UN HABITAT

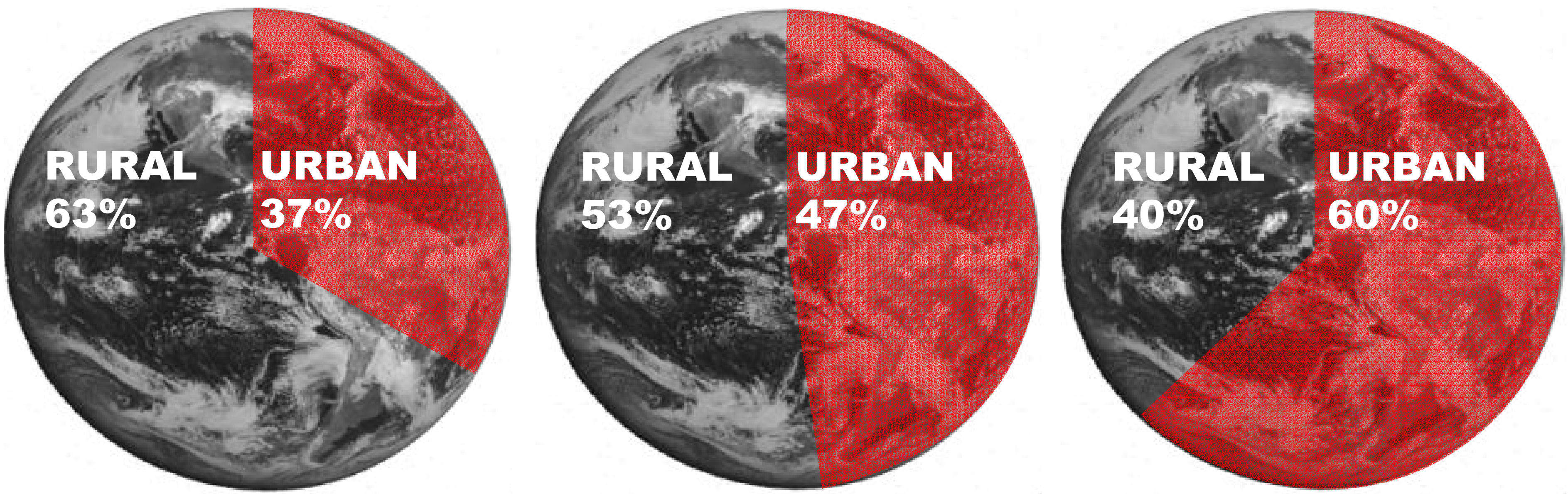
FOR A BETTER URBAN FUTURE

# Facing the Financial Crisis: Social Housing as Part of the Housing Market

by
Dr. Krzysztof Mularczyk
Director, UN-HABITAT Warsaw Office

# The Challenge: Rapid and Chaotic Urbanization

GLOBAL POPULATION RURAL/URBAN




1970 2000 2030

# FINANCIAL AND NOT A HOUSING CRISIS!

- The crisis was not one of the housing market but of speculation on the financial markets with regard to financing operations on the housing market
- Artificial lowering of interest rates, little regard for a realistic evaluation of the state of finances of clients, waving of the use of deposits all caused chaos on the savings markets and increased individual indebtedness
- Easy access to credit inflated prices and lead to heavy indebtedness of the buyers

# Why it happened?

- The price of the preference for ownership. Low interest rates were in effect a subsidy for creating a pool of home owners
- 2001-06 prices of properties were rising considerably faster than other goods, shares or interest on savings therefore they became a very attractrive investment. The demand for mortgage loans increased from year to year. However house prices could not for ever stay ahead of inflation as thelaws of supply and demand kick in. Once saturation point is reached prices fall. This came together with a reduction in availability of credit.

# The role of the banking sector

- Banks  had surplus capital and developed instruments to spread the risk in the form of securitization
- Banks packaged bundles of mortgages in order to reduce the risk and sold them to each other at each state making a profit.  These packages were sold as mortgage bonds
- This was to minimalise risk.  The effect was a de facto pyramidisation of the mortgage market in which the risk was underestimated and the value of the portfolio overestimated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# The consequences (I)

- The buyers fail to keep up with payments
- Inebtedness of banks and other financial institutions rises dramatically
- In 2008 mutual trust between banks breaks down and access to credit dries up
- Fall in property prices leads to negative equity
- Poor results of financial institutions leads to a stock market crash

## The consequences (II)

- Governments begin to search for ways and means to save the banking sector and to boost their countries economies in order to avoid recession
- Review of corporate governance in financial institutions begins

## What can be done?

- Limit the subsidisation of credit for property purchase
- Ring-fencing the mortgage market from other financial operations
- Encourage savings for property purchase rather than cheap credit
- Create a condition of every mortgage having to be accompanied by a down-payment
- Remove barriers to renting
- Reduce costs of construction by easing access to land, investing in revitalisation and streamlining procedures for housing investments

## Conditions for affordable housing (I)

- Public investment in revitalisation, energy efficiency and homes for rent
- Land  tax system which discourages speculative purchases
- Property tax system which is based on the ability to pay, which does not penalise improvement of small and medium sized properties and which discourages the owners from keeping the property empty

# Conditions for affordable housing (II)

- Mortgage rescue schemes for low and medium income earners to ease demand for social housing
- The EU taking the urban sector seriously: realisation that housing is no less important than health or education in creating the conditions for social mobility and economic growth

## The Barriers

- The credit crunch: banks not lending money for construction
- The revenue crunch: governments not being able to raise the tax revenues they need and facing a tripartite pyramid of debt: public, commercial and private
- The income crunch: the individuals losing income as result of unemployment or pay cuts
- The political crunch: expenditure on housing perceived as having low political return

# The Opportunities

- The need for public investment to stimulate demand
- Better education about financial services for the public
- Closer scrutiny and more focused regulation of financial markets
- Greater willingness to consider new ways of financing housing : UN-HABITAT’s Experimental Reimbursable Seeding Operation
- Schemes that blend together grants, technical assistance and loans and which leverage contributions of communities, local governments and the private sector


## ERSO Mandate and Purpose

**Resolution GC 21/10 of UN-HABITAT's 21st Governing Council in 2007** requests the establishment of a designated Trust Fund for a four-year period to test Experimental Reimbursable Seeding Operations and other innovative financial mechanisms to enable shelter investments for the poor (= ERSO)

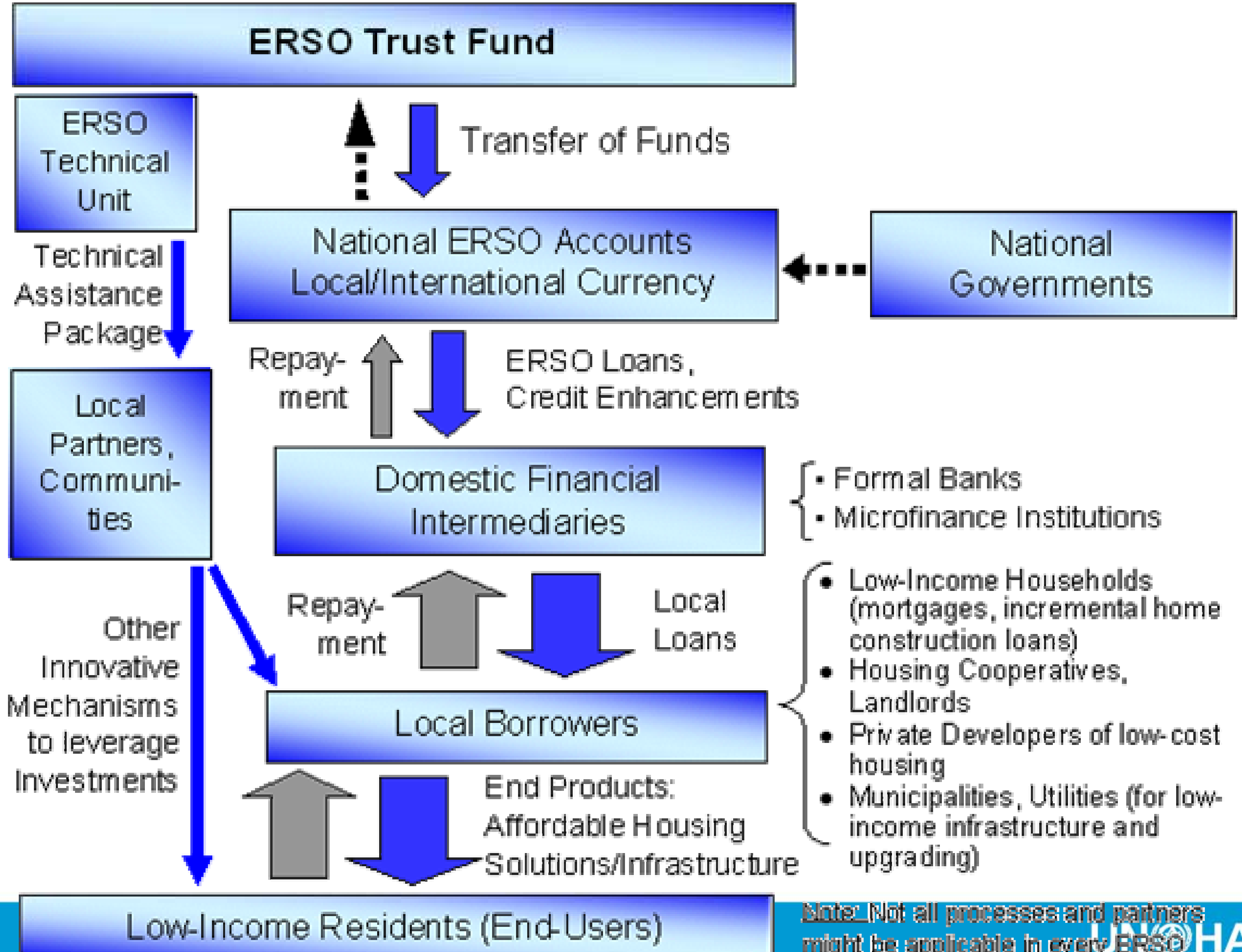
**Guidance in GC 21/10 on the Purpose of ERSO:**

- To field-test experimental reimbursable seeding operations and other innovative operations for financing for the urban poor for housing, infrastructure and upgrading through community groups, including where there is an expectation of repayments mobilizing capital at the local level;
- To strengthen the capacity of local financial and development actors to carry out those operations and to support the capacity of the United Nations Human Settlements Programme to enhance those operations.




1. Loans to local financial institutions to enable on-lending to low-income households, cooperatives, communities, rental housing providers, housing developers or public or private actors;
2. Loans to set up guarantee and insurance mechanisms to support financial institutions in mobilizing resources;
3. Complementary financial or technical assistance on a grant basis to activities that enable access to housing finance for low-


## ERSO Delivery Model and Partners




Note: Not all processes and partners might be applicable in every ERSO project





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# Targets for ERSO Operations

- Number of ERSO operations:
  8-12 total, 2-3 in each of the 4 regions Africa, Asia, Eastern Europe/Countries with Economies in Transition, Latin America/Caribbean
- Envisaged total volume per operation:
  ~ US$ 2-5 Million
- Total ERSO contribution per operation:
  up to US$ 1.5 Million, currently up to US$ 0.5 Million
- Envisaged private domestic capital mobilized per operation: ~ US $ 1-4 Million
  (target leverage factor: ~1:1-1:4)
- Number of households served per operation:
  ~ 200-500




<u>Focus:</u> Potential Projects that involve capital investments and leverage domestic funds for pro-poor housing, infrastructure and upgrading

<u>Requirements:</u>

- Potential to be successfully launched and showing preliminary results within the ERSO experimental period
- Availability of a sound domestic financial institution as implementing partner for seed-capital operations
- Support by National and Local Governments
- Existing relationships with communities


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## The Key issues for response

- Developing and disseminating financing methodologies for affordable housing
- Governments developing pro-poor housing finance policies that will gain political acceptability
- Application of universal standards and practices for due dilligence, transparency and accountability
- Restoring confidence in the housing finance system
- Building a network for sharing knowledge and information  on financing affordable housing

# THANK YOU!

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