AFFORDABLE HOUSING FOR ALL

World Bank Housing Finance Conference
Washington DC May 2012
During the course of this presentation...
350 families would have migrated to an urban agglomeration somewhere in the world in search of a new life.

By the end of the day...
25,000 additional households will be starting their search for housing across ~1000 cities around the world.

By the end of the month...
750,000 of them will be living in temporary shacks, urban ghettos and chawls given lack of affordable housing.

By the end of the year...
An additional 9-10 million families would have joined the existing stock of mid-to low income and poor households.

More than half of them will not find decent affordable housing in their lifetime.

SOURCE: Worldwide urbanization data (non-exhaustive; for select countries)
Key messages

**Affordable Housing** is a global opportunity that is real and relevant

**Current approaches** while well intended are necessary but not sufficient

**3 big ideas** can drive economic and social impact for **developers** and **governments**

**Financing** can play a key role in catalyzing this opportunity
McKinsey & Company

Affordable housing is a global economic opportunity

Value of affordable housing shortage, 2012

$ Billions

16 markets indicated account for ~35 million units in shortage and ~$600-700 billion in value

SOURCE: Census reports, country affordable housing reports
Impact of construction of 2 million affordable homes

**Employment**
- Direct employment for 3 million people
- Indirect employment for 241 million people leading to an income increase of $25 billion (equivalent to ~2% nominal GDP)

**Cement**
- Creates a demand for 16 million tons (9% over current demand)

**Steel**
- Creates a demand for 6 million tons (10% of current demand)

**Miscellaneous goods and services**
- Plumbing demand of $1.1 billion
- Electrical equipment demand of $0.7 billion
- Paint demand of $0.5 billion
- Wood demand of $0.2 billion

**Credit off take**
- $17 billion in loans (15% of annual disbursals)

1 Using a multiplier of 8 sourced from Press Information Bureau release on National Conference of Ministers of Housing/Urban development, dated Jan 19, 2009

**SOURCE:** Interviews; multiplier benchmarks
The key challenge around Affordable Housing is finding a model that delivers profits, scales up and enables economic impact.

**Value**
Increase value and realize economic profits incentivizing more private sector participation.

**Scale**
Build at scale that is unprecedented.

**Economic impact**
Create an engine that delivers socio-economic impact alongside housing development.
KEY CHALLENGES

The value challenge …

Inability to make the economics work
KEY CHALLENGES

The scale challenge ...

- Distributed Supply Chain
- Local Suppliers
- Land Acquisition
- Community Needs

Fragmentation and inability to meet unprecedented volumes
The economic impact challenge …

**Inability to align stakeholders and catalyze grassroots impact**

**Aligning housing with employment**

**Public Sector Delivery**

**Creating Local Entrepreneurs**

**Unlocking value in the local economies (e.g. local suppliers)**

*Inability to align stakeholders and catalyze grassroots impact*
POTENTIAL SOLUTIONS

3 “big ideas” together can help crack the Affordable Housing challenges at scale while delivering economic impact

1. “VALUE PLATFORM”
   Deliver economic profits sustainably from Affordable Housing
   - 15-20% consistent margins
   - 40-50% IRRs

2. “SCALE-UP MODELS”
   Build-scale through public and private led development at unprecedented volumes
   - 1 million homes every 5 years

3. “DELIVERY NETWORKS”
   Enable public sector delivery and catalyze economic impact
   - 1-2% GDP impact
   - ~10 million jobs for every 1 million homes
The “Value Platform” is about what it takes to crack the economics of Affordable Housing developments

Build faster, cheaper and smarter …

BUILDING TECHNOLOGY … ALTERNATE MATERIALS …

Tailored specs and community development …

DESIGN PARAMETERS … SOCIAL INFRASTRUCTURE …

A platform across parameters such as price, product, location, development strategy, infrastructure, construction techniques, technology, EPC/suppliers, financing and community needs to be developed that can deliver an economically viable model

Impact …

15-20% consistent margins

30-40% IRRs

SOURCE: Interviews with affordable housing developers
Success stories are starting to emerge of developers who are pioneering ‘Value Platforms’ in their local contexts.

- **Largest homebuilder in Brazil**
  (~40,000-50,000 units annually)
  Works closely with government AH program

- **Largest real estate developer in Egypt**
  (price point of ~$30-50,000 / unit)
  International partnerships

- **Largest homebuilder in Mexico**
  Innovative construction methods
  (fast cycle times and quick inventory turn-over)
  International JVs

- **Pioneer in affordable housing in India**
  (price point of ~ $10,000 / unit; $15-20 / sqft)

**SOURCE:** Analyst reports, company websites
“Scale-up models” are a set of ideas to provide massive impetus to the speed and scale with which housing is built in countries between 2003-2012

535,000 housing units completed at 2,350 sites
86% social affordable housing
14% luxury projects for fund raising

SOURCE: Mesa Imalat, ministry of housing

### Morocco Public Private Partnership (PPP)

- Creation of a public fund to guarantee up to 70% of the loan
- Tax breaks for private developers
- Reduced price for land against the commitment for
  - 1/3 of land for flats < MAD 140k
  - 1/3 of land for flats < MAD 200k
  - 1/3 of land for free development

### POTENTIAL SOLUTIONS

- TOKI has access to public land that it can change zoning on
- Innovative revenue sharing agreements and traditional property development models
- Contractors bid for development

BETWEEN 2008-2012
200,000 housing units planned
ColCerámica in Colombia is an interesting example of how a company created a ‘Delivery Network’.

### Tiling provider
Major tiling company launched Ibérica line targeted at low-income households.

### Social entrepreneurship network
- Chose **location** and identified **housing issues**, as well as **cultural-political context**
- Provided **funding and advisory services** to community organisations to distribute product

### Community organisations
- Collected **database of prospective clients** in community
- Managed **sales and distribution** for 3% commission
- Hired, trained, and supervised community promoters

### Community promoters
- Sold products **door-to-door** and gave advice on financing options
- Earned salary, often for first time (generally unskilled housewives)

### Target homeowners

**Microfinance initiatives**
- Provided financing for home renovations

**SOURCE:** Roberto Gutiérrez - ColCeramica case example
“Delivery Network” is a concept to provide a catalytic effect to the economy as scale in Affordable Housing is being built.

**The idea …**

- Citizen entrepreneurship organizations (CEOs)
- Government Housing Delivery units
- Network of cooperatives, NGOs and community organizations
- SMEs and cottage industries
- … all working as an integrated network
Given the context and big emerging ideas, what is the role that ‘Financing’ can play in catalyzing Affordable Housing development?

**Mortgage market**
- Property registration reforms
- Liquidity facilities
- Regulatory reform

**Housing supply**
- Developer finance
- Infrastructure subsidies

**End-user**
- Micro-housing finance
- Mortgage guarantee funds
- Rental subsidies
BACKUP SLIDES
The current shortage represents a $600–700 billion market.

<table>
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<th>Country</th>
<th>Size of Apt. m² Apt.</th>
<th>Price/sqm USD/sqm</th>
<th>2011 Housing shortage Mn units</th>
<th>Affordable housing shortage value USD Billion</th>
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SOURCE: Census reports, affordable housing reports

Total 657
Governments can play a key role in setting up integrated housing programs focused on delivery – Brazil’s “Minha Casa Minha Vida”

US $20 billion fund established by Brazil's Federal Government
1 million households targeted (now expanded to ~3 million)

Buyers
- Provide loans at 5-8% interest for up to 90% of a house's value
  - Those making up to 3x minimum wage access full subsidy, up to US $27,000
  - Those between 3-6x minimum wage have access to smaller subsidy and loan size
  - Loan must be re-financed within 3 years
- Reduce or eliminates stamp fees and other one-time costs
- No down payment or any other payment before occupation

Construction companies
- Improve financing conditions
  - Lower interest rates
  - Helps manage land purchase cash requirements
  - Few pre-sale requirements (30% committed for approval)
- Cost reduction
  - Insurance
  - Taxes
  - Tributes and contributions

Material supplier companies
- Suppliers are encouraged to develop new materials, especially for the supply of the programme
- Fabrimar, a metal company will launch a completely new line sold directly to the construction companies
- Suvinil, a paint company from BASF group, is investing in low pricing product line to paint a million houses, with just 50 million litres of paint.

1 Subsidies based on income segment and approved loan, with a cap on installment to income ratio for each income segment

SOURCE: Brazil Federal Government Minha Casa Minha Vida program