get a 750,000 SRupee credit for a solar power unit to be repaid in 10 years from January 01, 2020. A state worker who installs a 5 kiloWatt solar unit will get a benefit of 3,000 rupees a month for 7 years after paying the installment on the loan. The credit which is also available for small and medium entrepreneurs is available from 10 state and private banks.

1 US D = 197.02 Sri Lankan Rupee on 06-05-2021

(Source: https://economynext.com/sri-lanka-state-workers-to-get-housing-solar-power-loans-at-controlled-rates-76798/)

Thailand

Thai government rolling out phase two of low-income housing program

The Thai government rolled out the second phase of a Bt30 billion to Bt50 billion (US$1 billion to US$1.667 billion) One Million Homes low-income housing program. Homes sold under this program offer 2% per fixed rate mortgages for ten years, and would help low-income employees purchase new homes as well as stimulate the local property sector. The second phase raises the housing price ceiling from Bt1 million (US$ 33,333 to US$40,000) but lowers the interest rate from 3% per annum to 2%. Despite the global pandemic's effect on the Thai economy and Bank of Thailand's measures to restrict loan extensions for second home, housing demand from low-and-middle-income earners is still robust. In 2018, the Government Housing Bank approved Bt210 billion (US$70 billion) of housing loans. By 2020 loan approvals increased to Bt255 billion ($US 85 billion).

GH Bank loan programs focus on middle-income borrowers

Despite the ravages of the global pandemic, Government Housing Bank President Chatchai Sirilai said the Bank is confident that low and middle-income housing demand remains robust. He expects that the second phase of the Government's One Million Homes program for low and middle-income buyers will be very successful. This program is a critical element of the Bank's "Business Solution" credit facility program for middle-income earners. "Historically low interest rates make it easier for people to buy their own home and reduce monthly instalment payments," said Chatchai. For example, borrowers' monthly instalment payments were about Bt 8,000 per month (US$ 266) for each Bt1 million-baht ($US33,3330) loan. With today's low interest rates, monthly payments have dropped to about Bt5,200 per month ($US171). GH Bank also offers long-term loans of up to 40 years, depending on the age of the borrower. GH Bank today has 30% market share of Thailand's housing loan market. The Bank projects its non-performing loan ratio at 3.30% of total outstanding loans this year, (below 3.60% last year).

Thai real estate sentiment indices lower in 2021

Dr Vichai Viratkapan, acting Director General of the Real Estate Investment Center (REIC) recently announced that the global Covid-19 pandemic has lowered the developers' sentiment index to its lowest average median levels in the past eight quarters. "Even though the overall situation in the first quarter improved this year, developers are still laying off staff to save development costs as the outbreak remains a big concern," he said. Vichai said developers were not confident in the first quarter as the outbreak continued to rock the country, leading to tepid economic recovery.

While the position for listed developers on the developer's index rose slightly to 49.4 from 49.2, the index of non-listed firms fell slightly to 41.7 from 42.1. However, both still lingered below the median. "To be more specific, listed developers were confident, particularly in performance, sales and investment as those indices were above 50 but non-listed firms were not confident with the index being below the median," he said. In the first quarter of 2021, overall performance and sales picked up, but developers are still cutting jobs to control development costs. Housing developers' expectations index of confidence over the next six months increased to 58.8 in the first quarter from 54.4 in the fourth quarter last year. This represented the highest confidence yet as it soared above the median. The index of both listed and non-listed developers rose to 63.6 and 51.5 from 59.7 and 46.5, respectively, as they are confident of investments, performance and sales in the future.

(Sources: All news from GHB Thailand source)

Vietnam

Affordable home shortage plagues Vietnam: Government report

The housing market has an oversupply of mid- and high-priced units but a shortage in the affordable segment despite large demand.

Demand for houses and apartments in the former category, priced at VND25 million ($1,078) per square meter onwards, only accounts for 20-30%, while the remaining 70-80% of the demand is for affordable housing, according to a recent government report. The report, compiled by the Ministry of Construction for the National Assembly, said residential property prices are bloated, volatile and out of reach of most people. The ministry blamed this on the lack of funding for social housing programs, pointing out there is no channel for mobilizing long-term investment for it. The lack of funding recently caused the construction of 221 social housing projects around the country to be delayed or scrapped. The report stated that so far 249 social housing projects with 104,200 units have been built and another 263 with 215,800 units are being developed. The supply of affordable apartments costing around VND 1 billion in major cities is dwindling. Most of the smallest apartments available, measuring 45-50 square meters, now cost VND 1.5 billion, data compiled by VnExpress shows.

Less than 22% of new supply in HCMC between 2016 and the first half of 2020 was in the affordable segment, indicating the shortage, the Ho Chi Minh City Real Estate Association said in a recent report.

(Source: https://e.vnexpress.net/news/business/industries/affordable-home-shortage-plagues-vietnam-government-report-4175798.html)

Most citizens cannot afford 'affordable housing'

Affordable housing in Hanoi and HCMC is out of reach for most citizens, mainly because of dwindling supply and rising prices. A recent report of the ministry says the demand for houses and apartments in the mid and high range only accounts for 20-30%, while the remaining 70-80% is for affordable housing. Data from real estate consultancy Savills shows that Hanoi apartment prices rose 10% year-on-year to $1,500 per square meter in the third quarter as new apartment supply fell to a five-year low.

Do Thu Hang, Director of Advisory Services at real estate consultancy firm Savills Hanoi, said that the capital city is witnessing high residential pricing that far exceeds the income of most people, especially the young. Data from the Ho Chi Minh City Real Estate Association (HoREA) shows that with a mid-priced apartment in Ho Chi Minh City costing around VND2.5 billion, it would take a family that can save VND100 million a year over two decades to acquire the unit. The HoREA, meanwhile, has proposed that the government provides credit support to first-time homebuyers as well as incentive tax policies for development of affordable housing. As authorities try to find solutions to the housing problem, Ha and his wife are looking for another rented apartment in Hanoi to welcome a new baby, the only residential option for them in the increasingly crowded city.

(Source: https://e.vnexpress.net/news/business/industries/most-citizens-cannot-afford-affordable-housing-4184676.html)

Affordable housing in Vietnam: a way forward

Affordable housing will be instrumental in helping Vietnam achieve its goals for increasing productivity and inclusive urban growth. Since the Doi Moi reform policy launched in 1986, the country has experienced impressive economic growth, averaged at 7.4% per annum from 1990 to 2008, reducing to an average of 6% per annum from 2007 to 2013. Strong economic growth has supported a substantial reduction in poverty, from 58% in 1993 to 17% in 2021. Yet, the country has remained largely rural, with more than half of its population working in the agricultural sector, which only contributed 17% of GDP in 2014. In some countries, urbanization has been used as a tool to accelerate economic growth and poverty reduction.

As Vietnam aims to maintain a high growth rate, supporting urbanization, where cities contribute a growing share of jobs and GDP, will be an important measure. This structural shift will drive population growth and new demand for housing in cities, for which both quality and affordable housing options in well-serviced and connected settlements will be needed. Areas of particular importance in the Law is support for self-built housing, the active participation of the private sector, addressing the shortage of affordable rental housing as well as high demand for housing from low income groups, especially workers in industrial zones of large cities. This report, which includes a comprehensive assessment and roadmap for affordable housing in Vietnam, recommends the following key messages moving forward: increase investment, Prepare three flagship initiatives under an umbrella National Affordable Housing Program, introduce institutional strengthening, introduce land tax reform, and create an enabling environment for affordable housing.

(Source: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/240541467995097856/vietnam-affordable-housing-a-way-forward)

Europe: a shifting regulatory landscape

↳ **By Mark Weinrich**

It was shortly before the corona lockdowns in 2020 that the European Commission[1] announced the European Green Deal, an overarching policy programme, to achieve a carbon-neutral and sustainable economy by 2050 through a 'just transition', ensuring that 'no place or no one is left behind'. Although COVID-19 has brought immense economic problems in its wake and pushed other issues into second place, the European Union and its Member States are aligned and stay on course towards the European Green Deal goals despite the current health and economic crises. The re-orientation of investments under the EU's recovery plan has even opened the door for a new strategy: the combination of investments with a 'fit for the future' approach, implying a renewed focus on ambitious climate and sustainability action.

Sustainable finance has a key role to play in delivering on the policy objectives under the Green Deal as well as the EU's international commitments on climate and sustainability objectives. That is why the European Commission has set out an action plan for financing sustainable growth. In this plan, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects. Sustainable finance also encompasses transparency when it comes to risks related to Environmental, Social, and Corporate Governance (ESG)[2] factors that may have an impact on the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.

Of major importance is to have a common language and a clear definition of what is 'sustainable'. Therefore, the action plan on financing sustainable growth called for the creation of a common classification system for sustainable economic activities, or an "EU taxonomy". The Taxonomy Regulation establishes an EU-wide classification system or 'framework' that lists environmentally sustainable economic activities. The Taxonomy Regulation is an important enabler to scale up sustainable investment and to implement the European Green Deal. Significantly, by providing appropriate definitions to companies, investors and policymakers on which economic activities can be considered environmentally sustainable, it is intended to create security for investors, protect private investors from greenwashing, help companies to plan the transition, mitigate market fragmentation and eventually help shift investments where they are most needed.

The action plan of the European Commission reasonably identifies disclosure of ESG factors as a vital tool for market discipline allowing stakeholders to assess banks' environmental risks and their sustainable finance strategy. Large European companies (including many financial services firms) are already obliged to disclose information on their sustainability risks and impacts but this obligation is not sector-specific, and the meaningfulness of the information provided is mostly rather limited. This highlights the fact that clearer legal requirements are needed.

These clearer requirements were published by the European Banking Authority (EBA) as advice to the European Commission. The EBA recommends key performance indicators (KPIs) and related methodology for the disclosure by credit institutions and investment firms of information on how and to what extent their economic activities are environmentally sustainable in accordance with the Taxonomy Regulation.[3] The EBA also advises on the qualitative information that institutions should disclose and makes policy recommendations, with a view to facilitating transparency and disclosure by institutions.

The main KPI which the EBA proposes is a "green asset ratio" (GAR). The GAR will identify the extent to which the financing activities of institutions are associated with economic activities aligned with the Taxonomy Regulation, the Paris Agreement, and the EU's commitment to adopt the United Nations (UNs) 2030 Sustainable Development Goals.

According to the proposal of the EBA, the GAR will measure the share of the credit institution's taxonomy- aligned balance sheet exposures versus its total eligible exposures. It should cover all exposures in the banking book to financial and non-financial corporates (NFC), including small and medium-sized enterprises (SMEs), households (residential real estate, house renovation loans and motor vehicle loans only) and local governments/ municipalities(house financing), including loans and advances, debt securities, equity instruments and repossessed real estate collateral. Noting the trading book's volatile and variable nature and that its purpose is different from the banking book's, the EBA recommends that trading book exposures should be excluded from the GAR. Instead, credit institutions should publish separate KPIs on their trading portfolio, but also on their fee and commissions income, and off-balance sheet exposures.

The new disclosure requirements are to be applied annually in the first year, i.e., for the first time on the reporting date of 31 December 2022, and thereafter on a semi-annual basis.

As two thirds of the European economy is financed by banks, it plays a crucial role in supporting the transition towards a sustainable Europe. The EU has taken major steps over a number of years to build a sustainable financial system. Strengthening the collaboration between the private and the public sector will be crucial to deliver on the aims of the EU climate targets. As ESG factors are (becoming) economically material, especially in the long term, it is indeed important for the finance industry to integrate them in investment decisions to better manage risk and generate sustainable, long-term returns.

[1] The European Commission (EC) is the executive branch of the European Union, responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU.

[2] Environmental, Social, and Corporate Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business.

[3] https://www.eba.europa.eu/eba-advises-commission-kpis-transparency-institutions%E2%80%99-environmentally-sustainable-activities

Housing Finance in LA&C

By Claudia Magalhães Eloy

The labour market crisis in LAC and possible impacts on housing finance systems

The labour market situation is highly critical in LAC as highlighted in a recent ILO report (data from 2020)[1]:

- More than 26 million people have lost their jobs;
- The average employment-to-population ratio reached a historic low of 51.7%;
- Working-hour losses in the region amounted to 16.2%, almost twice the loss globally (8.8%) and approximately four times greater than during the 2009 global financial crisis[2];
- Departures from the labour force were unprecedented: the labour force participation rate declined by 9% points (pp) between the first and second quarters of 2020.

The effects of the crisis have been amplified by two dimensions characteristic of the region. First, the dependence of local economies on "contact-intensive sectors" such as tourism and services has left the region especially vulnerable to the Covid-19 restrictions. According to The Economist, across LAC, "jobs in industries such as restaurants, shops or public transport account for 43% of total employment, compared with 30% in emerging markets as a whole"[3].

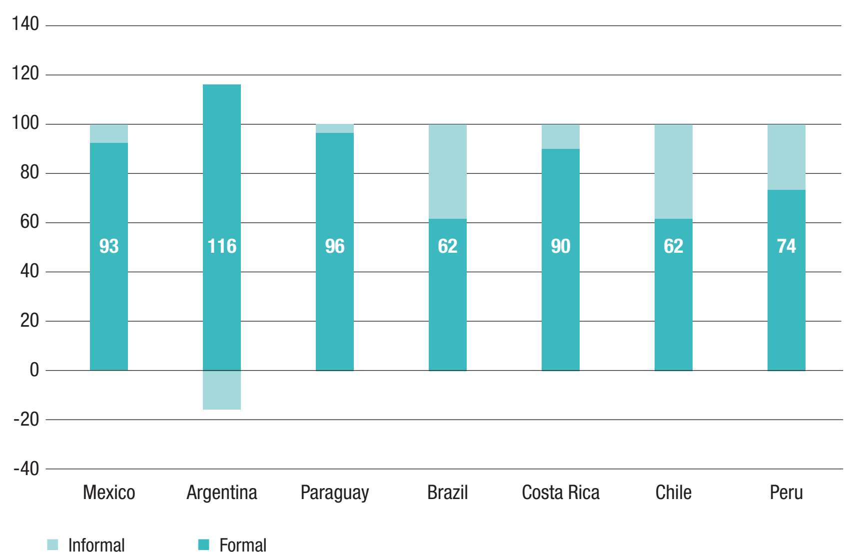
Secondly, and certainly no less important, the structural characteristics of the labour market across LAC, as observed by the ILO (2021): "high labour informality, productivity lags, low labour income, significant wage gaps and weaknesses in healthcare and social protection systems in terms of coverage and adequacy of benefits".

Employment and the conditions of the employed across the region are key to foreseeing trends of local housing finance systems going forward. Job market dynamics impact on income and payment capacity of families, thus determining their debt service coverage's ability. Instability of income and difficulties in qualifying for loans were already among the main barriers to access housing.

It must be noted that since the Global Financial Crisis, underwriting credit standards have (justifiably) become stricter. Underwriting is a crucial aspect of the loan process and measuring variability in the borrower's income is part of income verification[4]. Both formal and informal employment contracted sharply in LAC during the first semester of 2020, the latter with greater intensity than the former. The recovery seen during the 2nd semester of last year was mainly driven by the growth of informality: over 60% of the total increase in employment (ILO, 2021), with significant variations amongst countries as the next figure shows.

> "This trend suggests that the increase in the activity level did not necessarily require new formal workers because enterprises managed to step up production by increasing the hours worked by suspended and furloughed employees who had returned to work. Additionally, own-account workers and employers of small enterprises, many of them informal, were able to resume activities that had been interrupted by the restrictions. The increase in the number of informal wage positions can also be associated, to some extent, with the reopening of small businesses (whose employees are largely informal), as well as with a transition from formal to informal employment." (ILO, 2021, p10).

FIGURE Contribution of formal and informal employment to total employment recovery in the second half of 2020



Source: ILO, based on household and employment surveys

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[1] Roxana Maurizio. The employment crisis in the pandemic: Towards a human-centred job recovery. ILO Technical Note, April 2021. https://www.ilo.org/americas/publicaciones/WCMS_779114/lang--es/index.htm.

[2] "In part, employment support measures implemented by the countries of the region attenuated job losses and allowed employment relationships to be maintained with reduced or even no work hours".

[3] The Economist. Why Latin America's economy has been so badly hurt by covid-19. May 15th, 2021. https://www.economist.com/the-americas/2021/01/01/where-the-pandemic-clobbered-economies-hardest

[4] Financial Stability Board. FSB Principles for Sound Residential Mortgage Underwriting Practices. April, 2012. https://www.fsb.org/wp-content/uploads/r_120418.pdf?page_moved=1

Informality is an important barrier to access mortgage products notably amongst low-income segments. Although innovative solutions to service informal households are popping up with advances in technology, artificial intelligence, and the growth of fintechs (a very interesting case, from Indonesia, was, by the way, the subject of an article in this Journal's Autumn 2020 edition)[5], many hurdles remain. In Mexico, for example, the region's second largest economy, the two major funds for housing finance – Infonavit and Fovissste – that account for around 63.1% of mortgage loans (2020)[6] do not serve informal workers. Thus, deteriorated labour markets could significantly dampen demand for housing: for those who have not yet a foot on the housing ladder, it affects their ability to qualify for home loans, reducing solvable demand.

Income generated from labour accounts for some 80% of total household income in the region and the contraction in employment and hours worked has impoverished families and increased inequality. The ILO (2021, p.10) study offers some examples:

- In Metropolitan Lima, average nominal earnings fell by 12.4% during October-December 2020 compared to the same quarter of 2019, which combined with the reduction in employment, shrank the total wage bill in that period by 25%.
- In Argentina, total labour income fell in real terms by 10% between the fourth quarter of 2019 and the third quarter of 2020. This decline was greater for informal wage earners and for non-professional own-account workers: -36% and -23%, respectively.
- In Costa Rica total labour income fell by 20% between 2019 and 2020.

Additional financial hardship now causes low-to-moderate income families to consume their savings, leaving insufficient reserves to afford required down payments. In such a scenario, prudent LTV ratios tend to become another significant barrier to mortgage access as many families' savings have been consumed during the crisis periods. The inability to come up with a deposit prevents families from accessing mortgages, also causing a reduction in effective demand. The consequent slowdown in the housing market, an industry that can offer significant contribution to job creation, leads to a negative feedback loop within the labour market.

For those who are already mortgagors, this 'precarious labour market scenario' negatively influences their capacity to fully repay their loans. As discussed in this Column in the Spring 2021 edition, families struggling with the economic fall-out from the virus are already facing or about to face the end of mortgage holidays, with the recommencement of installments plus, in many instances, depending upon the forbearance terms, months' worth of previously deferred installments. The implicit risks to housing finance markets are hard to determine thus far in the absence of data that shows how many of those who have suffered job or income losses also hold mortgage debt. In countries that have experienced recent down-market expansions, such as Brazil and Colombia, this should be ringing alarm bells. The average delinquency rate at Mexico's Infonavit grew from 13.8% to 15.4% from March to October last year. Full recourse against borrowers and effective processes to foreclose on delinquent loans help to keep mortgage portfolios afloat at this juncture.

Moving from a finance system's risk perspective to a socioeconomic one, policymakers across the region should, more than ever, pay close attention to possible effects on borrowers: undue hardship, over-indebtedness and in more extreme cases, foreclosure, and eviction.

Another relevant aspect is the positive relationship between house price dynamics and employment. That is, if employment rises, house prices tend to increase, whereas when unemployment rises, house prices tend to fall, and that affects the collateral of mortgage portfolios[7]. However, there is evidence of an opposite trend, when monetary response in depressed economies lowers the cash rate: cheaper cost of debt allows for house price increases. Yet, this only favours those who can still afford to buy. Evidence from Australia suggests that when unemployment is too widespread, the effect of low interest rates in stimulating housing market conditions weakens[8]. Appraisal of collateral and the assessment of borrowers' ability to repay should not assume that properties will appreciate in value (in this scenario, or ever, as a matter of fact), nor be based upon expected improvements in borrowers' payment capacity, as the recovery of the region's job markets is difficult to predict.

The impact of spillovers from the crisis in housing finance systems may restrict credit supply and compromise the ability of moderate and low-income families to contract mortgages even as LAC economies start recovering. Nonetheless, if the labour market crisis is mainly concentrated amongst families who were already excluded from housing finance systems and formal housing markets, it may have little effect, at least in the short term. An illustrative case would be Brazil:

In Brazil, so far, the economic crisis following the outbreak of Covid-19 has pushed millions into poverty or extreme poverty. Yet, the BEM Program[9], an emergency program designed to maintain jobs and incomes, has contributed to preserving formal jobs, mitigating the effects of the crisis on the formal labour market. The informal market, on the other hand, has exhibited a drop in the occupation rate of 8.2% (affecting 3.15 million workers, according to PNAD-IBGE), from March 2020 to March 2021. The total labour force participation rate declined by 4.2 p.p. between the 1st trimester of 2020 and the same period of 2021 (PNAD-IBGE). As to the housing and finance markets: average interest rates are down to a historic low of 7.5%, as of February 2021 (SFH, Banco Central), the supply of mortgages through the savings and loans system[10] has increased by nearly 113% (a 137% increase in the number of units financed) in the 1st quarter of 2021 compared to the previous year period (Abecip)[11] and house sales have grown by 27% (CBIC Dados)[12] during the

[5] The mentioned article "Affordable Housing Finance for Informal Workers", by Widya Estiningrum, Achwal Farisi, Wahyu Lubis and Yesi Septiani, was the winner of the 2020 Call for Papers on "Partnerships in Affordable Housing".

[6] Banco de Mexico, Reporte de Estabilidad Financiera, December 2020, p.51. https://www.banxico.org.mx/publicaciones-y-prensa/reportes-sobre-el-sistema-financiero/%7BBB59C14C-03BE-58EE-6E0F-7D3EB65D52D5%7D.pdf

[7] https://www.lloydsbankinggroup.com/assets/media/press-releases/lloyds-bank/2016/160502-unemployment-and-house-prices-final.pdf

[8] https://www.theurbandeveloper.com/articles/what-does-the-latest-employment-data-mean-for-the-housing-market

[9] Enacted by the Provisional Measure #936, the Programa Emergencial de Manutenção do Emprego e da Renda temporarily subsidises furloughed formal labour contracts, based on the average value of the previous 3 months' wages up to BRL 1.911,84 monthly, for a period of up to 4 months. It imposes that the period spent under coverage be granted in stability of work after the benefit.

[10] The Brazilian SBPE. Despite lower than market rates paid to deposits, the stock of "poupança" has reached its highest historic level: over BRL 782 billion.

[11] https://www.abecip.org.br/admin/assets/uploads/anexos/data-abecip-2021-03.pdf

[12] When compared to the last quarter of 2020, sales actually dropped by 12%.

same period, while house prices have also increased nationwide by 8.45% in the last 12 months ending March 2021 (IGMI-R, Abecip). Considering just the traditional Housing Finance System (SFH), mortgage credit to GDP ratio has reached its highest level of 10%. These positive numbers are, nonetheless, concentrated regionally, with the state of São Paulo, as usual, exhibiting the best performance across the board, contrasting with the Northeastern region: in its turn, less industrial, much more reliant on services and tourism, already characterized by higher poverty and informality rates. Moreover, these positive numbers cannot mask the fact that overall, the deficit and the housing situation for families in the lower income deciles tend to worsen, as many cannot even maintain rental payments in substandard informal units. Finally, there is much recent concern regarding costs. High inflation of the price of construction materials, notably cement and steel, and how they may counterbalance the more accessible credit conditions (lower interest rates)[13]. In heated markets like São Paulo, construction labour costs are also accelerating. Those cost pressures combined are confronted with no improvements on overall affordability, leaving little room for more price increases and amplifying the risks of purchase cancellations and of slowing down the sector's current growth rates.

One last note: as this article was about to be published, CAIXA (the state housing bank and biggest player on the Brazilian mortgage market) just announced a new round of forbearance measures for its housing credit portfolio. Installments can be temporarily reduced (by 25% up to 75%) or deferred for another 6 months, upon request from mortgagors through the bank app. Reduced and deferred payments will be incorporated into the balance of the debt.

It must be noted that the unemployment rate does not portray the full extent of labour market conditions, because it only takes into account people who are actively looking for work. Businesses whose operations have shrunk or have found ways to utilize remote platforms through the crisis may not need to re-hire as many employees. A global transformation of work is expected, as the response to the pandemic accelerates automation and digitalization, creating a mismatch between workers' skills and work demand, notably in a region characterized by low-skilled workers. Finally, in such a surplus labour supply scenario, pay rates tend to diminish. These factors may render a slower recovery of the labour market than the overall economic recovery across the region.

Additionally, socioeconomic dynamics are still very erratic, impacted by ongoing waves of infection and the pace of vaccination rates (share of the total population that has received at least one vaccine dose) that vary from as high as 62% in the Cayman Islands to as little as over 1% in Venezuela[14], adding much uncertainty to the region's economies, as to the breadth of the present crisis. The ILO (2021) observes that the region had already faced a difficult time in expanding the supply of jobs and in generating wage employment relative to the labour supply, notably considering the size of the low-skilled labour force. Now, as the pandemic worsens and increases the disruption, digitalization and automation processes already set in motion, the ILO speculates about further impacts on LAC's labour market.

One last important dimension: the negative effects on labour markets have been unequal in terms of gender, hitting women the hardest. According to the ILO (2021), the fall in employment rates was 3 pp greater for women: 7%, compared to 4% amongst men (end of 2020 compared to the first quarter of that year). As mentioned previously, informal jobs shrank even more than formal jobs across this region where informality affects one in two women. The decline in the participation of women in the labour force, relative to that of men, reverses the trend of women's growing presence in the labour market. There is evidence, therefore that the effects of the pandemic are widening the gender gap with worrisome social consequences. Gender issues in the LAC housing finance markets will be our bone of contention in the next issue of this journal. Stay tuned!

[13] The average LTV stood at 68% (February 2021), higher than the 66% rate found in 2020 and 2019, but lower than the rates found back in 2014, of around 73%, 74%.

[14] As of May 19th, 2021 – Chile (49,5%; Uruguay 42%; Brazil and Argentina around 18%; Mexico and Panama, 13%; Colombia and Suriname, a little over 9%; Bolivia, 8%; Ecuador, Cuba and Peru, between 6% and 7%; Jamaica, 5%; Paraguay, around 3% and Guatemala, nearly 2%. https://ourworldindata.org/covid-vaccinations

Two house price inflations, two central banks

↳ By Alex J. Pollock

In 2021, North America is the home of runaway house price inflation. In both the U.S. and Canada, house prices are far over their Bubble peaks of the first decade of the 2000s and they continue to rise rapidly. In both countries, they are increasing at double-digit annual rates: over 15% in the U.S., according to the AEI Housing Center's current estimate, and 11.9% in Canada, according to Teranet. They are journalistically described by terms like "surging," "soaring," and "red-hot."

The Case-Shiller national index of U.S. house prices is at about 243, compared to its 2006 Bubble peak of 184. That puts it 32% higher than at the top of the Bubble. "Record-high home prices are happening across nearly all markets, big and small," says the National Association of Realtors.

In Canada, the comparison is even more striking. The Teranet Canadian composite house price index is at about 261, almost double its 2008 peak of 133.

Anecdotes match the numbers. "Brokers describe the current market as frenzied," the Wall Street Journal reported. "Many homes receive multiple offers within days." One Texas broker "said she has never seen a market like this before. In some cases, buyers are offering $100,000 above asking prices. …It's just crazy, there's no other word to describe it."

One Canadian commentator wrote recently, "A sellers' market prevails…I was surprised to learn that bidding wars…were now common in my hometown, Windsor, Ontario, for sales of even relatively modest houses." Windsor is a modest industrial city, across the river from Detroit, Michigan.

This house price inflation of both countries, far outrunning the growth of wages, is obviously not sustainable, but it has already gone on longer and to higher prices than many thought possible, including me. As one of my economist friends said recently, "It can't go on, but it does."

Very appropriately, in my view, the Bank of Canada in February discussed "excess exuberance" in Canada's housing market. In April, it added that this market shows "signs of extrapolative expectations and speculative behavior" – strong language for a central bank to use. The term "excess exuberance" is obviously a variation on the "irrational exuberance" made famous by then-Federal Reserve Chairman Alan Greenspan in 1996, warning about the dot.com stock bubble of the day. That bubble pushed prices up for three more years after Greenspan's warning, but did ultimately implode. How long will the Canadian and U.S. house price inflations continue, and how will they end?

The Federal Reserve is far less direct than the pointed comments of the Bank of Canada, but it also discusses house prices, albeit with much blander language (or "Fedspeak," as we say in the U.S.). In its updated Financial Stability Report of May 2021, the Fed observes about asset prices in general, "Prices of risky assets have risen further" and "Looking ahead, asset prices may be vulnerable to significant declines." True, and it applies among other things to house prices. A number of my financial friends were particularly amused that this report never mentions the Fed's own continuing role in stoking the inflation of asset prices and the systemic risk they represent.

Specifically on housing, the Fed says, "House price growth continued to increase, and valuations appear high." Further, "Low levels of interest rates have likely supported robust housing demand." Yes, except that we need to change that "likely" to "without question." Implied in this statement, although not made explicit, is how vulnerable house prices, which depend on financing with high leverage, are to interest rates rising from their current historic lows of 3% or so.

What might a more normal interest rate be for the typical U.S. 30-year, fixed rate, freely prepayable mortgage? We can guess that if inflation were at 2%, and the real 10-year Treasury yield at inflation plus 1.5%, and the mortgage rate at 1.5% over the 10-year Treasury, that suggests a mortgage rate in the 5% range. An increase in U.S. mortgage interest rates to this level would doubtless entail major house price reductions. (Of course, general inflation going forward may be higher, perhaps a lot higher, than 2%.)

The single most remarkable factor in the U.S. housing finance system at this point is that the central bank has become a massive investor in long-term mortgages. This started as a radical, emergency action in 2008 and ballooned again as an emergency action in 2020, but continues to expand – for how long? As of May 26, 2021, the Fed owned over $2.2 trillion in mortgages at face value, or over 20% of the whole national market. It also reported $349 billion of total unamortized premiums on its books. Assuming half of that is for mortgages, the Fed's total investment in mortgages is $2.4 trillion. It is by far the biggest savings and loan in the world and getting constantly bigger.

In instructive contrast, the Bank of Canada stopped buying mortgages last year, in October 2020. But the Fed keeps buying, continuing to increase its mortgage portfolio at the rate of $40 billion a month, or $480 billion a year. The central bank thus continues to stimulate and subsidize a market already experiencing a buying frenzy and runaway price inflation – a fascinating, and some would say, astonishing, dynamic in unorthodox housing finance and central banking. The Federal Reserve, like the Bank of Canada, should stop buying mortgages.

Examining the Biden Administration's approach to racial disparities in housing wealth

By Joseph Fraker

1. Introduction

In a previous article I wrote for Housing Finance International entitled: "An exploration of black housing and wealth inequality in the suburbs: A call to action," I examined the causes behind the present home value gap between black neighborhoods and similarly situated white neighborhoods in the United States[1]. The article examined the past federal policies like redlining, urban renewal, the interstate highway system, as well things like local zoning that have all led to neighborhood segregation and the disparities we see in the home equity market today. The article also attempted to quantify present home equity disparities between black and white neighborhoods and to show how these differences are likely associated with past policies. The research looked at the Atlanta Metropolitan area in the state of Georgia and divided neighborhoods by level of segregation and income levels for the analysis.

The research showed that similar homes in neighborhoods with the same overall income levels varied widely based on racial makeup, with homes in neighborhoods with over 80% black residents having home values over $50,000 less than similarly situated white neighborhoods. Without the equalizing effect of having the same incomes across the neighborhoods, the disparities expanded, with black neighborhoods having about three times less home equity than white neighborhoods. The article also noted that these disparities are commonplace in most metropolitan areas across the country. Places like Washington D.C., for example, see a discrepancy of roughly $84,000 between black and white neighborhoods with similar socioeconomic conditions and Detroit sees a difference of about $41,000.

As the power in Washington D.C. has shifted to the new administration, steps are being taken to address concerns around housing discrimination. The Biden Administration has reversed two Trump Executive Actions in his first days in office and has taken the significant step of acknowledging the federal government's participation in discriminatory housing policies that have led to present inequities in housing for black Americans.

This article will examine the Biden Administration's policies for addressing housing wealth inequities, and specifically, housing devaluation in black neighborhoods. The article looks at the Biden Administrations policy proposals in the context of broader research on this topic to study how the administration's proposals reflect the latest research.

In my previous article for HFI, I discussed the study by the Brooking's Institution, which noted that homes in metropolitan areas are valued at roughly $48,000 less in black neighborhoods than in white ones with similar socio-economic and neighborhood characteristics (Harshbarger et al 2018). The Biden administration has cited this study in the context of his policy proposals, highlighting the need for appraisal reform and more fair lending practices. The administration has additional proposals for increasing black wealth that are not associated with housing.

In the article I argue the need for the types of reforms Biden has pledged, including appraisal and lending reforms. I also discuss additional actions the administration can take to ensure a fairer housing market going forward. The article is broken down as follows: the first two sections provide context for the housing market and appraisal and lending industries in relation to home devaluations in black neighborhoods. This is followed by a discussion on policy approaches for reversing discrimination and bias.

In the article, I note that adequately addressing this issue will take more than making reforms to unfair appraisals as the low appraisals are, at least in part, due to suppressed market demand in these areas (Passy 2020). Instead, it will take prolonged investment in black communities and, perhaps, a fundamental market intervention that accounts for the suppressed market. They will also take explicitly anti-racist actions. These actions would be significant, but they are commensurate the significance of the problem.

2. Background on the housing market

The Center for American Progress came out with a study in 2019 looking at trends in real estate and home mortgage loans for black borrowers and in black neighborhoods. The study notes that blacks of all income levels tend to buy homes in locations where black residents represent most of the population (Zonta 2019). The study differentiates high income black borrowers from black borrowers generally, to show that these higher earners still buy homes within the majority black areas that are less expensive, despite being able to afford other locations (Zonta 2019) (Capatosto et al 2017). This is backed up by similar research from (Goetz 2018) and (Farley & Krysan 2002). In addition, the study shows that black borrowers with moderate incomes purchased homes that depreciated between 2006 and 2017, while white borrowers purchased homes that increased by three percent. This same study noted that black borrowers in the metropolitan areas

[1] Article published in HFI Winter 2020 issue.

with the greatest black populations saw a greater share of mortgage loans going to white borrowers after factoring for income (Zonta 2019).

Research by Akbar et al. (2019) shows that within one decade of a block transitioning from predominately white to majority black in Chicago, Philadelphia and Detroit, home values dropped by 50%. Moreover, the researchers state that white homeowners, on average, would have sold their homes for higher values in the beginning of the transitional period. As a result, black households would have faced both higher purchasing costs and subsequent lower home values. The authors note that this is a significant factor in the wealth gap (Akbar et al 2019).

Research by (Flippin 2004) shows that home values in minority neighborhoods appreciate at much lower rates than homes in white neighborhoods after controlling for economic factors. Homes in neighborhoods where the black population increased by ten percent saw home values decline by twelve percent compared with similar homes in neighborhoods with no change in the black population. These differences in the market are driven by past and present forms of discriminatory housing and lending policies, as I documented in my last article for HFI. They are also a function of conscious and unconscious biases (Capatosto et al 2017). These biases have led the housing and lending industry and home-buying consumers, to link race and risk helping to perpetuate segregation and inequality (Capatosto et al 2017).

In addition to the market being suppressed in black neighborhoods, studies looking at the appraisal process show that bias in appraisals may be another factor. There is also a feedback loop between low appraisals leading to reduced lending, which leads to reduced investment and value for communities, perpetuating the cycle anew (Howell and Korver-Glenn 2018). These links between market value and appraised values are important to note as while appraised values are mostly a reflection of the market, they are not the entire story. The following section will look at housing appraisals and lending more specifically.

3. Background on the appraisal process

Appraised value of a home should reflect the market value of a home (Appraisal Institute 2013). The appraisal process outlined by the Uniform Standards of Professional Appraisal Practices, established in 1989, Act outlines sales comparison as one of the three components for determining value. This process involves analyzing recent sales of comparable nearby homes and is one of three techniques appraisers can use. The others include a cost model that looks at the "cost of reproducing or replacing an existing building" and an income stabilization model that looks at a properties potential to generate income (Appraisal Institute 2013). Appraised values attempt to account for individual buyer preferences, which may value a home higher or lower than its actual market value. In essence, the appraised value is supposed to be a more accurate reflection of the market than any one individual action in the homebuying process (Romano 2004).

Some have taken issue with the appraisal process for its contribution to structural inequality. Howell and Korver-Glenn (2018) note that the process of valuation depends on the comparable price model, which is left to interpretation by individual appraisers or agencies (Howell and Korver-Glenn 2018). In interviews the authors conducted, appraisers noted that ingrained racial stereotypes still exist, and that these conscious and unconscious assumptions have an impact on individual appraisers in comparisons selection. Nonetheless, appraisers are required to assess the value of a home based on market conditions. As such, low appraisals of homes in black neighborhoods should be the result of the market conditions in those locations bringing down sale prices and not low appraisals in and of themselves.

Aside from simply determining the worth of a home, however, appraisals are used for determining loan eligibility and financing. It is in this process where a market that values black real estate lower than comparable white real estate can entrench existing patterns instead of actively trying to make the market fairer.

Research by LaCour, Little and Green (1998) shows that appraisals used for financing of homes where the market values are equal to the appraised values, the probability of loan rejection increases by 0.6 percent. Homes where the appraised value was lower than the offer price were 1.8% more likely to be rejected in the study (LaCour, Little, Green 1998). Not only are loans more likely to be rejected, they are also more likely to be on less favorable terms and in lower amounts (Neri 2019). Appraisals and tax assessments are also used by jurisdictions to determine property taxes. As a result, lower assessments mean less funding for schools and other community investments that could increase market values in neighborhoods.

Present low appraisals in black neighborhoods are likely not the cause of lower market value of homes in black neighborhoods. As noted above, however, there is a certain amount of feedback between lower appraisals and lower market values, as lower appraisals lead to less lending and less investment. As a result, while appraisals may not be the primary driver of home devaluations in black neighborhoods, they are an area ripe for potential reforms as appraisals are a mechanism for which government and institutions can have an impact on the market. This suggests that affirmative anti-racist policies, in the mold of the affirmatively furthering fair housing rule, would be a step towards a fairer market. The Biden Administration's actions to-date suggest that his administration is looking at appraisals as one way to counteract the pernicious problem of lower home values in black neighborhoods, but they have not yet provided specific solutions.

4. Policy proposals

In the Biden Administration's first months, the federal government has affirmed the government's role in addressing issues of systemic racism and inequality. The administration has outlined a variety of policies that could begin to mitigate or reverse some of the most pernicious drivers of structural inequality, including policies aimed at increasing housing wealth for black households.

Initial actions taken by the Biden Administration include the reinstatement of the Affirmatively Furthering Fair Housing rule. The rule, first implemented under the Obama Administration and then rescinded by the Trump Administration, requires HUD and state and local governments to actively pursue policies of desegregation in accordance with the initial mandate of the Fair Housing Act of 1968 ("Trump Administration," 2020). Department of Housing and Urban Development Secretary, Matthew Ammon, stated in the executive action announcement that "racially discriminatory housing practices and policies have kept communities of color from accessing safe, high-quality housing and the chance to build wealth that comes through homeownership" and that the executive action is a "vital step toward redressing the federal government's legacy of housing discrimination" (Ammon 2021). Secretary Ammon's focus on seeing housing wealth

equity as an outcome is a sign that this will be a focus of the administration.

The Affirmatively Furthering Fair Housing Rule (AFFH), first implemented under the Obama Administration, has seen some success in its brief term. According to a study by Steil and Kelly (2017), the rule has led to jurisdictions including more place-based and mobility goals as well as more measurable policy objectives in the Assessments of Fair Housing reports (AFH) that local governments are required to complete every three to five years. The study indicated that this is especially significant given the lack of enforcement of the rule so far. In addition, the authors found that jurisdictions with more segregation had a greater focus in their AFH's on fair housing and community development (Steil and Kelly 2017). By re-implementing this AFFH rule, the Biden Administration is addressing both community development and fair housing goals, both of which will increase opportunities for black homeownership and wealth building.

Biden has also highlighted the need for reforms to the credit and lending industry and has proposed creating a Public Credit Reporting Agency and other measures. Research by (Choi and McCargo 2020) shows that lack of credit availability puts significant limitations on black households' ability to be homeowners, and that as of 2018, the number of blacks without a credit card was 32% compared with just 15% of whites (Choi and McCargo 2020). In addition, FICO scores for black borrowers are 125 points lower than for white borrowers, and Debt to Income (DTI) ratios for black homeowners are higher than for white homeowners (Choi and McCargo 2020). The researchers note that black households have less access to money for down payments, which stems from reduced access to family funds or inheritance, and that these present conditions were entrenched after the 2008 Financial Crisis (Choi et al 2020). These financial constraints all limit access to the homeownership market for blacks by reducing the likelihood of receiving loans or by making borrowing prohibitively expensive.

Black borrowers are also impacted by high Loan to Value ratios (LTV-ratio). These higher ratios result in more expensive mortgages on properties that are of lesser value and may appreciate at lower rates (Choi and McCargo 2020). This is one area where low appraisals would directly impact the terms of mortgages and interest rates. One solution, according to (Choi and McCargo 2020), is to include "fair housing and antiracist testing" in the process of valuation and in the technology or methods used (Choi and McCargo 2020). Research by The Ohio State University's Kirwan Institute backs this up. In their discussion on the impact of Negative Information Effects (NIE) on lack of comparison models for accurately appraising properties in Black neighborhoods, they state that NIE's lead to lower sales activity and lower valuations (Capatosto et al 2017). These lower appraisals, even if they accurately reflect the market, push more black households into Federal Housing Administration (FHA) loans at higher rates and that take longer than conventional loans to pay off (Choi and McCargo 2020). What this research indicates is that while appraisals may reflect the market by-in-large, there is a role for home valuation reform to play in addressing some of these concerns. If valuations took comparison models from a metropolitan area, for example, it could mitigate this issue. Increased risk would need to be shouldered by a yet-to-be-determined mechanism, agency, or partnership. On a similar note, any increases in tax assessments would need to be factored in, to not price individual homeowners out of their homes. Preventing displacement will be critical in any proposals to increase black housing wealth.

Biden is also proposing down payment assistance to increase homeownership opportunities that would likely benefit black homebuyers. This would include up to $15,000 for the First Down Payment Tax Credit, which would be provided to qualified home buyers at closing ("The Biden Plan," 2021). Down payment assistance would be especially helpful for individuals without access to generational wealth, including black Americans for whom this is a particular problem. Careful consideration would be needed for determining the right qualifications for the credit. If the down payment assistance is dependent on a threshold credit score or Loan-to-Value ratio (LTV-ratio), it could reduce the benefit for black homebuyers and for those looking to buy in black neighborhoods.

In addition, the Biden Administration is proposing a housing "Bill of Rights" that would protect home buyers from certain predatory loans and prevent foreclosures when a homebuyer is making a loan modification ("The Biden Plan," 2021). He is also proposing an affordable housing fund of $100 Billion to be part of the existing HOME program for housing and energy efficiency upgrades. The Administration would also incentivize construction in previously inaccessible neighborhoods by making some of the funding contingent on local governments implementing inclusionary zoning.

Other measures Biden has called for include expanding the Community Reinvestment Act to ensure that mortgage lending expands into areas where lending is currently more difficult ("The Biden Plan," 2021). The administration intends to seek out minority businesses for home repair and construction projects using federal dollars. They are also proposing to expand the New Markets Tax Credit program, which leverages private funding for community development projects, and to expand funding for the Low Income Housing Tax Credit (LIHTC), which gives tax credits for the expansion of quality rental housing in distressed neighborhoods ("The Biden Plan," 2021). These community development measures are not new, but the increase in spending will allow for greater impact.

Another measure that the Biden Administration states it will support is the Neighborhood Home Investment Act. This program would provide incentives for the rehabilitation of homeowner occupied housing in distressed neighborhoods by financing the gap between the cost of home rehabilitation and the sale value of a home. With low home values in many black neighborhoods, this credit would make financing more readily available where traditional forms of lending may not be and could increase value in these communities ("Neighborhood Home," 2021).

Other policy ideas include the Economic Justice Act, which would provide funding for governments to take down highways that were built to divide communities by race and class and still have that effect today (Reyes 2021). This could bridge existing divides in the urban landscape and would be a way to specifically redress this injustice. Another proposal is non-appraisal-based lending, which can open low-value markets to lending opportunities, or lending that takes other forms of creditworthiness, like utility bills, into account (Capatosto et al 2017).

5. Discussion

Howell and Korver-Glenn (2020) note that "fully addressing racism in real estate will require reshaping the very foundations of the U.S. housing market" (Howell & Korver-Glenn 2020). The thoughts expressed in this discussion are an attempt to get those discussions going and to think creatively about the path forward.

In a paper by the Ohio University's Kirwin Insitute entitled *"CHALLENGING RACE AS RISK: How Implicit Bias undermines housing*

opportunity in America – and what we can do about it," the authors state that "policy and practice needs to strive not just for changing systems but changing people's hearts and minds" (Capatosto et al 2017). They also state that our biases lead us to seek housing in neighborhoods where residents are like us, leading to the conclusion that our biases are impacting the market. This is particularly true for white home buyers according to Krysan (2009) and it is backed up by other social science literature from (Goetz 2018) and (Farley & Krysan 2002). Black homebuyers show a stronger preference for integration (Krysan & Farley 2002).

What this indicates is that until the market, which is partly a reflection of societal behaviors, values black property as highly as it does white property, the housing wealth gap will continue, until behaviors change or it is corrected for. This discrepancy is also perpetuated by systems and governance that reinforce the discrepancy without mechanisms to counteract these forces. This will take actively anti-racist or anti-bias reforms to institutions and market players.

This does not suggest that appraisal reform is not necessary. To the contrary, the appraisal industry can contribute to a fairer market instead of perpetuating the existing one. Indeed, the existing one has been created by generations of policies that have favored white suburban neighborhoods. Seeing the relationship between past and present policies and the housing marketplace could help in formulating solutions to adequately address the issue, one where more drastic anti-racist actions - in the spirit of the Affirmatively Furthering Fair Housing Rule – could help mold a path forward.

In his book *Toward Freedom: The Case Against Race Reductionism*, Touré Reed makes a convincing case that the best policies for addressing systemic racism are universal programs aimed at reducing inequality overall. This approach would benefit blacks disproportionately because blacks are lower on most economic measures. Given the significance of housing discrimination in the creation of the current housing wealth disparities and our society's collective participation in its perpetuation, race-consciousness may be appropriate for this problem, especially considering that racial bias in housing is measurable.

During the Democratic Primary for President in 2020, multiple candidates proposed policies to redress housing discrimination that would also have implications for housing wealth. One solution, proposed by Senator Elizabeth Warren, was the American Housing and Economic Mobility Act, which would provide down payment assistance to eligible residents in previously low-income and previously redlined neighborhoods. This proposal would help build wealth in certain distressed communities. It would not, however, provide compensation to homeowners that have lost out on generations of wealth and it would not account for the many middle class suburban black neighborhoods, like those found in Prince George's County, Maryland and DeKalb County, Georgia, where present disparities in housing wealth are also significant.

As we can see with these proposals, there are place-specific policies, integration and fair housing proposals, and reforms to the lending and appraisal industries. Taken together, they should make homeownership more achievable and should help black homeowners achieve greater housing wealth. While the proposals above are significant, none of them offer a permanent solution to the housing market that provides investment security to homeowners in neighborhoods where housing wealth is low, and appreciation is not commensurate with the area median.

Perhaps another way of addressing this problem could be a mix of appraisal reform that uses comparable homes from a metropolitan area in valuations, coupled with a tax credit upon the sale of a home located in areas where the sale value is lower than the appraised value. In a solution such as this, appraised values would be higher than sales values in devalued neighborhoods. The gap between the two could be refunded to the homeowner upon sale of the home. This would be a fairly direct intervention in the market but could be an effective means for reducing the value gap. This, of course, would not offer compensation to previous homeowners in black neighborhoods that would have suffered from this same devaluation. If the policy could be retroactively applied to homeowners that have lost out on the wealth of their homes, that would need to be examined To-date, the Biden Administration has not proposed a policy solution to this problem such as the one put forward here and there is no indication that such a solution is forthcoming. As policymakers more thoroughly look for ways to address the racial wealth gap, though, it is important that housing equity disparities are forefront in the policy discussion. By developing a more comprehensive approach to this issue, it could help simplify and streamline solutions to the problem, offering reassurance to the various players in the market.

6. Conclusion

To build wealth in black communities and for black homeowners, it is critical that homes in majority black neighborhoods have the same wealth and appreciation potential as homes in similar white neighborhoods. Choi & McCargo (2020) state that policies should "equalize the costs and benefits of homeownership for black households." While this is an ambitious goal, it is a necessary one. It would acknowledge the unique and important role housing plays in the lives of black Americans and could make the housing market a model for combatting systemic racism and bias.

As we discussed in this article and the previous one on housing disparities in Atlanta, increasing the homeownership rate is not enough. Increasing the homeownership rate for blacks must be coupled with the assurance that those investments will have equal opportunity for financial success. This success could be achieved through more significant community development measures, fair housing measures, or a more direct market intervention until the market functions in a way that provides equal opportunity for all.

The Biden administration has taken actions to-date that will begin to repair a fundamentally unfair housing landscape. Future policy actions, though, will need to have a firm grasp of the appraisal industry and housing market to adequately address the problem of low housing wealth in Black neighborhoods, and it is the hope that this article will add to that knowledge with its examination of both.

The ideas and policies addressed in this article do not discuss the recouping of losses associated with generations of lost back wealth in the housing market. This would take additional actions. To date, though, Biden has not proposed solutions that would provide compensation for lost housing wealth or to those kept out of the housing market altogether.

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Swiss franc mortgages: European banks are profiteering from the Polish subprime loan plight

↳ By Przemek de Skuba Skwirczynski

1. Introduction

This article's objectives are to explain the toxic nature of Swiss franc (CHF) mortgages and their significance for the Polish economy, as well as highlight the involvement of several European banks in this space over the last two decades.

2. What are the Swiss franc mortgage loans?

Banks in Poland began issuing foreign currency mortgage loans in the 1990s[1] and the peak of the sales of these products coincided with the beginning of the Great Recession in 2007 and 2008. Due to its perceived stability, which was repeatedly referred to and heavily relied upon in the complicit banks' marketing efforts, the Swiss franc became the reference currency of choice in Poland. That resulted in two types of foreign exchange (FX) mortgages on offer: loans denominated in Swiss francs (which accounted for a minority of such products); and loans that were instead merely indexed to CHF (which made up a vast majority of this market). This article deals with the bulk of the Swiss franc mortgage products and, as such, it considers the indexed structures only while leaving the denominated mortgages out of its scope. Swiss franc indexed mortgages were merely referencing CHF to establish the borrowers' total liability, converted from the Polish złotys (PLN) on the day the mortgage was advanced, as well as using the Swiss franc LIBOR as its interest rate. Despite the name, the customer would have borrowed a PLN amount to finance their property purchase but would have been paying back Swiss franc amounts fluctuating as per the prevailing CHF LIBOR (interest rate). Therefore, neither the borrower nor the developer (who would have typically been the recipient of such financing) ever witnessed any Swiss francs advanced to them by the lenders. Instead, Polish złotys would have been disbursed and transferred by the banks into their accounts. The borrowers would have nevertheless been obliged to make monthly Swiss franc repayments to their lenders or pay off the full Swiss franc liability upon selling the mortgaged property. As specified by the World Bank already in 2010, the lender was purely responsible for shouldering the usual credit and liquidity risks, when the borrowers bore all of the FX, interest rate and lack of transparency risks, whose extent they were unaware of. Indeed, the banks notoriously underplayed the FX risk by portraying it as relating to the monthly repayments rather than impacting their clients' total liability. This latter economic feature of Swiss franc mortgages was typically not made expressly clear to customers upon their taking out these products[2,3], hence effectively making their 1.83 million customers[4] victims of a large-scale misselling operation, likely the biggest in Poland's modern history, which is very much at the crux of these financial products' toxicity. As outlined in more detail later in this article, the mortgage agreements pertaining to these financial products contain specific inappropriate clauses, whereas the mortgages themselves are actually structured as FX options or, to put it more factually correctly, uncapped bets which bear the characteristics of a complex financial instrument far more suitable for highly sophisticated risk-seeking clientele as opposed to the typical risk-averse mortgage

FIGURE 1 CHFPLN Exchange Rate

Source: Investing.com https://uk.investing.com/currencies/chf-pln-historical-data

[1] P. 17 – http://documents1.worldbank.org/curated/en/383871468336712836/pdf/693820RSC0P1130tgage0loans0Jan02011.pdf

[2] P. 14 – http://documents1.worldbank.org/curated/en/383871468336712836/pdf/693820RSC0P1130tgage0loans0Jan02011.pdf

[3] P.18/20 – https://www.europarl.europa.eu/RegData/etudes/STUD/2018/618995/IPOL_STU(2018)618995_EN.pdf

customers these structured financial products were sold to. These mortgages were initially perceived as quite competitive, as, due to the low CHF LIBOR, the associated interest rate was typically lower when compared against the corresponding standard Polish złoty denominated mortgages. Importantly, on account of such lower repayments and with intermediaries making up about 30% of all mortgage origination[5], these products were also being offered to customers who could not afford to borrow a corresponding PLN amount by way of a traditional Polish złoty mortgage, which is how they became a Polish equivalent of the American subprime mortgages. Their toxicity had already become apparent during the Great Recession, when the Polish złoty sharply depreciated against most major currencies, but in particular vis-à-vis the Swiss franc, a typical safe-haven asset.

Since early 2015 the Swiss franc has been worth ca. twice as much vis-à-vis the Polish złoty compared with years 2006-2008 when most of these mortgages were advanced. That has led to what is now a half a decade of incredibly inflated monthly repayments coupled with artificial negative equity resulting from the change in FX, rendering the mortgaged properties unsaleable and their owners effectively trapped, forced into continuing with their obligations towards their respective lenders. After all, the Polish złoty's depreciation w.r.t. CHF has doubled numerous borrowers' liability, often rendering their debts unrepayable, effectively financially entrapping them with a continuing and ever-increasing obligation to the lenders. The one factor that has successfully hindered mass delinquencies is the Polish law which does not allow for writing off of personal debts even in the event of going bankrupt, as well as weak regulatory institutions that to this day fail to protect Polish consumers against corporates, even in the case of inappropriate products such as these.

3. A recent game-changer

The legal situation changed in October 2019 due to a landmark ruling by the EU Court of Justice (ECJ) which by law has to be applied in Poland on account of it being an EU member state. The ECJ ruled that, as of that moment, the victims could ask the Polish courts to convert their Swiss franc mortgages into Polish złoty[6]. ECJ also provisioned for these borrowers to decide whether they prefer for their mortgages to be declared null and void, with the implication that the bank and the consumer would repay each other what they received throughout the mortgage, or to have these fraudulent mortgages turned into standard PLN ones by removing the indexing clause[7]. As a consequence, at that point, we observed the beginning of a fallout resulting from the toxic nature of these financial products. At last, more and more customers realise they are within their rights to suspend repayments on Swiss franc mortgages, as well as to take their lenders to civil courts to demand cancellation of their mortgages or, in some cases, also demand refunds for any potential historical overpayments. The big question is of course whether we are now observing a sufficient surge of both mass delinquencies, as well as resultant banks' liquidity issues, for Poland to experience its version of a subprime mortgage crisis. One tool which stops some victims of this scandal from suspending their mortgage repayments is the Polish credit scoring system (BIK). It is owned by the major banks[8], with disregard for the obvious conflict of interest, who reserve for themselves a right to blacklist debtors who cease or suspend their repayments, even if they have valid legal grounds (such as challenging their Swiss franc mortgages in civil courts).

4. Just how big is this problem?

Some 1.83 million Polish households have tied themselves into Swiss franc mortgages, mainly during the period 2000-2010. Assuming an average Polish family of 2+2 with both adults being parties to their mortgage, that gives us 14.4% of the total population of this 38 million strong country, or 15.6% of Poland's working-age population accounting for some 23.5 million. These are already some quite significant percentages which nevertheless fail to show the more nuanced societal impact of the problem. The victims of this scandal were typically in their late twenties to early forties when taking out these mortgages, usually first-time homebuyers or newly refinancing their existing PLN mortgages with what appeared to be a much more attractive product. Unlike their US subprime counterparts, Polish borrowers would usually have had decent credit scores. They would have gone for these particular products to stretch their ability to access credit, to be in a position to purchase more expensive properties which they would have otherwise not been able to secure. Judging by their age, these people would have been in their prime, most economically productive years, over the last decade or longer. Now, because of the spiralling mortgage repayments, they will not have had a chance to either invest their earnings or spend them within Polish economy, as they will have had to keep up with monthly payments to their banks, which would in turn transfer the money to their Western European headquarters. A 2015 report by Dr Bohdan Wyżnikiewicz, a reputed Polish economist, has estimated Poland's middle class to be roughly equal to 3 million[9], which amounts to less than 8% of Poland's population. I believe that, due to an incredible run of three decades without a recession, Poland's middle class could nowadays be close to twice that figure, had the Swiss franc mortgage victims and their families not remained financially entrapped for such a prolonged period.

Societal impact aside. CHF mortgages in Poland made up 23% of the market in late 2019 and about half of all the mortgages (PLN 192 billion of foreign currency loans, majorly CHF-linked) at the peak of their popularity in 2011[10,11]. In late 2014, Swiss franc mortgages were worth 131 billion złotys (30.42 billion euros), which amounted to just under 15% of the total (households and companies combined) loan value of 895 billion złotys[12]. Interestingly, in June 2020, the outstanding Swiss franc mortgages amounted to 100 billion złotys, equivalent to ca. a third of all Polish mortgages[13]. As pointed out by Erste Group, "the increase in volume (of Swiss franc mortgages) was related to the weakening of the Polish currency to a great extent"[14]. The biggest increase of CHF share of all mortgages resulted from the substantial

[4] P.19/21 – https://www.europarl.europa.eu/RegData/etudes/STUD/2018/618995/IPOL_STU(2018)618995_EN.pdf

[5] P. 14 – http://documents1.worldbank.org/curated/en/383871468336712836/pdf/693820RSC0P1130tgage0loans0Jan02011.pdf

[6] https://www.bbc.co.uk/news/world-europe-49918910

[7] https://www.rp.pl/Gospodarka/308059917-Cala-gospodarka-odczuje-frankowy-koszt.html

[8] https://en.bik.pl/about-us

[9] https://www.obserwatorfinansowy.pl/bez-kategorii/rotator/klasa-srednia-rosnie-w-polsce-w-sile/

[10] https://www.bbc.co.uk/news/world-europe-49918910

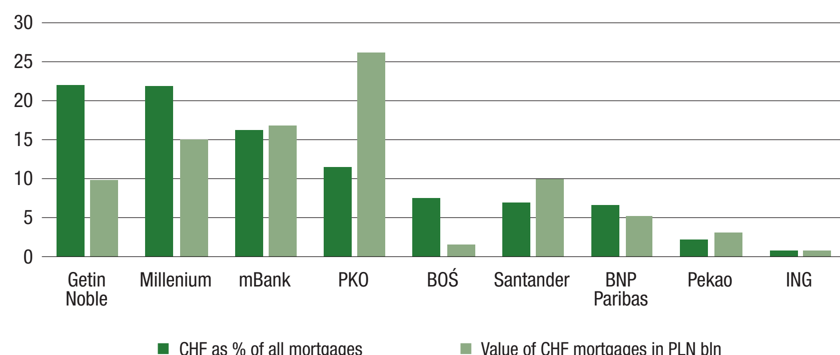
[11] https://www.erstegroup.com/en/research/report/en/SR226373

[12] https://www.reuters.com/article/us-swiss-snb-cee-factbox/factbox-cee-exposure-to-swiss-franc-lending-idUSKBN0K01U420150115?edition-redirect=uk

[13] https://www.reuters.com/article/poland-banks-mortgages-idUSL8N2FZ44M

[14] https://www.erstegroup.com/en/research/report/en/SR226373

FIGURE 2 CHF mortgages in Polish banks' portfolios



Source: Rzeczpospolita https://www.rp.pl/Gospodarka/308059917-Cala-gospodarka-odczuje-frankowy-koszt.html

FIGURE 3 Main CHF mortgage Polish banks' share price (PLN)

Source: MarketWatch https://www.marketwatch.com/tools/markets/stocks/country/poland/

appreciation of CHF after January 2015. That is when the Swiss National Bank abandoned Swiss franc's peg versus the euro. Soon after that event, with CHF reaching near parity with EUR, Citibank estimated the immediate additional debt service costs to implicated households would have risen by 17%[15], although it should be noted that CHF has subsequently appreciated against the PLN further than would have been evident then. What makes matters worse for the victims is that appreciation has now lasted for more than half a decade, thereby creating an incredible burden for a large part of the Polish society.

The major Swiss franc mortgage lenders are: Getin Noble (privately-owned Polish bank, as of February 2021 in the process of nationalisation), Millenium (owned by Portuguese Millenium bcp), mBank (owned by German Commerzbank), PKO BP (a Polish bank whose biggest shareholder is the Polish state), BOŚ (a Polish bank with a majority of shares held by a state fund), Santander (owned by Spanish Santander), BNP Paribas (owned by French BNP Paribas), Pekao (owned by Italian UniCredit at the time of its CHF mortgage offering, recently sold to PZU and as such now controlled by the Polish state), ING BSK (owned by Dutch ING).

The ECJ ruling referred to above has prompted these banks, as well as others who may not be as prominent in this space, to set aside over 1.96 billion złotys (or USD 525 million) in late 2020 to enable them to compensate their victims for the Swiss franc mortgages, should some of the borrowers win in civil courts. Intriguingly, as of September 2020, these provisions amount to a meagre 2% of the total value of the Swiss franc mortgage portfolio[16]. It should be stressed that, as the Polish financial regulator does not appear to possess sufficient powers and the successive Governments do not wish to resolve the problem of these fraudulent financial products by way of legislation, the complicit banks intend to fight every case in the civil courts in the hope that they will not lose all of them, as well as in the confidence that such cases will be dragged out over many years, hence deferring any possible compensation. Nevertheless, as of September 2020, some 90% of such court cases were being lost by the lenders, as the mortgage agreements contain well known abusive clauses[17] which have been designated as such by the Polish Office of Competition and Consumer Protection (UOKiK) and which consequently render these agreements invalid, as they contravene the European Union's Unfair Terms in Consumer Contracts Directive 93/13/EEC[18]. The number of such court cases has been rising sharply from 21,000 in the 2017-2019 period to 34,000 new lawsuits in the first three quarters of 2020[19] despite the coronavirus slowing down the proceedings. In late 2019 the Polish banking lobby group Związek Banków Polskich (ZBP) estimated the worst-case scenario loss for the financial sector at PLN 60 billion[20]. That is approximately four times the value of the Polish banking sector annual profits[21], and as such has the potential of putting some banks out of business, which would have a profound economic impact on Poland's economy. It is for that reason that KNF, the Polish financial regulator, recommended in 2020 that e.g. mBank only issue a dividend no higher than 5% of its 2019 profits[22], whereas this year KNF recommended no dividend at all to be paid out[23], which is in stark contrast with mBank's 2020-2023 strategy of issuing dividends amounting to 50% of its profits.

[15] https://www.reuters.com/article/us-swiss-snb-cee-factbox/factbox-cee-exposure-to-swiss-franc-lending-idUSKBN0KO1U420150115?edition-redirect=uk

[16] https://www.reuters.com/article/poland-banks-mortgages-idUSL8N2FZ44M

[17] https://www.uokik.gov.pl/news.php?news_id=12568&news_page=30

[18] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31993L0013

[19] https://www.reuters.com/article/poland-banks-mortgages-idUSL8N2FZ44M

[20] https://www.ft.com/content/28f34094-11f3-11ea-a7e6-62bf4f9e548a

[21] https://www.rp.pl/Gospodarka/308059917-Cala-gospodarka-odczuje-frankowy-koszt.html

[22] https://www.parkiet.com/Banki/200319988-mBank-jednak-wyplaci-dywidende.html

[23] http://biznes.pap.pl/en/news/listings/info/3037076,mbank-sa-(1-2021)-zalecenie-komisji-nadzoru-finansowego-dotyczace-wstrzymania-wyplaty-dywidendy-w-pierwszym-polroczu-2021-roku

5. Why has there been no systemic solution to this problem?

There used to be substantial popular support for a top-down systemic, legislative resolution of the Swiss franc mortgage problem in the first half of the 2010s. That was driven by Poland's weak market regulation and customer protection, particularly in the financial markets, which has successfully prevented the vast majority of Swiss franc mortgage victims from freeing themselves from these financial products or indeed winning any meaningful compensation from the complicit banks at the time. The victims' emotions boiled over once the Swiss National Bank (SNB) abandoned the CHFEUR peg in early 2015. Faced with street demonstrations, the politicians of all colours, who had until then pretended the Swiss franc mortgage problem did not exist, started to take notice. The current Polish President Andrzej Duda was particularly successful at courting such voters by promising them he would prepare and enact a new law which would force the banks to remove the abusive indexing clauses from their mortgage agreements. With his party Law and Justice (PiS), also on track to win the Parliamentary elections, and to form Government later in 2015 and cement the legislative power in Poland, continuing the hard-line rhetoric on the resolution of the CHF mortgage problem by forcing the banks to foot the bill[24], the market started pricing in the resulting losses to Polish banks.

Even though the promised piece of legislation was watered down substantially, to keep both sides of this conflict happy, it eventually appeared to be ready in 2016. At that stage, the unelected but instead co-opted Deputy Prime Minister and Minister of Finance, Mateusz Morawiecki, began to criticise this legislation. Mr Morawiecki had been up to that point the Chairman of Bank Zachodni WBK (now Santander Poland – one of the major Swiss franc mortgage portfolio holders in Poland), whose shares he held well into his Premiership of Poland until December 2017[25]. Mateusz Morawiecki continued gaining power, subsequently becoming the Prime Minister in 2017 and 2018 even taking responsibility for the Polish financial regulator KNF, whereas the systemic resolution of the Swiss mortgage problem promised by President Duda was at that point shelved indefinitely. The subject of the Polish President or Government resolving this issue was eventually laid to rest by Jarosław Kaczyński, the governing party leader and the de facto most powerful politician in Poland, who in early 2017 advised the Swiss franc mortgage victims to seek justice in civil courts[26] instead.

6. Seeking justice in a civil court is a long game

The issue with the solution proposed by Mr Kaczyński is not merely to do with the ensuing costs, as every victim who wishes to take on their bank in court does not only need to pay a specialist lawyer for most likely two stages of the court case as well as cover other associated fees but has to further factor in a court case which can go on for years. Furthermore, despite the very favourable ECJ ruling, the plaintiff cannot be sure that the court case will completely resolve their problem in the end, as there are several possible resulting scenarios. It must be noted that Polish courts are all independent and there is no law of precedent, which is why the judges can opine differently in generally the same cases. For example, in 2020: 67% of these mortgage agreements were ruled null and void, 16% had their abusive indexation clauses removed thereby turning the mortgage products into financially questionable PLN loans coupled with a CHF LIBOR, whereas despite the EU law having superiority over Polish law 5% of the cases were inexplicably lost[27] by the victims, which would have burdened them with additional court proceedings costs when they were already likely in a very desperate financial situation. As such, the costs, long timelines and some risk of losing in court despite ECJ's clear position will nevertheless hinder many victims from ever fighting for their rights and claiming any overdue compensation. I have personally experienced just how long a process it can be, having initially attempted mediation with Commerzbank's Polish subsidiary mBank via the Polish Financial Ombudsman (Rzecznik Finansowy) in early 2017 as well as through the banking sector lobbyist ZBP later that year, through being sued by mBank in Polish civil court in autumn 2018 for withholding mortgage repayments, to countersuing them in autumn 2020 for claiming twice the borrowed amount to close out my Swiss franc-indexed loan upon the sale of my property, and as of June 2021 I am yet to be informed of the date of our first court hearing.

7. The banks' attitude

It should be noted that banks in Poland tend to treat their clients from a position of strength, as the level of consumer protection in the country is very low by EU standards. That is why the same institutions which appear to be taking corporate social responsibility very seriously in Western Europe[28,29,30,31] take a different approach in Poland. Importantly, the implicated banks could show goodwill by removing the abusive clauses from the mortgage agreements, as this is a relatively straightforward process. As far back as November 2015, I published proof[32] that the Swiss franc indexed (referencing) mortgage lenders could undo the indexation of their outstanding financial products at no cost. At the same time, due to subsequent changes in legislation barring further issuance of Swiss franc loans, these banks are continuing to benefit from de facto protection against new entrants to this market.

The mechanics behind a CHF indexed mortgage are relatively straightforward. In essence, a Polish bank maintains PLN deposits from which it would have lent out Polish złotys to enable mortgage financing for its clients, whereas the liability would have been indexed (referenced) to an equivalent CHF amount at the time when the mortgage was agreed. The superficial benefit to the clients would have been the opportunity to pay the lower CHF LIBOR instead of WIBOR (PLN LIBOR), causing the initial mortgage repayments to be lower. Most of the Polish banks in question are owned by Western European institutions, and so they would have hedged their positions resulting from these mortgages by entering into FX swaps with their European parent companies, thereby borrowing the necessary Swiss francs in such a way that they would be locked into a lower exchange rate for a

[24] https://www.euromoney.com/article/b12klvsg3ftcb0/poland-bank-m-a-threat-from-swiss-franc-mortgage-move

[25] https://oko.press/morawiecki-przez-dwa-lata-zarobil-123-mln-ale-twierdzi-ze-stracil-100/

[26] https://www.reuters.com/article/swissfrancs-poland-banks/kaczynski-tells-polands-swiss-franc-borrowers-to-seek-own-redress-idUKL5N1FV10Z

[27] https://strefainwestorow.pl/artykuly/analizy/20210121/kredyty-frank-szwajcarski

[28] https://www.commerzbank.com/en/hauptnavigation/verantwortung/verantwortung.html

[29] https://group.bnpparibas/en/group/corporate-social-responsibility

[30] https://www.santandercb.co.uk/corporate-social-responsibility

[31] https://www.unicreditgroup.eu/en/a-sustainable-bank.html

[32] https://www.bankowebezprawie.pl/dlaczego-bank-nie-straci-na-odfrankowieniu-kredytu/

while (as CHF tends to only appreciate in the long term) and allowed to roll over this debt as time goes on. In addition to real money transfers from Poland as and when the mortgage repayments are received by the Polish banks and passed on to their owners, the Western parent would be exploiting a higher prevailing rate of interest paid on the PLN as opposed to their native EUR. Additionally, the Polish subsidiary would over time be benefitting from both the FX differences between their swap financing (low) and the prevailing (high), as over time the Swiss franc only appreciates with respect to the Polish złoty), as well as spread charged to their borrowers. Thereby, the banks would have offset the risk on their side whilst profiting from these products in several ways. Nevertheless, the clients were left exposed to shoulder all the resulting and uncapped FX risk. What makes this situation worse is that the borrowers would not have known the scale of the FX risk they were taking on, and were offered no insurance products to offset such risk. From a reporting perspective, these swap transactions would have been done on an off-balance sheet basis and, should the implicated banks have wished to show some goodwill and remedy the situation, the swaps could simply not be renewed following the abusive clauses' removal from the Swiss franc mortgage agreements, as the rolling over of such debt would no longer be necessary at the point of undoing the indexation to CHF.

Due to the Polish financial regulator's weakness and the European banks' apparent indifference to the public image they are projecting in Poland, there is no particular incentive for these lenders to remedy the situation resulting from these financial products.

8. The curious case of inadequate financial market regulation in Poland

As alluded to above, the Polish financial regulator (KNF) as well as the Office of Competition and Consumer Protection (UOKIK) have been unable, or perhaps unwilling, to tackle the issue of the Swiss franc mortgages, effectively leaving the victims to their own devices for well over a decade in spite of the fact that these products are still in existence. For example, the Polish competition watchdog identified mBank's Swiss franc mortgages as abusive as early as 2016[33]. Additionally, mBank was ordered, also by UOKIK, to reimburse its clients for a token PLN 6.5 million[34] (ca. GBP 1.3 million) in 2016 – a penalty for not passing on the negative CHF LIBOR interest rates. Such a low amount seems laughable by European standards. Also, the regulator has a habit of advising, rather than ordering, the unruly lenders. For example, the financial regulator KNF, appealed in December 2020 to the lenders to reach out to their clients with proposals to remove the CHF indexing clauses from the mortgage agreements. Unsurprisingly this appeal was summarily dismissed by mBank's CEO as an idea which had already been shelved some years ago[35]. Lastly, the Polish Public Prosecutor refuses to investigate the lenders' behaviour as a criminal matter, instead suggesting that these merely amount to civil disputes.

9. Conclusion

To summarize, the Polish financial market regulation as well as the judiciary system, which has ended up lumbered with the Swiss franc loan problem when the country's legislative washed its hands of it, are not fit for purpose. Faced with the civil courts being clogged up by tens of thousands of Swiss franc loan related cases, the Supreme Court of Poland decided in May 2021 to delay its ultimate ruling on these cases indefinitely while it awaits additional opinions from a multitude of irrelevant bodies such as e.g. the children's rights ombudsman[36], which effectively also suspends all the individual court proceedings indefinitely. The EU of course already has a framework for dealing with the confirmed abusiveness of the Swiss franc loans – it is the aforementioned Unfair Terms in Consumer Contracts Directive 93/13/EEC. As outlined above, the ECJ has also ruled in favour of Polish borrowers and against the Swiss franc lenders, and the European Court of Justice is the highest instance that a Polish citizen can take their case to. However, as no systemic resolution to this problem has been devised in Poland, the borrowers have to fight each case individually in the sclerotic civil courts. Inexplicably, the Polish financial regulator KNF was informed already in late 2005, i.e. six years before the Swiss franc loan peak, by all the major banks about the risks associated with Swiss franc loans as well as their willingness to either shrink or even fully suspend their offering of these products[37], yet failed to take any action to stop these clearly toxic products from becoming fundamental to the Polish property financing. As such, both a stronger financial market regulation, in line with that prevalent in Western Europe, as well as a much better organized judiciary system are desperately needed to clean up the Swiss franc loan mess, which is very likely to be exacerbated by the economic fallout from the coronavirus pandemic and the ensuing likely increase in mortgage delinquencies.

[33] https://www.uokik.gov.pl/news.php?news_id=12568&news_page=30

[34] https://next.gazeta.pl/pieniadz/1,136158,19493891,uokik-mbank-z-kara-6-5-mln-zl-musi-tez-zwrocic-klientom.html

[35] https://www.money.pl/gielda/debata-prezesow-wyzwaniem-na-2021-rok-kredyty-frankowe-i-zerowe-stopy-proc-6584459196470913a.html

[36] https://www.reuters.com/world/europe/polands-supreme-court-evacuated-due-bomb-threat-twitter-2021-05-11/

[37] https://www.zbp.pl/getmedia/583d24ee-450e-4a97-a9bc-4c71b85f7749/06-Biala-ksiega-kredytow-frankowych-w-Polsce_marzec_2015

The impact of the Covid-19 pandemic on the housing market and policy in Australia

↳ By Alan Morris

1. Introduction

Despite the Covid-19 pandemic and Australia going into recession for the first time since 1993, house prices, after dipping slightly at the start of the pandemic, are again at record levels. Nationally, in December 2020, the median house price in Australia was $852,940[1], up from $806,940 in December 2019, a jump of 5.8% (Wade, 2021). In February 2021, nationally house prices increased by 2.1%, the biggest month on month gain for 18 years. In Sydney, Australia's largest and most expensive city, in April 2021 the median house price hit a record high of $1,309,195, a rise of 12.6% over the year (Swanston, 2021). The price rises have not been confined to the capital cities of Australia's six states. Regional areas, which in the past have hardly been affected by soaring house prices, have also been drawn into the flurry, rising 11.4% in the year to April 2021 (Chalmers, 2021). Nationally, the demand for mortgages has been so great that the banks have been struggling to cope. In March 2021, a record 64,300 mortgages were issued to homeowners and residential property investors compared to 35,100 in May 2020 (Wright et al., 2021). The CEO of ANZ, one of the big four banks, commented that the bank was no longer advertising its home loans division as they were struggling to cope with demand. In 2020, total household wealth increased by 7% with property prices contributing 6.1% (ABS, 2021a).

Besides the pandemic related lockdowns (shutting of non-essential businesses for extended periods) and economic decline, what makes these price gains remarkable is that they have occurred in a context of no real wage growth or immigration. The head of the Australian Bureau of Statistics (ABS) commented that in the June 2020 quarter, "wages recorded the lowest annual growth in the 22-year history of the WPI (Wage Price Index)" (ABS, 2020).

Strong immigration has been a key factor driving Australia's housing market. The constant influx of immigrants has meant that the demand for housing has always been strong. More than one in four Australians were born overseas, compared to 13.7% of the population in the United States and 14% in Britain (Cave and Kwai, 2019). In the year ending June 2019, Australia's population increased by 381,600 people to 25.4 million due mainly to immigration; there were 536,000 overseas migration arrivals and 297,700 departures (ABS, 2019). The pandemic resulted in the government closing its borders to all foreigners in March 2020. However, the return of Australians living abroad, elaborated on below, probably made up for the decline in immigrants.

This article first examines the impact of the Covid-19 pandemic and the government's key policy response – JobKeeper and JobSeeker. It then examines the policies and factors that have resulted in the spike in house prices. Other policies adopted during this period and the situation with respect to the private rental sector, social housing and homelessness are then discussed.

2. The impact of the Covid-19 pandemic and the enactment of JobKeeper and JobSeeker

The impact of the lockdowns and border closures on the Australian economy and employment was dramatic. By May 2020, under-employment hit a historic high. 13.8% of the work-force (1.8 million people) were working reduced hours) and in July 2020, unemployment hit a record 7.5%. About 870,000 people lost their jobs in the June quarter and GDP dropped 7% (ABS, 2021b).

At the end of March 2020, in order to protect the economy and prevent mass unemployment, the right of centre federal government introduced JobKeeper and JobSeeker. JobKeeper was a wage subsidy paid to businesses impacted by the Covid-19 pandemic, so they were able to retain staff. Employees on JobKeeper were paid $1500 (equivalent to about 70% of the national median wage) a fortnight. The rate was reduced to $1200 at the end of September 2020 and to $1000 at the beginning of January 2021. Part-time employees (less than 20 hours) had their rate cut at the end of September to $750 and from early January 2021 to $650 a fortnight. At its height, 3.6 million employees received the wage subsidy out of a labour force of just under 14 million. At the end of December 2020, as the economy recovered, the number of people on JobKeeper dropped to 1.54 million (Bory, 2021). The JobKeeper program was scrapped at the end of March 2021. The program, one of the largest fiscal packages in Australia's history, cost around $90 billion.

JobSeeker replaced the old unemployment benefit (Newstart). Besides the change in name, the key shift was that the weekly unemployment benefit was doubled. People reliant on JobSeeker received a $550 supplement every fortnight. This increased the weekly payment to $1100 a week. At the end of September 2020, the supplement was cut

[1] In May 2021, one Australian dollar was worth 0.56 Pound Sterling. All the dollar amounts refer to Australian dollars.

to $250 a fortnight and in January 2021 to $150 a fortnight. The supplement was terminated at the end of March 2021 and the unemployment benefit was set at $310.40 a week for a single person – way below the poverty line[2].

Although not directly related to housing policy, JobKeeper and the JobSeeker supplement played a critical role in enabling people to remain in their mortgaged or rented homes. Growth in gross disposable income (GDI) resulted in the housing debt to income ratio decreasing 2.5% in 2020, the largest fall since 1990 (ABS, 2021). The Australian Bureau of Statistic attributed this decline to the "government income support packages implemented in response to the COVID-19 pandemic ..." (ABS, 2021c). Besides keeping households afloat, JobKeeper and JobSeeker allowed families to pay the rent or mortgage or part thereof and perhaps avoid housing affordability stress (HAS). An Australian Bureau of Statistics survey of individuals receiving JobKeeper found that "43% reported mainly using the payment on mortgage or rent payments" (ABS, 2021d). Leishman et al. (2020) estimate that prior to the pandemic, 861,500 Australian households suffered from HAS and that the number would have increased to 1,366,000 if JobKeeper and JobSeeker had not been introduced (the 2016 Census indicated there were 8,286,000 households in Australia). They estimated that the phasing out of JobKeeper and JobSeeker supplements will result in a further 124,000 households being in HAS of which 73% would be private renters.[3]

3. Why are house prices in Australia at record levels in the midst of a pandemic?

Although the extremely low interest rate is probably the key factor explaining the massive price increases, the government has certainly added fuel to the fire by deliberately encouraging demand and failing to adequately regulate housing loans. Besides government policy or lack thereof and low interest rates, another key factor has been the return of Australians who were living abroad. These factors are discussed in turn.

3.1. Low interest rates and the lack of government regulation of lending

In response to the economic decline, the Reserve Bank of Australia (RBA) lowered the official cash rate to 0.1%. The unprecedented low rate has probably been the primary factor encouraging people to enter the housing market and pay record prices premised on the view that their repayments will be manageable. The government has refused to intervene in the requirements for loans despite the surge in prices and questionable loans. In March 2021, a financial journalist based in Sydney noted, "The government doesn't want to close down the property party - quite the opposite. It is barrelling ahead with plans to roll back responsible lending laws imposed during the global financial crisis…" (Knight, 2021b). Historically, the Australian Prudential Regulation Authority (APRA), a government agency, has used its powers to regulate bank lending. Between 2014 and 2018, APRA forced banks to make the granting of mortgages contingent on a 20% deposit and increase the criteria for a credit risk assessment. However, these provisos were scrapped at the end of 2018. An analysis by an economist at UBS found that in the current period there has been a rise in the proportion of new loans with high loan-to-valuation ratios (LVRs) and loans with high debt to income multiples. Thus new loans that were more than four times the borrower's income rose to 59.3%, the highest figure since 2018. Loans with an LVR above 80% rose to 42%, the highest level since 2008. He concluded that the data shows "a significant quarter-on-quarter increase in higher risk home loans" (Yeates, 2021). APRA has dismissed calls for tighter regulation of lending commenting, "… available indicators do not suggest any material relaxation in housing lending standards, with these metrics remaining broadly in line with historical averages" (in Yeates, 2021).

The Banking Royal Commission which reported its findings in 2019 was extremely critical of the lax lending practices of the banks and dozens of examples of poor lending practices and related distressing consequences were exposed. The Commission's first recommendation was that the granting of credit that was not in line with a person's income and capacity to pay should be made illegal. However, in September 2020, the federal Treasurer announced that this requirement was too onerous and costly for lenders and leading to delays in the approval of loans. He recommended that "lender beware" be replaced by "borrower beware". Legislation backing this change is awaiting approval from the Senate (Gittens, 2021). The proposed legislation reflects the government's desire to ensure that Australians have easy access to credit even if this laisses faire approach means record high house prices and potentially leaves borrowers in a precarious situation in the event of an interest rate rise or change in circumstances.

3.2. Federal government tax policy encourages increases in house prices

Historically, a key driver of high housing prices in Australia has been the generous tax regime for investors in residential property and the resulting financialisation of housing (see Morris, 2018). The government has refused to entertain any modification of its tax policy around investment in residential property despite it being a central driver of high prices. Negative gearing – the capacity to deduct losses from a rental property from taxable income – makes rental property an extremely attractive investment. The capital gains tax is an added incentive; a rental property held for more than 12 months incurs tax on only 50% of the landlord's nominal capital gain. Although there was a brief period during the height of the pandemic when investors stayed on the sidelines, the tax regime in combination with the low interest rates and decline in Covid-19 cases, have encouraged investors to flock back to residential property investment and once again push up prices. A respected business journalist summed up the turnaround and the implications:

> Investors in residential property have come out of hibernation and were the driving force behind the record 5.5% increase in housing finance in March. Having kept a low profile during the pandemic, investors and speculators are now returning to the market with gusto. And that suggests only one thing – home prices will continue to push higher (Knight, 2021a).

In March 2021, finance to investors in residential property was up 12.7% for the

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[2] In December 2020, the Melbourne Institute calculated that the poverty line including housing for a single person not in the work-force was $464.88 a week (Melbourne Institute, 2021).

[3] Leishman et al's estimate as to the proportion of households in HAS does appear conservative. RateCity, a financial comparison website, estimated that 1.47 million owner-occupiers (39.1% of all mortgage holders) were in mortgage stress in June, 2020 (Cheung, 2020). A survey by Digital Finance Analytics reached a similar conclusion – in June 2020, 37.5% of mortgage holders, 1.42 million were in mortgage stress)in ABC New, 2020). The Productivity Commission, a federal government appointed research body, estimated that in 2017-18, 710,000 private renter households were in rental stress (Productivity Commission, 2020).

month and 54% for the year to March 2020. Investor loans in March 2021 ($7.814 billion) accounted for about 30% of all housing loans ($30.227 billion) (ABS, 2021e).

3.3. The return of Australians living abroad

It is likely that the drop in immigration has been partially compensated for by the thousands of Australians that had been living abroad returning permanently to Australia once the pandemic intensified in various parts of the world. Between mid-March and the end of November 2020, 426,600 Australian citizens returned to Australia (Clun, 2020). It is likely that a proportion arrived back with no home to go to, but the requisite funds to purchase a home in Australia. The CEO of ANZ bank argued that returning Australians were a central reason for the massive increase in house prices: "The first thing they want to do is buy a home. The volumes are unprecedented. We have not seen sustained high volumes like this ever before" (in Wright et al., 2021). A letter to homeowners in a middle-class suburb from a real estate company, seemed to substantiate the impact of returnees on the housing market. It read,

> Dear homeowner, Expats desperately seeking to return home to Australia are forking out well above suburb averages and even purchasing sight unseen or enlisting the help of family or turning to virtual inspections (NG Farah, 2021).

3.4. First home loan deposit scheme (FHLDS)

The FHLDS was launched in January 2020, prior to the Covid-19 pandemic. First time home buyers were able to purchase a new or existing home with a deposit of as little as 5% with the government guaranteeing to participating lenders up to 15% of the value of the property purchased.[4] Besides only having to put up a relatively small deposit, these purchasers did not have to pay lenders mortgage insurance (LMI). LMI is paid when the deposit is below 20%. Initially, 10,000 loans were available for the purchase of existing and new homes. In October 2020, the scheme was extended to June 2021. The new scheme also made 10,000 loans available, however, the scheme is now only available to applicants who intend to build or purchase a new home (Grattan, 2021). In justifying the scheme, the Treasurer, stated, "Helping another 10,000 first home buyers to buy a new home … will help to support all our tradies right through the supply chain including painters, builders, plumbers and electricians" (in Grattan, 2021). The 2021-22 federal budget extended the scheme.

It is likely that the scheme, by encouraging first time home buyers to enter the market, has contributed to the increase in house prices at the low end of the market. First time home buyers have constituted a substantial proportion of recent purchasers. They are also assisted by state government incentives. For example, the New South Wales (NSW) government where Sydney is located, has a $10,000 First Home Owner's Grant. First home buyers can also be relieved of having to pay stamp duty. The saving can be considerable, but is subject to a new home costing less than a million dollars and an existing home costing no more than $700,000.

In the recent federal budget, single parents have been singled out. From the 1 July 2021, the federal government will guarantee the purchase of 10,000 new or existing homes for single parents and they will only have to pay a deposit of 2%.

4. Other housing policies and issues in the pandemic period

4.1. HomeBuilder program

Probably the most discriminatory and controversial stimulus package to counter the impact of the pandemic, was the $688 million HomeBuilder program. The program involved giving households a one-off cash payment of $25,000 towards the cost of a new home or a renovation, providing the renovation was valued between $150,000 and $750,000. The new home including the land could not be valued at more than $750,000. The income means test was extremely generous; to be eligible a single person had to earn under $125,000 in 2018-2019 or $200,000 for a couple. The program for the $25,000 grant ran from June 2020 to the end of December 2020. There was also a $15,000 grant that ran from January 2021 to the end of March 2021. The conditions were similar.

In the May federal budget the Treasurer noted that over 120,000 applications had been received and it was "expected to support over $30 billion in residential construction activity". Under the program, 14,117 new homes had been approved (Australian government, 2021).

The homebuilder program has heavily criticised for its middle-class bias. Anthony Albanese, the leader of the opposition Labor Party, made the obvious point that "not many people have $150,000 ready to go". The Australian Council of Trade Unions (ACTU) made a similar point and called for increased expenditure on social housing instead:

> A four-year social house building program of 30,000 homes will create on average up to 18,000 full-time equivalent jobs each year. Why isn't Scott Morrison announcing a social housing program instead of a $150k+reno grant not many can afford (in Derwin, 2020).

4.2. Deferred mortgages

The impact of the pandemic was extremely uneven. Many high and middle-income homeowners were barely touched. They were able to continue working remotely and their incomes were not affected. The virtual freeze on house sales in the first few months of the pandemic combined with the record low interest rates meant that when the market opened up there was pent up demand from cashed up potential buyers and buyers outnumbered sellers. On the other side of the continuum, hundreds of thousands of homeowners who lost their jobs or had their hours cut or whose businesses were severely affected, were allowed to defer their mortgage repayments. The "big four banks", NAB, Westpac, ANZ and the Commonwealth Bank (CBA), dominate home loans in Australia and between them they had granted 436,139 mortgage deferrals at the end of June 2020. In mid-December 2020, with the economic recovery, the number of payment pauses had dropped to 90,819 (Duke, 2021). NAB, provided 110,000 home repayment holidays and in early 2021 only 7000 home loan accounts were yet to start repaying. The ANZ approved 96,000 home loan pauses of which 72,000 had resumed payments in January 2021. Westpac granted 145,000 mortgage deferrals and in January 2021 about three quarters had started repaying. The CBA had granted 158,000 home loan deferrals. By the end of October 2020, 46,000 had yet to start paying (Duke 2021).

4.3. Social housing

A common sentiment amongst economists, policy-makers, housing scholars and welfare bodies was that the federal government should use the building of social housing

[4] There were / are eligibility criteria. Besides having to be a first home buyer, annual income for a single person has to be below $125,000 and below $200,000 if a couple. There also price caps – the price cap in Sydney was $700,000.

as a central economic stimulus to counter the employment impacts of the pandemic (Martin, 2020). However, the federal government refused to entertain the possibility. In 2020-21, the federal government allocated around $1.6 billion to the states and territories for social housing through the National Housing and Homelessness Agreement (NHHA). This allocation would not give the six states and two territories the capacity to increase their social housing stock beyond a few dozen homes. In 2019 there were 148,500 households on the waiting list for social housing (AIHW, 2019). The waiting list is divided between a priority and general waiting list. Households on the general waiting list face waiting for several years or even life-long. Social housing now constitutes 4.2% of all housing stock, down from 6.2% in 1991 (Pawson et al. 2020). Expressed in terms of annual lettings, social housing supply has effectively collapsed by 50% since 1997.

The response of state governments to using the building of social housing as a stimulus has been variable. In November 2020, the government in Victoria, Australia's second most populous state, announced that it would allocate $5.3 billion to social housing, the biggest spend on social housing in the state's history. At present only 3.2% of Victoria's housing is social housing, the lowest level in the country. The official waiting list in September 2020 was 48,529 households, equivalent to more than 100,000 people (Topsfield and Millar, 2020). The massive cash input is expected to result in the building of around 12,000 homes. About 2,900 of the 12,000 homes to be built will be what is classified as affordable housing. Affordable housing is rented to people on low to moderate incomes below the market rate. The remainder will be social housing. It is likely that the pandemic played a major role in the Labor government's (at present the Labor Party is the ruling party in Victoria) decision to dramatically up spending on social housing. Historically, the construction industry has been a key feature of Victoria's economy. It has been estimated that it generates almost half of its tax revenue and employs close to 170,000 people (Millar, 2020).

In contrast to Victoria, NSW government (a right of centre Coalition government has been in power since 2011) has allocated a paltry $400 million over three years for the building of social housing and much of this will be raised by selling off public housing land to developers (Pawson and Milligan, 2021).

4.4. Private renters

About 27% of Australian households are private renters. The massive layoffs and cuts in hours of paid employment as a result of the pandemic, resulted in a crisis for tens of thousands of private renters. Many were no longer able to pay their rent or alternatively were only able to pay a fraction. The light regulation of the private rental sector meant that these tenants faced the possibility of being evicted. In late March 2020, the national cabinet[5] announced their support for a moratorium on evictions and all the states supported it. However, there was no protection against rental debt accruing.

Nation-wide, the eviction moratorium ended at the end of March 2021. In NSW a six-month transition period has been legislated. This will require that tenants and landlords enter a repayment plan for arrears. During this period tenants can only be evicted if they do not stick to the agreement. It is unclear how many landlords and tenants have entered into a repayment agreement or if they are even aware that this policy is in place. What is also concerning is that renters who fall behind for the first time after the 26 March 2021 (the date the eviction moratorium ended) are not covered by the transition period. As Leo Patterson Ross, chief executive of the Tenants' Union of NSW commented, "So even though they're very clearly Covid-impacted, they're very much victims of the Covid pandemic, they're not covered by the moratorium at all" (in Henriques-Gomes, 2021).

At the time of writing the impact of the lifting of the moratorium was still unclear. However, tenant advocacy groups have warned that many renters are in a highly precarious situation, having accumulated substantial arrears due to them being able to pay only part of their rent or no rent. Their precarity has been heightened by the termination of JobKeeper and the JobSeeker supplement. The renter advocacy group, Better Renting, has estimated that between 5% to 15% of tenants are in rent arrears.

Rent Assistance (RA) is the primary federal government intervention in the private rental market and is by far the largest part of the federal government's housing budget. Around 1.3 million renters receive RA at an annual cost of around $5.5 billion. Eligibility for rental assistance is means tested and is set at a maximum of $70.40 a week for sole person households and $61.40 for couples who do not have children living with them. In December 2020, the average rent in Sydney was $495 for apartments and $540 for houses. There has been no mention of increasing Rent Assistance despite the difficulties that thousands of private renters face.

Noteworthy is that the NSW government promised $220 million in rent relief to tenants who were struggling to pay their rent because of the Covid-19 crisis. However, by mid-March 2021, only $10 million had been allocated (Gorrey, 2021).

4.5. Housing in regional areas

A new phenomenon directly related to the Covid-19 pandemic has been the major spike in house prices and rents in regional areas. Thousands of households who started working from home during the pandemic and are in a position to continue working from home, have relocated to regional towns that are much cheaper than capital cities like Sydney or Melbourne. Provisional data from the Australian Bureau of Statistics indicated that in July, August and September 2020, 11,200 people left the nation's capital cities.

The substantial movement of people has resulted in a dire shortage of rental accommodation in regional areas and a substantial spike in rents. Long-term renters are being evicted by landlords to make way for the newcomers who are prepared to pay higher rents. The Tenants' Union of NSW described the situation as a "horror show".

> We're hearing a lot of people in regional areas [are being] given no grounds eviction notices, are being moved out, so that the landlord – and they've been told this – so the landlord can hike the rent and capture the people coming in from other capital cities or other bigger towns with higher incomes (CEO of the NSW Tenants' Union in Henriques-Gomes, 2021).

Historically, a key reason why many low-income people have moved to or remained in regional areas is because accommodation was much cheaper than accommodation in the metropolitan areas.

The increase in house prices during the pandemic in some regional areas has been

[5] The national cabinet is constituted by the prime minister and all of the state and territory premiers. It was formed in March 2020 to respond to the Covid-19 pandemic.

phenomenal. For example, in Byron Bay, 800 kilometres north of Sydney, in the 12 months to the end of January 2021, the median house price increased by 39% (Hughes, 2021). In December 2020 the median house price in Byron Bay increased by 14.3% to $1,218,000. The increase in house prices in regional areas has been linked directly to more people working from home and deciding to move from the capital cities. One analysis concluded that regional areas are growing three times faster than capital cities (Hughes, 2021).

4.6. Homelessness

Historically government support for rough sleepers has been limited. However, at the onset of the pandemic and lockdown, when there was an enormous amount of fear in the community, the state governments after years of neglect managed to find the means to house almost all the rough sleepers in Sydney and other capital cities. In NSW the government provided 3732 rough sleeper households with temporary accommodation in hotels and motels. In March 2021, it was reported that 893 of those temporarily housed had been moved into long-term housing and 133 were still in temporary accommodation. This suggests that 2706 rough sleepers had not been allocated permanent accommodation and were perhaps back to sleeping rough (Fitzsimmons, 2021).

In Victoria, in July 2020, the state government announced that more than 2000 people temporarily housed in hotels would be moved to permanent accommodation under its $150 million *From Homeless to a Home* package. In May 2021, 520 rough sleepers were still in temporary accommodation and only 195 persons from 163 households had been relocated to permanent dwellings. The remaining rough sleepers are back on the streets, in boarding houses or staying with friends. The government is working closely with community housing providers to house a further 1128 people. The target is to accommodate 1845 households (Topfield, 2021). A key strategy is to rent 1100 social housing units from private landlords. Although the relocation process has been slow, organisations working with homeless people in Victoria have been positive about the government's strategy and commitment. The CEO of Council to Homeless Persons commented,

> It's going to take some time but we must take that time to get the right housing and put teams of people together to support sustaining that housing. We're heading in the right direction – it's absolutely magnificent what the government has done. Colleagues in other states and territories are green with envy (in Topfield, 2021).

5. Conclusion

The housing boom during the Covid-19 pandemic has sharply accentuated the wealth gap in Australia. Housing wealth is the primary factor behind this increase. The Australian Bureau of Statistics (ABS) estimated that household wealth increased by $501 billion in the last three months of 2020 (Hutchens, 2021). Much of this was due to the increase in house prices. A recent report released by the Australian Council of Social Services (ACOSS) indicated that the highest 20% of households had an average wealth of $3.3 million, 90 times the wealth of the lowest 20% - $36,000 on average. The average wealth of the top 5% was $6,795,000 (Davidson et al., 2020).

It is evident that the present federal government is not interested in addressing the wealth gap. The housing policies adopted during the pandemic have increased and solidified existing divisions. The spectacular increase in house prices has obviously benefited outright homeowners. Low-income renters face the prospect of being long-term or even lifelong private renters (see Morris et al., 2021). Even middle-class households face years of financial stress due to the current housing market. Perversely, the pandemic has played an important role in magnifying the housing crisis and wealth gap in Australia.

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Innovation in housing decarbonisation: United Kingdom

By Andy Sutton

1. Introduction

We're all attached to where we live, so how our homes might change is a topic close to everyone's heart. But change they must – in the UK, carbon emissions from homes and the activities within them equate to nearly 40% of the total national emissions. As one of the first nations to legislate for the Climate Emergency, the UK's Climate Change Act 2008 (extended in 2017) makes the requirement to decarbonise a legal obligation, as well as a moral and ethical imperative: "Net Zero" is the law.

Once built, houses are typically in use for an average of 125 years and with new home construction rates that rarely break 200,000 nationally in any year, this means decarbonising the 29 million existing homes across the UK is, a retrofit problem. What's more, to attain an EPC rating of C (and we will get to that later) Government research indicates this will require close to £60 billion of investment.

Retrofit breaks into several overlapping challenges: a lack of tools and understanding, a lack of financial drivers, and a lack of competency and quality in the delivery of the measures. There is also the challenge of decarbonising the embodied carbon in the materials and construction activities from retrofit (as well as for new build homes). Yet the decarbonisation of homes is not a technical problem. Any home can be decarbonised once these barriers are overcome, we have the technology and expertise to achieve this.

The understanding that the decarbonisation of homes isn't a technical issue is particularly relevant when looking at decarbonisation as a national problem, since other sectors such as aviation, agriculture and heavy industry do not yet have the technological tools they need to achieve net zero. Taken in this context, the use of carbon offsets (such as tree planting) can be seen as a measure most appropriately reserved for sectors for whom it is currently technically impossible to achieve Net Zero, rather than for those who can deliver zero carbon but are looking for 'easy' alternatives.

2. Tools & Understanding

Despite having the legislation, the UK does not have a clear statutory definition of "Net Zero" for the built environment, which contributes significantly to the confusion of claims made by those wishing to gain good publicity. The UK Green Building Council (UK GBC) published its definition[1] in April 2019, recognising that all carbon emissions arising from the energy use, of and in the home, should be considered as part of that home's carbon footprint – and therefore considered in whether a home achieves Net Zero. It also recognises that when that energy is used it affects the carbon emitted, and as a consequence, the importance of measuring delivery of the Net Zero legal goal in the carbon metric.

UK GBC's definition is gaining momentum, but it does not align with any of the existing regulatory tools and certification schemes. Most important of these is the Building Regulation's "Standard Assessment Procedure" (SAP), the statutory mechanism required to confirm the energy performance of buildings is at, or better than a minimum standard, and the UK's answer to the requirement to have a National Calculation Methodology under European Union regulation.

Every home in the UK must evidence an SAP score, and consequential Energy Performance Certificate (EPC), to demonstrate that if operated in a normalised fashion the fabric and permanent equipment of the home performs below a national energy demand, excluding any activity from the occupants. Whilst a necessary check for building construction, SAP's use of an energy metric (not carbon) and exclusion of the impact of the residents, places it significantly apart from the UK GBC's Net Zero definition.

There are several certification schemes currently being delivered in the UK, with perhaps the most vocally advocated of these being the Passivhaus standard.[2] Originating in Germany, it advocates very high building fabric and related system performance to reduce space heating losses, and thereby minimise space heating energy demands, whereby there is no requirement for a traditional heating system. It does this extremely well, designed as it is to tackle the continental climate conditions where external winter temperatures can drop to -15˚C.

For the UK, where -5˚C is rare, this high level of fabric performance is almost certainly beyond the optimum balance of construction costs and operational returns. Even without hitting Passivhaus building fabric standards, the space heating energy demand of a modern UK home is less than one third of the overall energy demands, with hot water and occupancy "plug in" energy demands both outweighing it.

A common flaw that runs through all the notable certification schemes and the UK regulatory assessment is the principle that a fixed quantity of energy equates to a fixed carbon emission, and therefore that net zero energy can be considered as Net Zero carbon. This is technically false for all energy sources, but by far the most significantly wrong for electricity.

The UK's National Grid is engaged in a permanent balancing act between the generation of power from a blend of renewable, nuclear and

[1] https://www.ukgbc.org/ukgbc-work/net-zero-carbon-buildings-a-framework-definition/

[2] https://www.passivhaustrust.org.uk/what_is_passivhaus.php

fossil fuel sources, and the variability of the demand from the users of power. This broadly means that as electrical demand increases, more fossil fuel generation must start generating, since wind and solar are not controlled 'on demand'. The National Grid has been, and continues, to engage in significant decarbonisation of large-scale power generation, but this mismatch between renewable generation and user demand will remain for the foreseeable future. Even when or if the Grid entirely abandons fossil fuels, the mismatch between when power can be renewably generated and when it is demanded will require mechanisms to balance the difference.

The consequence of this balancing act by the National Grid is that one unit of electricity (kWh) can cause the emission of less than 100g CO_2^{eq} if drawn from the Grid at times of high generation and low demand, yet during the same day one unit of electricity can result in more than 250g CO_2^{eq}. Whilst this varies modestly by season, the daily cycle remains. In effect, if you used all your electricity at 3am rather than 6pm, you'd more than halve your home's carbon footprint without any other changes.

None of the UK's regulatory or notable certification schemes recognise this drastic difference in carbon impacts. Instead, all schemes equate 1kWh of electricity exported to 1kWh imported from the Grid. For local renewable generation, that most commonly means suggesting 1kWh at noon (generation peak from a south facing photovoltaic panels balances 1kWh of occupant demand at 6pm (demand peak). Measured in energy, that seems to balance. Measured in carbon, that is effectively suggesting displacing around 100g CO_2^{eq} is the same as emitting around 250g CO_2^{eq}.

The lack of a clear statutory definition of Net Zero for the built environment, compounded with the lack of tools that can recognise and quantify genuine Net Zero, leaves a challenge for the true decarbonisation of homes. For residential, this is further compounded by vested interests lobbying for their own preferred solutions. This is most clearly seen with the promotion of hydrogen as a solution for delivering Net Zero in homes.

Hydrogen, when generated from renewable sources (green hydrogen), is undoubtedly part of the energy solutions we need for achieving the legal targets of 2050. However, as carefully reported by the UK's Climate Change Committee,[3] the use of hydrogen is not primarily for resident properties. There is a wealth of technical reasons for this, from molecular size, in-home safety, domestic energy demand levels, infrastructure network costs and so forth, but perhaps the most convincing is the simplest: switching the majority of domestic heat generation to green hydrogen will require us to build roughly three times more wind turbines, solar farms and tidal power systems than switching domestic heat to electric heat pumps.

The UK, though, has a significant gas grid run by large private utilities. It could therefore be suggested that, for them and their funded agents, hydrogen presents a route to the continued existence of their extensive gas distribution network. The result of this could explain the significant political lobbying for hydrogen to be used beyond high energy demand requirements and into distributed, low energy networks such as homes. For the wider industry, this result adds to the confusion and uncertainty created by the lack of tools and definitions, paralysing many into inaction for fear of taking the wrong action.

3. Financial drivers

Alongside the first challenge, there is a fundamental problem for Net Zero in that financial savings do not typically benefit the same organisation that incurs the financial costs, and we do not yet have robust mechanisms to transfer this from one to the other. For the majority of the UK housing market (around 63% owner-occupiers), that means we don't pay notably more for a house that has low energy bills than we would pay for a home with high energy bills. For the social and private rental housing sectors, this also holds true – rental levels are not notably impacted by likely energy bills.

It could be argued that this isn't because the public don't understand, since the majority of UK self-build properties (where the savings and costs are accrued in the same place), choose to exceed the minimum regulatory standards in order to achieve lower running costs. Sadly, self-build makes a small proportion of the UK's new housing, currently less than 18% of the new build market, and whilst the same mindset can be shown to translate into major refurbishment projects, it is less clear in general maintenance and improvement activities.

Fortunately, there are signs of this awareness beginning to translate into the housing markets and finances. UK Government's "Clean Growth Strategy" from 2017 embedded the recommendations of the LENDERS project that gave a mechanism to better embed energy bill savings into mortgage affordability calculations.[4] More recently, the VALUER project has seen early findings from the UK's largest property website Rightmove suggest that energy performance of homes does influence value.[5] Data is beginning to show that low energy homes have a positive price differential compared to high energy homes, approaching 10% of their value.

This nascent trend in property value being influenced by energy performance is likely to accelerate in coming years, driven by both increasing public awareness and government action. A recent consultation from UK government sought views on requiring mortgage lenders to report on their portfolio's overall energy performance and based on responses this seems likely to be implemented. Whilst the proposed approach relies on the EPC and is therefore imperfect, it does create a positive drive for energy improvements.

As noted initially, from a financial perspective, the ideal outcome is that the capital costs of building or refurbishing to deliver net zero are entirely met (or exceeded) by the additional revenue generated from sales or rental. This may well be the case once a combination of market and regulatory forces have reshaped property and rental values, but it is unlikely to be true in the next decade or two, and arguably not likely until after 2050 given the reactive nature of markets. We are therefore in a transitional period, where the capital costs are not directly recovered. This challenge therefore needs more solutions to support immediate action.

One obvious alternative solution is legislation – simply regulate to require Net Zero and make that the minimum acceptable standard. However, it's unlikely that the UK or any of the four home nations (who all have devolved powers over housing to varying degrees), will be brave enough to adopt such a firm approach.

That's not to say regulation doesn't have a part to play. Since 2002 we've seen regular

[3] https://www.theccc.org.uk/publication/hydrogen-in-a-low-carbon-economy/

[4] https://www.ukgbc.org/wp-content/uploads/2017/09/Lenders_Core_Report_1.pdf

[5] https://sero.group/press-room/green-mortgage-for-new-low-carbon-future-living/

steps in Building Regulations requirements on energy performance, and in the latest consultations all four nations are pushing this further for 2022 and proposing another step from 2025. Whilst not currently forecast to step up to Net Zero, these have an important function despite that – it makes the "uplift" from the minimum regulatory standard to genuine Net Zero a smaller step.

For new construction, everything is assessed from the baseline of the minimum regulatory standard, so raising this bar makes Net Zero easier. And it is likely to be the case that in the next twenty years or so, Net Zero eventually becomes the effective minimum anyway. This is less clearly the case for existing homes. Here, the diversity of construction and lifespan of UK homes means the minimum regulatory standard that can be enforced on these properties is much less clear, and much more easily argued around. It is, after all, technically far more challenging to upgrade a 500mm thick, 250-year-old rubble-filled, lime mortared wall than a recently built modern one, but the "existing" home regulations must cover both and need to recognise the complexity and coherence in any chosen solution.

Regulation is therefore only part of the answer for the owner-occupier homes, and until a Net Zero market rebalance comes along in a generation or so we need more levers. Regulation has more promise in the rental tenures (social and private rental), where the UK's implementation of the EU's Minimum Energy Efficiency Standards regulation is already about to be ratchetted up to require an improved performance on these homes, albeit using the not-entirely-suitable metric of EPCs.

There is still a need for more levers outside of regulation, though. Taxation might be one of those levers, with council tax or land value transaction tax both regularly discussed as potentially regraded on carbon emissions. Both of these mechanisms would undoubtedly drive the behaviour of all tenures of homes towards Net Zero, if used sensibly, and do not need to represent a reduced tax receipt to governmental coffers. Land value taxation is probably the quicker, though less impactful, of the two.

The issue with taxation is the reluctance of politicians to use the mechanism. Whilst it seems probable that they will eventually have little choice but to do so – given the legal obligation – it also seems inevitable that this will be left as late as possible and given as much lead-in as possible. In practice, it therefore seems unlikely any meaningful taxation levers will be in effect before 2040, and even that might be optimistic. Ironically, any government bold enough to start the process of carbon taxation vocally and obviously may trigger enough behavioural change in the marketplace that they never need to fully implement their 'threats', but there's no sign of such boldness to date.

With neither regulation nor taxation providing us a panacea for driving decarbonisation in existing homes, we turn back to other financial mechanisms that might help.

The UK's Green Deal, launched in October 2012, was the biggest effort to date to provide another financial mechanism.[6] In essence, it sought to tackle the core issue highlighted earlier – retrofit capital costs need to link to operational savings. However, whilst still operational it is broadly seen to have failed through a combination of savings not being realised, high interest rates and complications with property sales.

Despite the failure of the Green Deal in practice, the principle remains the best chance of financial tools supporting decarbonisation, aside from or alongside market value changes. There are several challenges for novel interpretations of this principle.

First is the security of the lending since this drives the interest rate and fundamentally the potential capital that can be offered. Subprime mortgages aside, this should not be an insurmountable barrier, given securing lending on properties through mortgages and further advances already typically delivers the best high street interest rates.

For larger portfolio lending, there is a sub-challenge here around tangible assets compared to intangible ones, which is effectively the lenders desire to be able to theoretically recover the asset in the event of non-payment. Tangible assets would typically be larger technology components such as heat pumps, batteries and solar photovoltaics, whereas cavity wall insulation and airtightness measures would be considered intangible ones. Given the accepted 'right' approach to decarbonising homes is to reduce energy demands before satisfying those demands with low/zero carbon technologies, the lenders desire for tangible assets acts as a pressure contrary to this. A more sophisticated view is needed from the lenders here, perhaps blending tangible and intangible with a view on the repayment profile and risk, which will hopefully begin to emerge.

For the owner/occupier that makes up around two thirds of the UK's homes, this issue is slightly removed. Instead, the question is whether the property value will increase sufficiently since any mortgage or further advance is secured on the whole home not any specific assets. Which brings us back to a need for the market value.

The second challenge to overcome for a successful reimagining of the Green Deal will be to ensure the energy savings are sufficient to cover the capital costs. Originally conceived as the "Golden Rule" for the Green Deal, the principle was that homeowners would at least be no worse off even whilst repaying the loan through their energy bill.

However, the Green Deal used an underlying SAP engine that was insufficiently sophisticated or flexible enough to represent the individual home and how its residents choose to live in it (the user pattern), the retrofit measures performance and installation quality was not well enough understood, and the resident behaviour changes due to home retrofit works were not well enough factored.

In part, this problem arose from a lack of granularity in understanding the unique nature of each home. With exceptionally long average lifespans, existing homes even built nominally the same to start, evolve to become different. These differences can and should significantly affect the appropriate decisions, and thereby the performance and costs of changes being made.

Overall, the issues around Green Deal meant that too many people didn't save any money at all, and indeed were worse off, and whilst still technically operating - the scheme is generally considered to have failed.

4. Competency & quality

The last of the three main challenges to delivering Net Zero for UK homes is competency and quality. In some instances, UK construction and manufacturing are a global leader, with large scale construction projects delivering some of the safest and most successful

[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/47978/1010-green-deal-summary-proposals.pdf

projects in the world. However, this drive for decarbonisation of existing homes is not currently undertaken by large, expert main contracting firms. The majority of work undertaken to UK homes is by the "Repair, Maintenance and Improvement" (RMI) sector, and unless there is significant change, it is this sector that will be delivering much of the work to decarbonise the UK's 29m homes. The RMI sector is broadly built on the principle of self-certification and is therefore effectively unregulated. Anyone can set up in business as a small builder without any certification or training, and for those working in the sector, regulatory oversight is (at best) a cursory visit from a local council officer for more significant projects with major building works, whilst for individual retrofit measures, even that is unlikely or required by law. Combined with a general public who do not understand good construction and building physics (nor should they), the RMI market has no effective quality control mechanisms.

This does not mean there are not examples of exemplary, conscientious RMI contractors in the UK, but their numbers are almost certainly outweighed by those who are not delivering quality retrofit measures, and this was highlighted by the Each Home Counts Report and the start of the process of a "quality mark" process being developed in PAS 2035 and PAS 2038.[7] Those failing are not necessarily doing so deliberately, though undoubtedly there are some looking to make a quick buck, but more often by simply repeating the errors of "that's' the way we've always done it" due to a lack of awareness, available training and time.

Whatever the reason, the result is that many installers of retrofit measures are not fully competent, and that the work undertaken is therefore of insufficient quality. Whilst not the sole reason, this issue is a major contributor to the Performance Gap – the difference between the designed performance of a building and its actual recorded performance once built. For the UK, this was estimated to be an average of 27%: the average performance of the completed building is more than a quarter worse than it was designed to be! Inevitably, with actual performance varying so significantly from forecast performance, any energy savings or financial mechanisms relying on them become questionable at best.

Aspects of these issues are likely to be solved over the next few years by larger-scale businesses moving in to provide RMI "decarbonisation" services and trying to create quality assurance and monitoring processes for their workforce. In parallel, schemes such as Trustmark are likely to see an expansion of their quality assurance functions where they provide third party accreditation for the installers. Currently this and similar schemes are fairly 'light touch' over the robustness of the checks undertaken, but it seems likely this will change.

5. Key challenges

Achieving Net Zero in the UK's housing is in essence a question of achieving Net Zero in existing homes. This, in turn, breaks into several specific challenges: using the right definition of Net Zero and the tools to support it; providing financial tools that reliably and cost-effectively translate energy savings into retrofit works; and ensuring the right measures are undertaken with the right competency in the right order to deliver the right outcomes for each unique home. Part of this is ensuring the principle of the 4 C's to retrofit risk is adopted (Context, Capacity Coherence and Caution) and delivered as part of a Whole House Survey process that recognises difference and factors such as heritage significance.

6. Optimised Retrofit

Amongst the UK's four home nations there are a number of trials and pilot schemes being undertaken that look at one or more of these key challenges. Perhaps one of the most promising is in Wales, called the Optimised Retrofit Pathfinder.[8] The project is a collaboration of nearly 30 social landlords who are working with a wider group of universities, organisations and private companies, to develop a consistent, efficient approach to decarbonising homes, starting with the 237,000 social homes in Wales.

In its first year, Optimised Retrofit is undertaking refurbishment measures in more than 1,700 homes, with plans to scale-up significantly in future phases. However, the home retrofits are not seen as the main goal of the project itself, but more the raw material to help develop the best processes to support decarbonisation. This doesn't mean those first homes are testbeds for novel retrofit measures (the actual retrofit works are all proven and warranted), but rather that the project is learning from these homes to build better approaches.

Core amongst the novel thinking in the project is the digitisation of the process to improve robustness and efficiency. This starts with a digital tablet based "Whole Home Survey". The project is rapidly iterating the first version of this survey with the input from the social landlords' surveyors on the ground, building towards a shared vision of a technically detailed, intelligently automated home survey that can be undertaken in around 45 minutes in one home. The aim is to capture the uniqueness of every home in sufficient detail to allow the right future decisions about how to decarbonise it, and to do this quickly enough that the survey becomes viable for not just social landlords, but for homebuyer surveys, and mortgage or further borrowing assessments.

Optimised Retrofit's partners are then developing a "Pathways to Zero" digital platform. This is designed to tackle the absence of the right tools to understand Net Zero, embedding detailed energy modelling of each home, including occupants forecast usage, alongside medium and long-term forecasts for energy grid decarbonisation. This significant computational complexity is rationalised into a simple user interface and the concept of a "Zero Carbon by [year]", that can be readily reported for both individual homes or stock portfolios – built with the idea that the general public and financial investors will quickly recognise a "Zero Carbon by 2035" property has fewer investment risks than a "Zero Carbon by 2050" one.

Alongside providing the right tools to assess Net Zero, the Pathways to Zero tool provides the property owner with the technical support to ensure that the right measures are chosen for the right homes. Whilst leaving the final decision to the property owner (or their competent agent), the tool calculates likely energy bills and fuel poverty risks, ventilation and overheating risks, moisture issues and incompatible measures based on climatic conditions or property survey information. The result is a technical safety net that removes the uncertainty of how to take each individual home to Net Zero.

The next of the key innovations is the integration of home energy controls and metering

[7] PAS 2035 and 2038 are overarching documents in the retrofit standards framework produced by the British Standards Institution. PAS 2035 provides a specification for the energy retrofit of domestic buildings, whilst PAS 2038 does the same for commercial buildings.

[8] https://www.optimised-retrofit.wales/

through a novel hardware installation termed an "Intelligent Energy System" (IES). This package of controls, monitoring and metering is being installed in to every one of the 1,700+ homes. It will monitor energy usage by the main demands (space heating, hot water and plug-in power) as well as basic internal conditions, yielding a very large and granular dataset to better understand the effectiveness of each individual measure, the impacts on behaviour, and therefore how to better forecast these measures in future. The IES will tackle the significant gaps in understanding around the variety of impacts for differing measures, and as a result significantly improve the accuracy in forecast energy bill savings. This has significant implications for the potential to leverage finance from energy bill savings.

Where retrofit measures permit grid balancing, such as hot water tanks or battery storage, the IES can also provide optimisation functions for homes. Through remote automation, the resident's comfort preferences can be delivered according to their settings (via App, web, in-home or even telephone). However, the IES can draw power to deliver these comfort preferences at times of the lowest grid carbon (and happily also currently lowest price). This has the effect of 'hunting' low carbon power, and this can make significant reductions that approach or even exceed halving the home's carbon footprint.

These digital aspects of the Optimised Retrofit project combine to generate a Building Passport for each home – a record of the home's condition, planned future Pathway to Zero, and live granular data about the actual performance and carbon footprint. Designed to be a permanent record that can transcend property sales, the passport will also have an aggregated view for stock or mortgage portfolios. To ensure the data stored remains current, an installer App is under development in the Optimised Retrofit project that will combine the function of individual retrofit measure quality assurance with a means to update the Building Passport's records. Here again, digital processing is being deployed to speed up times and improve technical robustness, whilst ultimately trying to tackle the RMI's typically poor levels of retrofit measure installation quality.

Alongside 1,700+ home retrofits and the development of novel digital tools, Optimised Retrofit has projects looking to engage and support decarbonisation across a broad spectrum. Training and retrofit needs are being forecast by year and area to support the RMI sector upskilling, helping them plan their business investment by evidencing a pipeline as well as supporting the training providers to know what and where to offer courses.

For the public sector, procurement of works will always be a key factor. Here, the project is developing a new Dynamic Procurement System that is intended to be easier for smaller businesses to engage with, and to support their ambitions to reskill or upskill into good quality decarbonisation work. Outside of the public sector procurement, this is linked with developing practical mechanisms to understand genuine competency (as opposed to paper qualifications), in order to launch and grow the nation's "Decarb Army" that is needed to refurbish all the homes in the coming decades.

Optimised Retrofit's starting point is social homes, driven by Welsh Government's bold aspiration to lead the UK and decarbonise these homes by the early 2030's, an ambition so far matched by pledges for the funding to help deliver it. The project is envisaging processes that go beyond social homes, however, ultimately looking at how to streamline decarbonisation ready for the private owner/occupier sector.

Here, early work with the owner/occupier sector includes a collaboration with the separately Innovate UK funded VALUER research project and expanding this to a larger trial. Using the digitised processes developed in Optimised Retrofit, private homeowners will be offered a home survey and Pathways to Zero assessment. With specifically developed lending products, initially led by Monmouthshire Building Society but with others following, these homeowners will be offered additional borrowing secured on their home linked to the technically appropriate measures proposed. As an alternative or in combination, using the detailed energy forecasting made possible through Optimised Retrofit, Sero will offer the resident an energy bill repayment route to fund the works. The impact of the retrofits will be closely monitored by project partners Rightmove and the Royal Institution of Chartered Surveyors, building further evidence around the emerging value difference attached to lower energy homes.

The Optimised Retrofit work, which is strongly supported by the Welsh Government, and with nearly 30 social landlords collaborating, represents one of the largest and most comprehensive efforts seen to date to tackle the multiple issues of decarbonisation of UK housing. Whilst born in social homes, the project is clearly building towards an approach that is applicable across all tenures that can be scaled rapidly to support financial portfolio reporting as much as on-the-ground refurbishment works. This is credit to Welsh Government's mindset of building the mechanisms before increasing the funding and could be readily contrasted to the UK Government's recent Green Homes Grant scheme that took the reverse model and failed in under a year.

7. Conclusions

Decarbonisation of the UK's homes is a large part of the UK's legal obligation to achieve Net Zero by 2050, and around 29 million existing homes need to be improved. Minimum regulatory standards, private landlord obligations and future tax changes are all likely to play a part in tackling this – but won't be the whole. Tools are also needed to provide more accurate assessments and pathways for individual home decarbonisation that allow this to occur in harmony with energy grid decarbonisation, and which provide sufficient confidence to the property owner and underlying financier that work will be delivered with the appropriate quality, and energy and carbon savings reliably achieved. Here, the Welsh Government's Optimised Retrofit Pathfinder project is breaking new ground and offers genuine hope for scalable, industry-wide solutions to the challenges faced.

Affordable housing finance for informal workers during the pandemic: context, experience and lessons

By Widya Estiningrum, Yesi Septiani, Wahyu Lubis

Talking about home means talking about people. The more people there are in a country, the more the need for homes. Indonesia as a country with the 4th largest population in the world is currently still faced with the issue of fulfilling the need for decent and affordable housing for its people. The total population of Indonesia in 2018 reached 264 million, with an average population growth rate of 1.25% per year over the last 5 years, while the number of households that still did not have a house at the end of 2018 was 13.5 million households[1]. For the government, the challenge of providing affordable housing for its people is still enormous. Various efforts have been made to reduce the size of the housing backlog, one of which is by launching the One Million Houses Program. The program includes several financing schemes, such as the Housing Financing Liquidity Facility (FLPP) program, which is a home ownership subsidy program for low-income people with affordable interest and long tenors. Based on data from The Ministry of Public Works and Housing (MPWH), the result of the FLPP program from 2010-2020 was 725,937 housing units.

However, even though the amount of disbursement is quite large, this program still does not target all levels of low-income people, especially when viewed from the perspective of their employment status. Referring to Center for Management of Housing Finance Funds (PPDPP) data in March 2020, the realization of the FLPP program distribution for the formal worker segment reached 89.31%, while absorption in the informal worker segment only reached 8.45%. Meanwhile, in reality the composition of Indonesia's population when viewed by employment status, informal workers have a larger percentage than workers in the formal sector. Data from the Indonesian Central Statistics Agency as of November 2019 states that of the total workforce of 133.56 million people, 55.72% of them are included in the category of informal workers. Included in this sector are entrepreneurs, traders, farmers and others. The main problem in distributing the FLPP program to the informal sector is that banks appointed as mortgage lending institutions for government subsidies are reluctant to channel housing finance (mortgage financing) to groups of informal workers because they are considered to have a high risk due to the absence of the certainty of a fixed income.

Faced with this situation, Sarana Multigriya Finansial (SMF) – a state-owned company engaged in secondary housing finance with a vision to achieve decent and affordable housing ownership for all Indonesian families, initiated a program that can help informal workers gain access to housing finance. In this case, SMF collaborated with Grab Indonesia – one of the largest online transportation platforms in Indonesia, to launch the KPR SMF-Grab program. This program targets Grab Car Drivers who are informal workers and have obstacles to obtaining mortgage financing facilities from banks, thus this program is originated by a Non-Bank Financial Institution (NBFI).

As can be seen in Estiningrum et al. (2020), the KPR SMF-Grab program targets drivers who:

1. do not have their own house;
2. have a minimum rating[2] of 4 out of 5;
3. has been a Grab Indonesia driver for at least 1 year;
4. has a minimum gross income of $571 per month *(assuming an exchange rate of IDR14.000)*; and,
5. has not been suspended in the last 6 months.

Meanwhile, the program features have been designed and adjusted to the needs of drivers, including: being aimed at first-time home ownership; a maximum house price of $25.000; a down payment starting from 1%; 12.5% fixed interest rate for a maximum of 15 years; daily installment payments are automatically deducted through the Grab system; and there is no credit processing fee.

This scheme will certainly be very attractive when compared to the commercial housing financing scheme as shown in Table 1. The average commercial mortgage interest rate in Indonesia is around 13-15% floating per year. Of course, by offering a fixed interest rate with a rate still below the Commercial KPR SMF Grab KPR program has its own advantages, even though in terms of long-term funding, the cost of funds provided by SMF is not yet competitive when compared to the housing subsidy program interest rates provided by the government, which provides 5% fixed rate for 20 years. This is because the long-term funds provided by SMF come from the issuance of debt securities in the capital market. In addition, KPR SMF Grab Program features a low down-payment starting from 1% and the system's direct daily installment payment mechanism is the main advantage of this program. This is intended to be in accordance with the characteristics of informal workers who do not have a certain date for payroll like formal workers so that the obligation to pay installments is lighter than if they have to pay monthly mortgage installments.

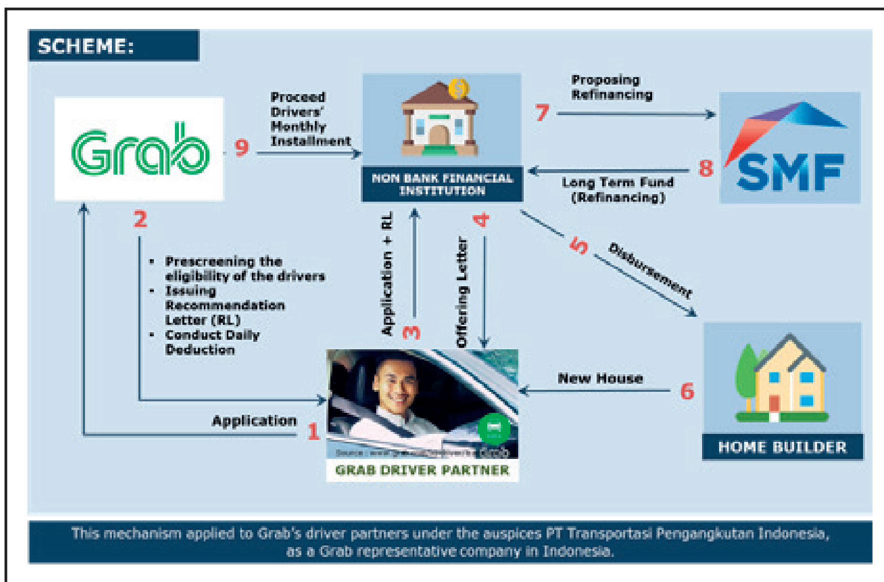
The following are several steps that need to be completed so that a Grab driver can

[1] Susenas, *Survey Statistik Nasional*, 2018.

[2] Rating given by Grab's customers based on the service quality of the driver. The range is from 1 to 5, with 1 ass the lowest rating. A low rating will result a suspension for the driver.

TABLE 1 Comparison of Conventional Housing Financing Schemes and KPR SMF-GRAB

CATEGORY	CONVENTIONAL	KPR SMF GRAB
Down payment	Min. 5%	1%
Interest Rate	13-15% floating rate	12,5% fixed rate
Tenor	In accordance with the provisions of the KPR Lending Agency, based on the ability to pay in installments	Max. 15 years
Credit Plafond		$25.000
Administrative costs	~1% of the house price	Free
Installment billing	Monthly payment	Daily collection



This mechanism applied to Grab's driver partners under the auspices PT Transportasi Pengangkutan Indonesia, as a Grab representative company in Indonesia.

get a mortgage loan from KPR SMF-Grab program facility as shown in Figure 1. First, to be able to apply for a KPR SMF Grab, Grab car drivers need to get a recommendation from Grab Indonesia to be able to apply for a mortgage loan to NBFI. In this case, Grab acts in conducting initial screening of its drivers. Second, drivers who have a letter of recommendation can apply to NBFI. In this case the NBFI will conduct an analysis of the applicant's eligibility and issue a credit approval letter for the applicant who demonstrates eligibility. Third, drivers who already have a credit approval letter can sign a credit agreement with NBFI, and then the driver obtains the desired house with a payment made by the NBFI to the developer. Fourth, for housing financing carried out by NBFI to end users, NBFI can refinance to SMF so that financial liquidity is maintained.

The success of this program is inseparable from the commitment and roles of each party involved in the qualification, implementation and monitoring stages of the mortgage program. First is TPI (PT Transportasi Pengangkutan Indonesia) – a subsidiary of Grab Indonesia that manages Grab Car drivers. At the stage of determining qualifications or initial driver screening, this is carried out by TPI. In this case Grab has a system called driver rating which functions as a performance parameter for its drivers, with the lowest to highest rating levels being a rating of 1 to rating 5. While in the implementation stage, Grab Indonesia plays a role in cutting the daily installments of drivers as KPR SMF-Grab debtors. Grab then every month makes collective payments to the NBFI. To do this, Grab as a technology-based company creates a special menu in the driver application that functions to automatically make daily installment withdrawals. Furthermore, in the monitoring stage, SMF and Grab jointly monitor drivers for the smoothness of their installment payments and their income conditions, including during the COVID-19 pandemic which is ongoing today.

The second party involved is SMF which acts as a long-term provider to the NBFI. In terms of financing schemes, SMF plays an important role in synchronizing cooperation both in determining which NBFI acts as the program originator and in arranging financing product features according to the needs of drivers. In addition, SMF together with Grab jointly select developers who participate in the program so that the housing supply offered to drivers is qualified. The last party is the NBFI that acts as the originator and analyzes the suitability of the drivers who apply for the mortgage loan. In the event that a driver has terminated his employment relationship with Grab, the collection payment that was originally carried out by Grab will be carried out directly by the NBFI to the ex. drivers.

Compared to the formal worker segment, the risk of financing to this segment is higher. Some of the mitigation measures taken to minimize risk are as follows: First, the interest rate is fixed throughout the tenor. Thus, installments can be predicted over time. Second there is a restriction on maximum house prices. This is to mitigate risks in the event of debtor default and consequent sale by auction. House prices in the range of $25.000 are considered fast moving in the Indonesian housing market. The third is for the house to be the primary residence of the borrower. This reduces the risk of default by the debtor compared to the house being financed for investment. Fourth, debtor financing to NBFI is protected by life insurance for debtors, fire insurance for housing units is financed, and credit insurance for debtor financing to NBFI is also protected during the financing period.

The main key to the success of the program lies in the product features that accommodate the needs of drivers in buying a home, such as:

1. Ease of credit terms. It is enough for the driver to prove his good performance while joining as a Grab partner to then get a letter of recommendation. The core document related to drivers, namely the income history for the last 6 months, will be submitted by Grab to the NBFI through the system.
2. Low down-payment, compared to mortgages through banks (usually banks require a minimum down payment of 5% of the house price in accordance with Bank Indonesia regulations). In this program, the NBFI only requires a minimum down payment of 1% (provisions for mortgage loan advances in NBFI have not been regulated by the regulator).
3. Relatively affordable credit processing costs. Selected developers provide discounts that are allocated to reduce costs for credit agreements such as notary fees, insurance, and taxes as trade off

for promotional costs that could potentially have to be incurred if you have to sell normally or don't participate in this kind of program.

4. Low and fixed loan interest during the financing period. Thus, the amount of installments can be seen from the credit agreement to maturity.

The success of the program can be measured by the high enthusiasm of the drivers, at the time of launching in Jakarta in September 2019, which was attended by 400 Grab Car driver partners, 386 of them submitted KPR applications, and within 3 months of its launch it was recorded that in December 2019 100 drivers were able to own homes through this program.

Since then, during the Covid-19 pandemic, this program has undergone several adjustments. The existence of large-scale social restrictions (PSBB) in the Jakarta area has a major impact on the transportation sector, including the use of ride hailing services such as online taxis or Grab Cars. This is because, since the implementation of the PSBB, the use of this service was limited, which resulted in a drastic reduction in the number of passengers. The main impact for Grab Car drivers is a decrease in their daily income. In anticipation of this situation, SMF and Grab agreed to suspend new applicant to the program and focus on monitoring the existing portfolios so as not to be further affected. In general, the government through the Financial Services Authority (OJK) issued a policy of relaxation of credit restructuring for mortgage facilities, by postponing principal payments of up to 1 year. For this reason, up to 6 months into the pandemic, the Non-Performing Loan on the KPR SMF Grab portfolio was still maintained at 0%.

Based on this, KPR SMF Grab is a breakthrough in housing financing that should be expanded massively. This is based on the following considerations: First, the segment of informal workers is currently experiencing a transition to become more modern. Five years ago, informal workers were those who worked as street vendors, public transport drivers, farmers and others. Currently, those who work as merchants can do their marketing through online platforms. Then those who work as public transportation drivers can join companies that have online transportation systems such as Grab. This has a positive impact because the income earned by workers in this segment can be measured and systematized through the existing platform, so that limited access to finance to banks for this group of workers should not be an issue anymore. Second, the cooperation of financial institutions that provide credit with companies supported by online platforms may require that the installment deduction is carried out automatically through the system. In general, these companies have a revenue management system for their partners either through separate financial management, such as Grab which has OVO (a payment application from PT Visionet Internasional) or through collaboration with other financial institutions. This certainly can minimize the risk of giving credit to debtors. Third are online platform-based companies that have technology driven business (start-up) characteristics such as Grab, which have advantages such as more efficient information dissemination so that marketing & promotion costs, for example, can be reduced and then transferred long with other benefits received by the debtor.

Due to the success in the early stages, the it is planned to expand the marketing of the program not only in Jakarta, but also in areas that have many drivers, and also to expand the program recipient driver segment not only for car drivers but also for motorbike drivers. This opens up opportunities for the program to be duplicated in other informal communities, such as insurance agents, online retailers, and others. However, with the employment conditions in Indonesia which are dominated by the informal worker segment, access to housing finance for the informal segment must be developed so that every Indonesian citizen has the same opportunity to own a house.

Besides the success of the program, the benefits received by each party and the hope that this program can be carried out massively so that it can bring big changes to the housing industry in Indonesia, we are aware that there are still several challenges for the KPR SMF Grab program including:

1. the financing scheme is not yet subsidized by the government as much as the FLPP program, so the interest rate charged to debtors is the commercial interest rate. In terms of company operations, SMF collects funding through the issuance of bonds so that the interest rate charged to NBFI which is then passed on to drivers is the market interest rate.
2. limited capacity of the NBFI as the originator. With the strong enthusiasm of Grab Car Driver partners who apply for credit, the appointed originator has not been able to provide the best service for credit processing so it takes quite a long time. This is inseparable from the main business of NBFI's in Indonesia, which are generally in the field of automotive lending and are still relatively new to the mortgage distribution industry.

Partnership and Financial Innovation part II: Reall, affordable housing markets and Covid-19 in urban Africa and Asia

↳ By Andrew Jones

1. Introduction

1.1. Background

In 2020, *Housing Finance International* published a prize-winning research article that presented practitioner insights and learnings on delivering affordable housing and affordable mortgage finance for people on low incomes in urban Africa and Asia. This did so through a focus on Reall, an innovator and investor in climate-smart affordable housing for the bottom 40% of the income pyramid in urban Africa and Asia.[1]

Reall invests in credible African and Asian developers to demonstrate the socioeconomic impact and commercial viability of affordable urban housing, while simultaneously working in strategic partnerships to tackle market bottlenecks and crowd in new actors and resources into the affordable housing space. The 2020 article presented case studies of innovative financial partnerships by three of Reall's in-country partners:

- **Casa Real:** a social enterprise developing resilient, affordable housing in Beira, Mozambique. Casa Real leveraged good relations with the Beira Municipality to access prime development land and co-develop an innovative mortgage product with Absa Bank Mozambique for its middle- and lower-income clients (the first of its kind in the country).
- **Ansaar Management Company (AMC):** a social enterprise in Pakistan, developing affordable housing in large cities such as Faisalabad, Lahore, Multan, and Peshawar. AMC negotiated a ground-breaking agreement with the semi-state-owned House Building Finance Company (HBFC) to supply mortgages to low-income AMC clients.
- **Syntellect:** an Indian fintech start-up based in Mumbai. With Reall's support, Syntellect has developed cutting-edge software (RightProfile) to be used by housing finance institutions. RightProfile enables lenders to better understand and assess the credit risk of unbanked, new to banking, and new to credit customers for long-term mortgage finance.

One year later, this follow-up article revisits these three case studies to update on progress and evaluate further developments. As the original piece was authored on the cusp of the global Covid-19 outbreak, this also provides a timely opportunity to reflect on how the shocks of the pandemic have impacted on the affordable housing and

FIGURE 1 Reall's Global Network, with location of case studies highlighted

[1] Andrew Jones et al. 'Partnership and financial innovation: Reall and unlocking affordable housing markets in urban Africa and Asia'. *Housing Finance International*. Autumn 2020.

housing finance space and share learnings and recommendations with the wider sector.

1.2. The Affordable Housing Challenge and Opportunity

Affordable housing is a profound, cross-cutting global challenge. At least 1.2 billion people worldwide live in substandard housing, often lacking access to basic services and infrastructure. This challenge is especially acute in rapidly urbanising Sub-Saharan Africa and South Asia, as urban population growth outpaces the capacity of national and municipal governments to cope.

The scale of the challenge is reflected in cumulative regional housing deficits of 60 million homes in Sub-Saharan Africa, and 80 million homes in South Asia.[2] These backlogs have contributed to urban sprawl, a lack of housing options and infrastructure, and given rise to overcrowded slums such as those found in Accra, Cape Town, Kampala, Karachi, Lagos, Manila, Mumbai, and Nairobi.

Scalable, affordable housing solutions can improve the health and economic opportunities of people on low incomes, while driving inclusive growth, climate mitigation and urban resilience at scale. Despite the impactful opportunity, delivery is often inhibited throughout Africa and Asia by systemic market bottlenecks. On the supply side, these include a lack of affordable land, insecure title, ineffective regulations, and insufficient incentives for developers.[3]

Effective demand is also constrained by a lack of affordable long-term finance and mortgages. Housing finance systems are restrictive and underdeveloped in most emerging markets, with standard mortgage terms characterised by large deposits, high interest rates, inaccessible income thresholds, and limited availability. This pushes people at the bottom of the income pyramid towards informal settlements, and incrementally building their own housing using expensive informal credit. This challenge is acute for people in informal employment (the majority of working adults in Africa and Asia), who typically lack documentation and are more susceptible to economic shocks.[4]

FIGURE 2 The Impact of Covid-19 in India, Mozambique, and Pakistan, as of 1 June 2021[6]

	INDIA	MOZAMBIQUE	PAKISTAN
Population	1.366 billion	30.37 million	216.57 million
% Urban	34,8	36,5	36,9
National Housing Deficit (units)	50 million units	2 million units	10 million units
Confirmed Covid-19 cases	28 million	70 795	922 824
Confirmed Covid-19 deaths	331 895	836	20 850
Economic growth (GDP) in 2019, pre-pandemic	4,20%	2,20%	1,90%
Projected economic contraction (GDP) in 2020, post-pandemic	-7,50%	-0,50%	-1,50%

The global Covid-19 pandemic has further demonstrated the persistently poor housing conditions that characterise many African and Asian cities, and how these exacerbate the risk of infection. The escalating housing deficits across both continents therefore also appear as a potential health and humanitarian crisis, creating new impetus for solutions. The pandemic has also heightened awareness of the wider socioeconomic impact of housing beyond the household – highlighting how affordable housing is a key opportunity for post-Covid economic growth strategies.

At the same time, the lockdown measures and stay-at-home orders that have characterised many national responses to the pandemic have triggered severe economic shocks and contractions (Figure 2). This has resulted in millions of low-income households losing jobs and livelihoods and depleting precious savings. This may limit the potential of low-income borrowers to afford decent housing and diminish the risk appetite of investors and banks to enter the market.

New solutions are urgently needed that can enable the delivery of decent, sustainable, and genuinely affordable housing to people and families on low incomes in Africa and Asia. Meeting this challenge will require new financial models and approaches, new types of partnership, new forms of financial innovation, and the more effective application of disruptive technologies.

1.3. Reall's Affordable Housing Network

This article explores these themes through the practitioner lens of Reall and its network of partners. Headquartered in the UK, Reall is an innovator and investor in climate-smart affordable housing for the bottom 40% of the income pyramid in urban Africa and Asia. Reall's priority focus is in Kenya, India, Nigeria, Pakistan, and Uganda – with a wider footprint that includes Ghana, Mozambique, Nepal, the Philippines, and Zimbabwe. Reall catalyses finance from the Swedish and UK governments to support credible African and Asian partners with potential for scale and replication – investing over $80 million into impactful affordable housing developers and their projects on both continents since 2000 (Figure 1).

FIGURE 3
Reall's global impact statistics in Africa and Asia since 2000, as of 1 June 2021[7]

Total Invested	$80.2 million
Number of projects	171
African countries worked in	11
Asian countries worked in	4
People housed	106,000
Jobs created	83,000
Women and children housed	76,000
Average basic home completion cost (2016 – 2021)	$11,000

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2 Housing deficit estimates calculated by Reall, based on most recent available data.

3 McKinsey Global Institute. *A blueprint for addressing the global affordable housing challenge.* Washington, D.C., 2014.

4 Bruce Ferguson et al. 'The new political economy of affordable housing finance and urban development', in J. Bredenoord et al. (eds.), *Affordable Housing in the Global South: Seeking Sustainable Solutions*, pp.40-54. Routledge. Abingdon. 2014.

5 Kecia Rust. 'Housing Finance in Africa: Central to a post COVID-19 resilience and recovery strategy'. CAHF. Johannesburg. 2020. https://housingfinanceafrica.org/documents/housing-finance-in-africa-central-to-a-post-covid-19-resilience-and-recovery-strategy/

6 Data sourced primarily from World Bank Development Indicators and Our World in Data, using most recently available information. 2021.

7 Reall. 'Data Dashboard: Global Impact'. Reall. 2021. https://www.reall.net/data-dashboard/global/

Reall and its partners amplify these strategic investments by brokering changes in policy, regulation and finance in national housing markets.[8] These interventions typically span the entire value chain, from influencing local planning policies and driving down construction costs, to leveraging green investment and enabling people on low incomes to access affordable mortgages for the first time. Through working in partnership, sharing innovation and fostering take-up, Reall is committed to improving the lives of 100 million people in urban Africa and Asia by 2030.

The case studies below document three innovative Reall partners in Mozambique, Pakistan, and India respectively. These follow on directly from practical findings published by *Housing Finance International* in 2020 ('Partnership and financial innovation: Reall and unlocking affordable housing markets in urban Africa and Asia'). To ensure this article remains accessible to readers, each case study begins with bullet points to briefly summarise the previous article.[9]

2. Casa Real and Absa Bank in Mozambique: Financial Innovation and Landmark Inclusionary Mortgages

2.1. Summary of 2020 Case Study

- Casa Real was established in 2018 as an affordable housing social enterprise, in Beira (Mozambique's second city).
- Reall invested in Casa Real and provided capital for a pilot housing project. This facilitated the development of 10 quality, affordable and climate resilient homes in Beira.
- The Beira Municipal Council supported Casa Real's work by reducing legal minimum plot sizes for housing construction. The Government of the Netherlands also supported and promoted Casa Real. These engagements strengthened Casa Real's credibility to banks and investors.
- Several commercial banks in Mozambique were attracted by the proposition of providing mortgages for Casa Real's customers, to open new markets in a country with little history of inclusionary housing finance.
- Absa Bank Mozambique (formerly Barclays) proceeded to formal partnership with Casa Real and agreed to launch a new mortgage product targeted at Casa Real customers with monthly incomes of 15,000 MZN ($250).
- As this income threshold is generally affordable for households around the 50th percentile of the income pyramid in Beira, this represented a substantial improvement on previous mortgage offers and an ideal entry point to test the market.
- Absa accepted the risk of lending to a lower-income segment, and tailored the mortgage product terms and conditions. Casa Real accepted responsibility for identifying customers, facilitating agreements with employers, assisting with opening bank accounts and providing relevant documentation.
- While Absa's initial expected return on investment was lower for this segment compared to higher income clients, the potential is apparent for a suite of new products and, in time, lucrative returns from increased efficiency and economies of scale.

2.2. Recent Developments: Landmark Mortgage Approval and Financial Innovation by Casa Real and Absa Bank

Casa Real are developing affordable, inclusive, and climate resilient housing solutions in an extremely challenging environment. More than 90% of the Mozambican population is categorised as low-income, and only 21% of the population have a bank account. While the national housing policy commits the government to provide housing to all of the population, in practice most are excluded due to high costs and strict requirements to access finance. An estimated 80% of the houses in Mozambique are self-built with low quality materials, which renders them vulnerable to frequent natural disasters.[10]

Casa Real's partnership with Absa Bank to make formal housing finance accessible and affordable to lower-income borrowers is therefore genuinely revolutionary in the Mozambique context. In Spring 2021 Absa fully approved the first Casa Real customer for a long-term housing mortgage loan. This is itself worthy of celebration as the first inclusionary commercial mortgage in the history of Mozambique.[11]

FIGURE 4 Casa Real affordable housing development in Beira, Mozambique

© Reall, 2020

[8] Andrew Jones and Lisa Stead. 'Can people on low incomes access affordable housing loans in urban Africa and Asia? Examples of innovative housing finance models from Reall's global network'. *Environment and Urbanization.* 32:1, pp.155-174. 2020.

[9] Reall. Corporate Strategy 2020 – 2025. Reall. 2020. https://www.reall.net/wp-content/uploads/2020/06/ReallA4.pdf

[10] Centre for Affordable Housing Finance in Africa (CAHF). *2020 Yearbook – Housing Finance in Africa: A review of Africa's housing finance markets*, pp.179-182. CAHF. Johannesburg. 2020.

[11] Reall. 'Reall partner Casa Real and ABSA Bank have developed the first ever mortgage for low-income households in Mozambique'. Reall. 2021. https://www.reall.net/blog/casa-real-launch-landmark-affordable-mortgage-in-mozambique/

While Absa's first mortgage approval is a landmark achievement, Casa Real also submitted more than 100 viable clients with full documentation that did not make it through the bank's income and creditworthiness assessment mechanisms. This slow progress of mortgages does not reflect a lack of commitment within Absa to enter the lower-income space and develop new business lines. Rather, the inherent dysfunction of the Mozambique housing finance market (high interest rates and large perceptions of risk), combined with Absa's unfamiliarity with the lower-income segment, has constrained the bank from approving clients at scale. This reinforces how crowding in new actors and moving downmarket is always a gradual process.

The Covid-19 outbreak has also been an important inhibitor on progress. The pandemic reached Mozambique as the country recovered from prior economic, political, and climate-related shocks, and exacerbated developmental challenges. While the total number of confirmed cases and deaths has been relatively low, the country has experienced significant economic contraction. Wage reductions and job losses have resulted in increasing loan defaults, and many banks have renegotiated debts with clients and extended loan term periods. In this climate, financial institutions struggle to internally justify financial products targeting the bottom of the income pyramid.[12]

To streamline Absa's entry into the market, Casa Real has developed an innovative Rent-to-Buy model. Through this, customers can rent affordable homes directly from Casa Real. In return, Absa agrees to consider clients for mortgage loans after they have made three years of rental payments, using the cumulative payment as a deposit. A significant advantage and selling point of this model is that it reduces the initial annual cost of homeownership below the high interest rates characteristic of Mozambique and many other African economies.[13] This approach also de-risks Absa's lending by building up credible track records of client repayment.

Overall, the Casa Real and Absa Bank partnership remains strong in Mozambique, despite hardships stemming from Covid-19. Both parties acknowledge the challenges of the local market, and while the pandemic and accompanying economic shocks have stalled progress, both remain committed to developing inclusive housing solutions. This includes innovative new financial models such as Rent-to-Buy. The challenge ahead is to successfully navigate the pandemic period, stabilise, and identify pathways to scale up.

Reall's role as an impact investor in enabling this partnership has been crucial. Reall's patient capital enabled Casa Real to establish itself as a viable business, deepen the evidence base, and deliver a quality product. Together, Casa Real and Reall demonstrate how smart, targeted investments are essential to kick-start affordable housing markets and crowd in new actors and resources. Casa Real is now transitioning into a self-sustaining business, that does not rely on Reall's continued investment. Partnership with commercial banks such as Absa will be essential to realising this, and ultimately unlocking decent and resilient housing for all Mozambicans.

3. Ansaar Management Company (AMC) in Pakistan: Growing Influence and Impact in an Enabling Environment

3.1. Summary of 2020 Case Study

- AMC is a social enterprise headquartered in Lahore, developing affordable housing within or close to large cities such as Faisalabad, Lahore, Multan, and Peshawar.
- With Reall's support and capital investment, AMC has constructed 700 homes and 600 serviced plots within desirable and sustainable communities for the bottom 40% of the income pyramid.
- AMC patiently nurtured a long-term partnership with the House Building Finance Company (HBFC), a semi-state-owned housing finance institution operating in the public interest. This partnership ultimately resulted in the launch of a new HBFC mortgage product.
- HBFC agreed to provide affordable mortgages to low-income AMC customers with monthly incomes of at least 25,000 PKR ($160). HBFC mortgages are loaned at a fixed interest rate of 12% for up to 20 years – a significant breakthrough in a country with little mortgage penetration.
- AMC de-risked HBFC by delivering a desirable, quality affordable housing product – grounded in AMC's nuanced understanding of the target market and customer base.
- Over 60 HBFC mortgages have been approved to date to AMC customers, and the initial performance of these loans has been excellent. Successfully demonstrating the viability of this model is essential for incentivising new lenders and developers into the affordable housing space in Pakistan and catalysing political and regulatory changes.

3.2. Recent Developments: AMC and Reall in an increasingly conducive national environment

AMC's partnership with HBFC to provide mortgages to low-income clients was genuinely pioneering in Pakistan – a country with little mortgage penetration and no notable history of lower-income lending by commercial banks.[14] The partnership was underpinned by AMC's delivery of quality housing that is affordable and desirable to the bottom 40% of the income pyramid. All AMC homes are also developed through the lens of a 'placemaking' approach, that looks beyond a sole on focus on delivering units towards fostering sustainable and inclusive communities with quality infrastructure and services.[15]

Partnership with HBFC has heightened AMC's profile and reputation within Pakistan, and this growth in credibility dovetailed with the emergence of a more conducive national political environment for affordable housing. The current Federal Government, led by Prime Minister Imran Khan, has taken significant steps to foreground housing in national development policies and enable the market. The centrepiece of this strategy is the official Naya Pakistan Housing Programme (NPHP), launched in 2018 to facilitate the construction of 5 million affordable housing units by 2023.[16]

AMC (represented by its CEO Jawad Aslam) is a permanent member of the Naya Federal Task Force, and is notably the only affordable housing developer to be included at such a

[12] World Bank. 'Mozambique Economic Update: Growth Expected to Rebound by 2022'. Maputo. 2021. https://www.worldbank.org/en/news/press-release/2021/03/04/mozambique-economic-update-growth-expected-to-rebound-by-2022

[13] Olu Olanrewaju. 'Boosting African home ownership through help-to-buy models'. *New African*. London. 2021. https://newafricanmagazine.com/25908/

[14] World Bank. *Pakistan Housing Finance Project – P162095*. World Bank. 2018.

[15] Reall. *Affordable Housing and Sustainable Communities in Urban Africa and Asia*. Reall. 2021. https://www.reall.net/wp-content/uploads/2021/03/Affordable-Housing-and-Sustainable-Communities.pdf

[16] Tabadlad. *Optimizing the Naya Pakistan Housing Policy Opportunity*. Islamabad. 2019.

high level.[17] This has raised AMC's profile significantly and created a pathway to political influence. AMC has already leveraged this entry point to champion for reforms to the country's slow and opaque construction permits approval process, which historically impeded the ease of doing business and impacted on the viability and affordability of low-cost housing development. AMC's successful advocacy has resulted in a streamlining and rationalising of the approvals process into a 'one-window' facility, reducing timeframes and costs significantly.[18]

FIGURE 5 Girls travelling to school from their homes in an AMC affordable housing community, Faisalabad, Pakistan

© Reall, 2018

The Covid-19 outbreak and resultant lockdowns have impacted significantly on Pakistan's society and economy. The total number of confirmed cases and deaths has been relatively low in Pakistan, compared to many of its neighbours. However, national gross domestic product contracted by an estimated 1.5% in 2020, and half of the working population experienced either job or income losses.[19]

The pandemic has also strengthened the government's commitment to affordable housing as a vehicle for economic recovery, and further incentives have been introduced to galvanise the market. While the Naya Housing Programme predated the COVID-19 crisis, it gained new impetus as the government identified the construction and housing sector as a vehicle to 'build back better' from the pandemic. Most notably, in July 2020 the State Bank of Pakistan (SBP) mandated that all banks must lend at least 5% of their loan portfolio for housing and construction financing by December 2021.[20]

In parallel, the government has pushed through key reforms relating to foreclosure laws and land registration, that collectively make mortgage financing a more attractive commercial proposition.[21] Despite these initiatives, many established Pakistan banks remain risk adverse in their attitude towards long-term affordable housing loans and the low-income segment. However, it is clear that a more conducive housing finance environment is slowly emerging – reflected in a growth of the housing and construction loan portfolios of Pakistan banks by 54 billion PKR ($350 million) between July 2020 and March 2021.[22]

These developments have prompted many banks and financial institutions to directly approach AMC in search of viable affordable housing investment opportunities. AMC has capitalised on this interest to develop new projects and partnerships, with Reall's backing and financial support. The original partnership with HBFC to provide low-income mortgages (enabled by Reall's patient capital) has therefore ultimately helped catalyse a new level of engagement and influence with the financial sector.

Going forwards, Reall is expanding its network of Pakistan partners in Pakistan to leverage new market opportunities. This includes capital investment by Reall into a promising start-up (ModulusTech) that is pioneering modular and low-carbon building technologies.[23] Reall is also exploring support for new housing finance institutions that have sprung up in response to a more conducive financial environment, most notably Trellis – a newly formed Non-Banking Finance Company (NBFC). Trellis applies global best practices and digital systems to modernise mortgage lending to low-income and informally employed borrowers.[24] Key stakeholders must continue to collaborate and explore new approaches in Pakistan, to broker further policy changes and build mortgage markets that enable sustainable and affordable housing solutions.

4. Syntellect in India: Applying FinTech Innovation to Affordable Housing Finance Barriers

4.1. Summary of 2020 Case Study

- Syntellect is an Indian fintech start-up based in Mumbai. Syntellect has developed cutting-edge software for the credit assessment of underserved individuals in India for long-term mortgage finance.
- This software (called RightProfile) is a unique customer profiler specifically catering for the unbanked, new to banking, and new to credit customer segment – with a focus on the informal micro-entrepreneur (which represents the 'typical' Indian customer).
- RightProfile addresses a substantial gap in the market, applying an exhaustive bank of technologies to analyse loan applications,

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[23] Reall. *Reall Partnerships: ModulusTech*. Reall. 2020. https://www.reall.net/wp-content/uploads/2020/09/ModulusTech.pdf

[24] Trellis Housing Finance Limited. 'About Us'. Trellis. 2021. https://trellisfi.com/about/

reduce processing costs, and input into larger financial services architecture.

- RightProfile has been used by a prominent housing finance lender in India (HDFC Bank) to approve 14,000 informally employed clients for mortgage finance. Early data indicates these loans are performing better than sector norms for delinquency rates, while the lender's turnaround time for loan sanctioning was reduced by at least 40% due to digitisation.

- Reall is investing patient capital to support Syntellect's growth as a business and accelerate the integration of RightProfile's credit scoring platform within the operations of new lenders and developers.

- With Reall's guidance and investment, Syntellect will eventually adapt and export the technology to Sub-Saharan Africa where the need and market opportunity is huge.

4.2. Recent Developments: Syntellect and Reall in South Asia and Sub-Saharan Africa

Affordable housing has been the focus of successive governments at the Federal and State levels in India, and the industry has massive growth potential. India is also one of the fastest digitising countries in the world, as reflected in remarkable recent leaps in internet usage and smartphone penetration.[25] This digitisation has stimulated the emergence of a vibrant financial technology ('fintech') sector in India, which is rapidly transforming loan origination processes and approaches to credit and risk evaluation.[26]

Syntellect's RightProfile software platform demonstrates how these innovative technologies can be applied in practice to affordable housing finance challenges and opportunities. RightProfile collects data on low-income and informally employed customers and applies advanced technologies (including AI and machine learning) to produce detailed customer profile reports. These reports can be used by housing finance institutions to enable more accurate and objective assessments of the creditworthiness of underserved clients for mortgage finance, with a focus on 'informal' micro-entrepreneurs.

The Covid-19 pandemic has impacted significantly on Syntellect's operating environment, as recurring lockdowns have prevented vital in-person work while hindering the signing of new commercial agreements. This impact has been particularly apparent in the opening months of 2021, as India experienced a deadly second wave of viral infections.[27] However, the affordable housing finance segment that Syntellect seeks to reach remains a viable market opportunity, and the disruptive potential of RightProfile and fintech is still apparent.

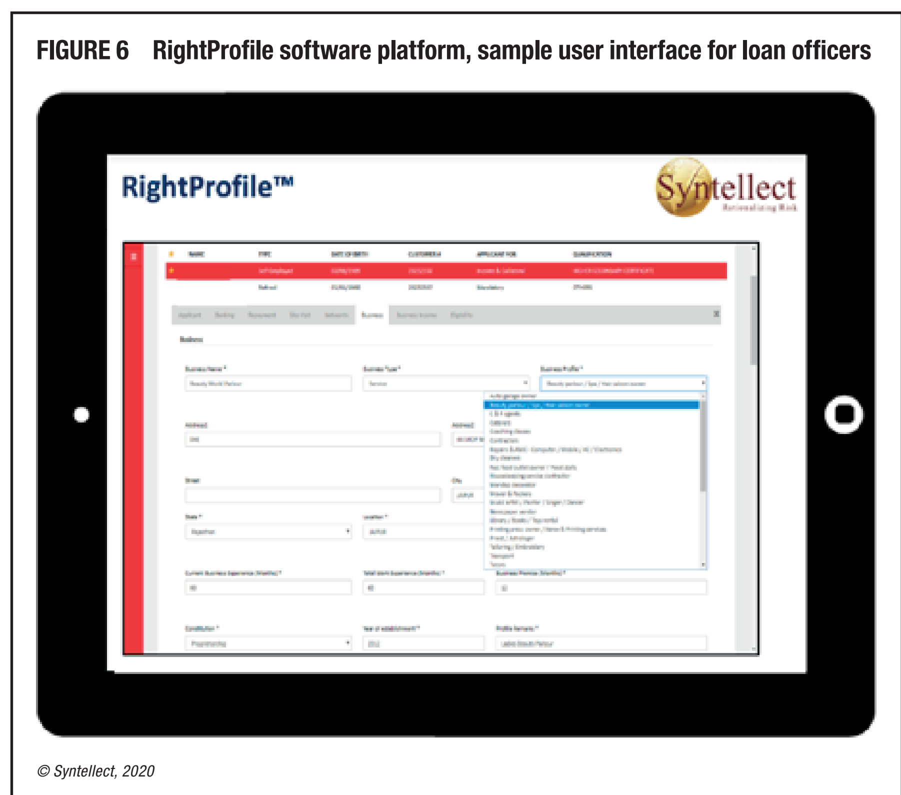
The market opportunity and impact are evident in a recent Reall-brokered assignment for Syntellect with Altum Credo – an Indian housing finance company eager to engage with a more diverse customer base. Syntellect has evaluated Altum Credo's systems, optimised their processes, and integrated the RightProfile software into their lending infrastructure. This integration process has proceeded patiently and incrementally – gradually reshaping Altum Credo's operations through real-time digital information and big data analytics.

It is anticipated that with Syntellect's input, Altum Credo will evolve its portfolio towards a larger proportion of informal micro-entrepreneurs through the use of RightProfile. Entering further into this space is a risk for financial institutions, and Syntellect's engagement illustrates that any move downmarket by established lenders is necessarily a gradual and iterative process – underpinned by strategic vision, a healthy risk appetite, and the deployment of digital enablers. Syntellect has further commercial agreements with Indian housing finance institutions progressing through the pipeline, which will grow their business while generating primary evidence and data that Reall can leverage.

Syntellect has also extended operations to Pakistan, working with key public and private stakeholders to formulate agreed standards and data points for informal income credit assessment in the affordable housing space. This market capacity development initiative will contribute towards widening access to housing finance for low-income and informally employed customers in the country, which remains a huge gap in the market despite a rapidly enabling environment.

Furthermore, Syntellect and Reall are committed to adapting RightProfile to Sub-Saharan Africa, where the housing need is vast. This process of adaptation began in 2020 in Kenya through initial research,

FIGURE 6 RightProfile software platform, sample user interface for loan officers



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[25] McKinsey Global Institute. *Digital India: Technology to transform a connected nation.* McKinsey. Washington, D.C. 2019.

[26] PwC India. *A Wider Circle: Digital Lending and the changing landscape of financial inclusion.* Delhi. 2019.

[27] Rajesh Ranjan. 'Characterization of the Second Wave of Covid-19 in India'. medRxiv preprint. 2021.

market scoping and stakeholder engagement, working in collaboration with key public and private ecosystem players. Adapting financial technology from India to Kenya presents challenges, and requires a thorough understanding of the target market and regulatory landscape. Syntellect's partnership with Reall is crucial for making this leap – benefitting from Reall's practical expertise and established networks of stakeholders in key African and Asian markets.[28]

5. Conclusions and Key Learnings

The three Reall partners documented in this article exemplify how credible affordable housing models and solutions are incubated, developed, and implemented in African and Asian geographies – even within the challenging parameters of the Covid-19 pandemic. Indeed, the case studies set out here illustrate how innovative affordable housing solutions that reach historically underserved populations will be key to a more equitable and inclusive post-pandemic recovery.

As practitioners working at the cutting edge of this innovation, all three of Casa Real, AMC and Syntellect provide a distinctive lens on broader trends in emerging markets, illuminating key lessons for the wider affordable housing sector to engage with:

- **Smart investments for market transformation:** Reall's patient capital enabled Casa Real and AMC to establish themselves as credible developers in Mozambique and Pakistan and provided the launching pad for new innovations and partnerships. Reall undertakes similar investments throughout Africa and Asia, investing to demonstrate the commercial viability of affordable urban housing for the bottom 40%. In challenging low-income environments, investment in affordable housing must always be approached as an entry point to test the model and facilitate wider market transformation.

- **Partnering with commercial banks and housing finance institutions:** Persuading commercial banks to provide long-term housing loans to lower-income customers is challenging. Reall-supported partnerships in Mozambique (Casa Real) and Pakistan (AMC) prove that breakthroughs are possible, especially when underpinned with a quality product, extensive risk management, transparent evidence and data, and a nuanced understanding of market challenges. Casa Real's partnership with Absa Bank in Mozambique also demonstrates that moving 'downmarket' is a necessarily gradual and incremental process, that requires patience and commitment on both sides.

- **Disruptive technologies and digital enablers:** Digitisation promises significant growth potential for financial sectors, and digital lending and digital financial services are booming in many African and Asian economies. While new technologies should never be embraced uncritically, Syntellect's RightProfile software demonstrates the potential for fintech innovation to bypass conventional housing market barriers and better reach the chronically underserved. Further evidence and data are required on disruptive tools and enablers, to leverage fresh investment and transform conservative-minded financial institutions. The Indian experience also indicates that digital tools require a conducive political and regulatory environment.

- **National policy environments:** As the experience of AMC demonstrates, a more conducive environment for affordable housing and housing finance is emerging in Pakistan as a direct outcome of government policy. A number of national and federal governments are engaging in similar interventionism throughout Africa and Asia, in recognition of the increasing scale of the housing crisis and its essential role in post-Covid recovery. While the state has an essential role to play, policy and regulatory change is never complete or uncontested and requires sustained input and evaluation from the wider ecosystem to deliver effectively. Innovators and investors such as Reall are vital to document best practice and share learnings across geographies.

- **Covid-19 and 'Building Back Better':** The global Covid-19 outbreak has increased awareness of persistently poor housing conditions across Africa and Asia, and how these are linked to the spread of disease. The economic shock of the pandemic has also deepened awareness among policymakers and stakeholders of the macroeconomic importance of housing, and its intrinsic role in underpinning urban resilience. As world governments draw up post-pandemic stimulus plans and investment strategies, it will be vital to ensure that hard-hit economies are rebuilt in ways that are healthier, decarbonised, more resilient to future shocks and fairer to a wider range of people.

- **Enabling Environments:** These case studies highlight different aspects of the enabling environments required to reduce the cost and risk of affordable housing finance and crowd new actors into the sector. While new partnerships, mortgage products and disruptive technologies are vital pieces of the puzzle, at the macro-level there is ultimately a need for more robust and ambitious social welfare programmes. This includes various forms of insurance (notably life and unemployment insurance), which in the aftermath of Covid-19 should be incorporated within an expanded understanding of 'resilience'.

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