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Access to Affordable and Low-Income Housing in East Asia and the Pacific



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Affordable and
Low-Income Housing
in East Asia and the Pacific**

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Abbreviations and Acronyms

ACCA	Asian Coalition Community Action	GNI	gross national income
ACHR	Asian Coalition for Housing Rights	HDB	Housing and Development Board
BRIC	Brazil, the Russian Federation, India, and China	HMF	housing microfinance
		HPF	housing provident funds
CODI	Community Development Organization Institute	KIP	Kampung Improvement Project
		NESDB	National Economic and Social Development Board
COHRE	Centre on Housing Rights and Evictions		
EAP	East Asia and the Pacific	PIR	price-to-income ratio
FLPP	Liquidity of Housing Finance Facility	PLCH	Public Low Cost Housing
GDP	gross domestic product	SHF	Social Housing Foundation
GIS	geographic information systems		

Report Overview

The East Asia and Pacific region (EAP) is among the world's most rapidly urbanizing areas. The United Nations (UN) estimates that by 2015, more than 1.1 billion people in EAP will live in urban areas. Cities are also the key drivers of economic growth because they contain a large and diverse labor force and provide production and distribution advantages to manufacturing and service industries. However, along with the economic dynamism that cities provide, they can extend and reproduce existing income inequalities. Housing is the primary form of asset accumulation for the poor. Furthermore, its quality and location are closely linked to educational and employment opportunities as well as access to health and transportation services. A comprehensive and inclusive housing policy is hence a critical tool for promoting shared prosperity. It supports low-income workers' efforts to increase their assets and helps them access to opportunities that can lift them out of poverty.

With a few exceptions, much of the region faces a critical challenge to improving housing affordability in its growing cities. As homeownership is more common in rural areas, it likely disguises the distribution of tenure in growing cities. As a result, homeownership across EAP is high—often more than 75 percent—compared to a world average of around 68 percent and rates of below 60 percent in the Republic of Korea and Japan, which are heavily urbanized. But the cost of homeownership in *cities* across much of the region exceeds 50 to 60 percent of annual household incomes, significantly higher than the inter-

nationally recognized affordability level of 30 percent. Governments have responded by promoting homeownership programs but these tend to exclude lower-income households. Some countries have attempted limited public rental programs, but these too tend to favor middle-income households; and when they serve the poor, the units tend to be of substandard quality. Although the private rental sector provides a proportion of housing in most countries, it invariably serves young professional or expatriate households. The urban poor are therefore left to seek housing in informal settlements.

This report highlights several important issues necessary for countries in the region to develop comprehensive and inclusive housing policies. The issues include improving the recording and tracking of demand- and supply-side data on housing and land markets; reviewing regulatory and development standards for new and existing construction; considering an array of urban land acquisition techniques in partnership with civil society groups; and improving support for a diversity of tenure forms, especially by promoting various private and nonprofit rental housing options as an alternative to homeownership. Housing policies in EAP should aim to lower rental housing expenditures to no more than a third of net household incomes. For those seeking homeownership, the price-to-income ratio for ownership and rental housing options in urban areas should be reduced from current levels that exceed 7:1 to UN-recommended levels of between 3:1 and 5:1.

Governments, the private sector, and civil society organizations can all help shape a comprehensive housing strategy that can affordably meet the scale and nature of existing and future demand. At the national level, governments can create databases that track registration and transactions of land and real property. This would provide valuable information on the nature of demand for different types of housing among different income groups. Policy makers would thus be able to better direct subsidies for affordable units, and private and nonprofit groups would be given a better understanding of land and housing markets. Local governments should review development standards to encourage infill and mixed-use development and link them

to investments in public transportation systems. Flexible and innovative development and land use regulations and administrative procedures that allow for density bonus agreements or incentives for set-asides can enable the private sector to improve housing affordability through market mechanisms while also providing public benefits to urban residents. Local governments can also partner with civil society groups and private interests in negotiating for land acquisition, developing affordable alternatives to traditional commercial mortgages, and reducing barriers to the provision of small-scale rental housing. Once these measures are put in place, the availability of affordable housing options in EAP cities is expected to improve.

Key Findings

The East Asia and Pacific region (EAP) is rapidly urbanizing and will soon have the largest total population of urban dwellers in the world. The United Nations (UN) estimates that more than 70 percent of the region's population will live in cities by 2040, up nearly 20 percent from the current total. This represents an average of 15.4 million new urban residents per year through the middle of the century. The scale and speed of this transition presents a critical challenge for policy makers. They need to ensure that urban growth includes diverse and appropriate housing options and proceeds in an economically and ecologically sustainable manner.

Cities attract private investment because of the locational and market advantages they afford firms. They also attract rural migrants who seek better employment opportunities. Across the region, per capita incomes are higher in countries with a greater share of urban populations. However, while cities play a key role in national economic growth, current patterns of urban growth also contribute to inequality. Informal settlements develop in urban peripheries due to the scarcity of affordable housing options nearer to employment hubs in central city areas. Rural migrants tend to have lower education and skill levels. In at least eight countries, the lowest income quintile has less than 10 percent of total income. Poor migrants will be unable to afford new housing without substantial government subsidies to reduce the price of renting or buying property. Additionally, governments are struggling to provide basic services to the urban poor. For example, cities in rapidly urbanizing countries such as Indonesia,

the Lao People's Democratic Republic, the Philippines, Cambodia, and Myanmar do not provide access to water for all residents.

Housing is a critical component of stable and equitable urban development because it is deeply linked to the functioning of other urban services. The location, cost, and quality of housing are closely related to urban poverty and quality of life. Development at the urban fringe has low initial costs, but may carry very high costs over the long term. Fringe housing development places additional burdens on transportation and public transit infrastructure; it increases congestion and costs people and businesses time and money. Traffic congestion also contributes to air pollution, which presents immediate public health risks. People who live in areas that are illegally sited and constructed are also at increased risk for natural disasters such as floods, landslides, and earthquakes as well as infection from water-borne illnesses and parasites. These risks impose hidden costs on long-term investment in transportation, infrastructure, and public health sectors. Fringe housing also reinforces deep inequalities among inhabitants of urban areas.

Nearly every EAP country promotes homeownership through consumer demand subsidies. Demand subsidies are an important means of improving access to housing finance and homeownership. However, policy makers should be aware that the urban poor may remain ineligible due to a lack of required savings or income levels. These interventions are also not suitable for urban dwell-

ers who wish to invest in their homes incrementally or who may prefer the flexibility and mobility offered by renting rather than owning a home. For these groups, supply interventions such as land readjustment, sites and services, or slum upgrading may be more appropriate alternatives. Another alternative would be subsidies supporting specific, in-kind home improvements, such as floors, roofs, or building materials for incremental construction.¹ These programs are comparatively less costly and risky for governments than subsidized credit because they are targeted directly to those who may need assistance for home improvements, rather than those who would consume housing for speculative reasons.

SUMMARY OF KEY ISSUES AND SUGGESTIONS FOR ACTION

Governments, private sector actors, and civil society groups can play an important role in developing a comprehensive and inclusive housing sector. The section below reviews key issues related to affordable housing provision identified in the report and the potential roles of public and private stakeholders in improving access and affordability. A brief conclusion summarizes the expected outcomes of these initiatives.

Affordable Housing

Housing affordability is an important component of equitable urban growth. This report discusses the need to improve data collection and dissemination in order for governments and private sector actors to better understand demand for different types of housing in growing urban areas. Low- and middle-income residents, who comprise the majority of urban residents, have few options for financing home purchases or affordable rental housing. Land use regulations that support a diversity of housing and

1. For floors, see for example Mexico's *Piso Firme* program; for roofs, see the activities of the international nongovernmental organization (NGO) *Un Techo Para Mi Pais* and Peru's *Programa Techo Propio*; and for subsidized building materials, see Mexico's *Patrimonio Hoy* program, operated through the materials company CEMEX.

land uses and integrate new development into existing transportation and infrastructure networks can improve the supply of housing and the quality of life of residents. More cost-effective ways to assemble urban land and provide financing to upgrade informal settlements can also improve housing quality and stabilize the housing supply.

The report finds that housing is comparatively more affordable in countries where property rights are protected and construction permitting is rapid. Property registration, ambiguous or restrictive development rights, and construction permits add to the cost of housing production. Apart from the Republic of Korea and Japan, which are comparatively wealthier, more urbanized, and have a broader set of public and private housing finance support, housing in most of the region's growing cities is very expensive. Price-to-income ratios (PIR) depict the amount of income households spend on shelter costs. Affordability falls with range of 3:1 to 5:1, or about 25 to 30 percent of annual household income. Singapore, Japan, and Hong Kong SAR, China, for example, have efficient property registry and permitting systems and also have comparatively less-expensive housing. Home prices can exceed this range by a factor of three or more, and are even higher in secondary cities with less diverse housing markets.

Rental housing should hold a larger share of urban tenure choices. Overall, data on home and rental prices is limited and skewed toward luxury, expatriate, or foreign investor market segments. Nonetheless, the proportion of rental to owned units should move to approach international urban standards of at least 30 percent or more. The quality and supply of rental housing can be improved by introducing reasonable lease contract protections and by supporting petty or small-scale rentals and sublets.

Prospective and innovative urban planning and housing finance tools can improve affordable housing options for the low- and moderate-income urban majority. Access to secure housing and tenure options can be improved through well-designed, local-level regulatory institutions for land use and development; clearly targeted subsidy programs; and government collaboration with lenders,

developers, and civil society groups. Affordable housing in turn reduces concentrated poverty, tenure insecurity, and public exposure to diseases and natural hazards. Urban centers that support and integrate a diversity of uses, transportation modes, and income groups can also sustain economic growth, promote efficient public service delivery and energy usage, and help to protect air and water quality.

Housing Finance

Across EAP, commercial mortgages are a small portion of housing finance. Commercial mortgages have income and down payment requirements and repayment terms that are too onerous for the urban poor. The ratio of mortgage debt to GDP across the region is less than half that of Western Europe, which averages over 50 percent. By contrast, Indonesia, the Philippines, and Vietnam have ratios of less than 10 percent, despite their large populations and growing economies. Access to formal credit is low; across EAP only 39 percent of the poorest 40 percent of the population have an account with a financial institution.

National governments have several options to develop sources of consumer housing finance. National governments or housing banks can also design targeted mortgage subsidies in the form of down payment assistance (rather than mortgage interest rate subsidies) to lower the cost of borrowing from private lenders. However, subsidies should carefully target groups that are underserved by private lending markets and should include mechanisms to verify eligibility through an income or savings requirement. National housing provident funds, which draw from contributions of public and or formal sector workers, can be used to fund specialized housing finance products. Weakly designed provident funds can be subject to political capture, poor payment collection, and corruption. These failures reduce the solvency of lending institutions.

National governments can also set regulations to discourage speculative investment and allocate funding and assis-

tance to the construction sector. Speculative land development can diminish the supply of available land and skew investment in housing and commercial development toward the high end of the market. Most EAP countries restrict foreign ownership of property for this reason. Other interventions such as taxes on unimproved land, stamp fees, and certain restrictions on mortgage eligibility can reduce speculation by raising holding costs and lowering the expected return on sales transactions. This can lower the price of vacant property and invite housing development that caters to a broader market. National governments can also offer subsidies or tax credits to reduce the cost of construction finance. Local governments and chambers of commerce can help the construction sector cultivate local labor sources, building materials suppliers, and manufacturers.

Provincial and national housing agencies can also consider partnering with civil society groups to support or underwrite community-based mortgage schemes and informal settlement upgrading programs. The Philippines' Community Mortgage Program extends mortgages to poor households through partnerships with representative community groups that collected pooled savings from residents, held property titles, and screened borrowers. On a smaller scale, Thailand's *Baan Mankong* slum upgrading program, an extension of the work by the Asian Coalition for Housing Rights (ACHR), links civil society groups with the local office of a special federal agency that evaluates and monitors plans and provides subsidized finance. The key benefits of this approach include access to alternative financing sources, a lower per-unit cost for housing unit upgrading than direct provision of public housing, and a diminished threat of displacement (World Bank 2013a).

Commercial and nonprofit microfinance lenders can experiment with housing microfinance products to support common types of incremental housing investment in poor neighborhoods to the mutual benefit of owners and renters. Conventional mortgages feature terms and ticket sizes that are incompatible with incremental housing investment. Loans of smaller sizes and shorter terms, coupled

with technical assistance, subsidized construction materials, or even in-kind loans of building materials can promote housing improvement among the poor.

Support for Rental Housing

Formal rental housing is comparatively uncommon in EAP but should be considered as a complementary alternative to ownership in urban areas. Across the region, governments tend to support and promote homeownership as a preferred tenure form. It is also much more common in rural areas, where nearly all residents own their home. Benefits of homeownership include the housing itself, which functions as a large and transferable asset, and additional neighborhood social stability and incentives for future investment. However, the housing needs of urban populations are diverse. Renting can be appropriate for those who cannot afford or are not interested in long-term finance for housing such as young professionals, students, and elderly, retired, or disabled people. Rent controls, in the form of price ceilings, carry the benefit of a short-term supply of affordable units, but over time reduce investment in new and existing rental housing stock. Renting provides tenants the flexibility to adjust to employment and income changes and requires little or no savings. The provision of rental housing is also an important supplementary income source for homeowners, enabling housing to fulfill its developmental role at no public cost.

Apart from public housing, much of the urban rental market is likely informal and not well understood. Except for high-end apartments, the majority of rentals in urban areas are obtained informally. Rentals can range from spare rooms, accessory dwelling units, and work dormitories to large publicly or privately owned buildings with dozens or hundreds of units. Landlords who are owner-occupiers have vested interests in maintaining the quality of the rooms or units they lease and deserve policy support.

Local governments should draft land use and occupancy regulations that support rental housing investment, especially petty or owner-occupied rentals. With adequate

rental market data, housing developers can better assess the demand for new rental housing or the feasibility of rental conversions. National governments can offer tax exemptions or soft loans to developers that construct affordable rental units. Governments can also provide assistance to renters through portable voucher programs based on income eligibility requirements. These would allow renters to find housing in locations that suit their needs. Local governments can provide tax incentives for owner-occupiers who rent rooms or ancillary units.

Local social support agencies, in partnership with civil society and legal advocacy groups, should draft regulations clarifying and regulating tenant and landlord contracts. As the majority of urban renters are poor and their contracts are informal or cash arrangements, landlords have wide latitude to discriminate or unfairly evict tenants. Regulations should provide basic protections to tenants and landlords for short- and long-term rental agreements and provide fair and efficient recourse to adjudicate disputes.

Land Use and Development Standards

Land use plans and regulations aim to promote orderly urban development, but they can also impose high costs on new development if they impose standards that are overly restrictive, or if required approvals are uncertain and time-intensive. Such costs and development restrictions on urban land encourage development in fringe areas that may be far from established employment and commercial centers. Informal and illegal settlements may develop on vacant land in fringe areas with low market value, but the settlements may nevertheless present large burdens to local public service providers. New development that is dense, features a mix of residential and commercial uses, and has proximity to public transportation concentrates economic activity and reduces reliance on automobiles.

Local governments can review zoning and development standards that regulate new and existing development and identify barriers to upgrading existing housing or building new stock. International experience shows that governments have a number of tools to promote infill develop-

ment and promote housing affordability through flexible and coordinated land use policies. For example, these tools can include development agreements, transfers of development rights, special assessment districts, density bonuses, mixed-use development, and cross-subsidy schemes. Planning authorities should also review and consider clarifying and streamlining approval and permitting procedures and publicize amendments to land use and master plans. Local governments should also consider areas where technical assistance and training may strengthen the administration of land use and zoning regulations.

Local planning authorities should develop zoning and land use regulations that encourage infill development, density, residential diversity and a plurality of uses. Land use plans should promote density and should align with current and future public transportation networks. Segregated land uses and sprawling development contribute to congestion and require costly investment in additional roads, which over time, actually induces more congestion. New developments should allow for integrated commercial, office, and residential uses. Designs should also accommodate home-based enterprises, which are a common income generator in informal settlements. Similarly, inclusive zoning, cross-subsidy developments, and set-asides for affordable units also reduce the concentration of poverty and likelihood of social unrest by allowing more equitable access to public services and employment centers.

Land Assembly

Land assembly is often one of the most expensive and difficult steps in urban infill development. Fragmented, absentee, or disputed ownership claims can delay or discourage consolidation and subdivision of vacant land for housing or commercial uses. Informal settlements grow incrementally and the marginal cost to extend sewage, water, and electricity infrastructure to these areas can become very high. Furthermore, evicting residents and razing squatter settlements is politically contentious, expensive, and does not solve underlying housing affordability problems that contribute to informal settlement growth.

Land readjustment and pooling schemes have been used for decades in Japan and Korea to consolidate irregular parcels and extend services into informal or squatter settlements. Under these strategies, the local government purchases occupied land or negotiates with a landowner for purchase and the right to subdivide the property. The government subdivides the land and extends infrastructure coverage street access to the parcels. Residents are assigned a parcel based on the size of the previous plot they held and benefit from the increased value of their improved property.

Local governments can take the lead in creating supporting regulation and initiating land readjustment and pooling projects. With the support of specialized public agencies or councils as mediators, civil society groups can organize and represent residents in negotiations with property owners. These agencies can also help informal settlers find suitable land to purchase, assist in brokering transfers, and provide mapping and subdivision assistance. With national government funding, local or provincial governments can develop policy support for land banking. Land banking allows local governments to assemble seized vacant or damaged real property for consolidated sale to private or nonprofit developers at below-market rates, reducing the cost and risks for investment where construction finance may be scarce.

Data Collection and Dissemination

There is limited data to adequately assess demand for affordable housing options or the extent and nature of formal and informal housing markets. An important finding of this report is the lack of adequate demand data segmented by income and demographics. Indeed, in most EAP countries, it is difficult to establish the median income and the relative number of households within each income quintile. Consumer preferences for tenure, type of housing, and location are also not available. On the supply side, there is limited information on the number, location, pricing, and type of either new or existing housing units or their condition. These data are extremely useful for several reasons. First, they can help national

governments understand gaps in housing affordability and can enable them to more efficiently create and target demand-based subsidies such as vouchers or mortgage assistance. These data can also help policy makers better understand how changes in the supply of housing or availability of housing finance can change prices and consumption patterns. Second, developers can gain a better understanding of urban housing market dynamics and reduce redundancy or inappropriate investment in housing stock for different market segments. Third, civil society groups and housing advocates can make use of such data to illuminate affordable alternatives to homeownership, such as renting or shared/cooperative housing.

National governments can create housing market observatories through regular censuses and through more frequent specialized surveys. Universities, developer and real estate groups, and market research firms can also track sales

prices and building, finance, and permitting costs. Local governments can track and report the issuance of new housing permits. These data can help to illuminate the role of the housing sector in the national economy and allow central banks to better coordinate broader monetary policy goals.

Local and national governments involved in land use and master planning should publish and disseminate plans, underlying data, and assumptions to developers, real estate groups, and civil society organizations to improve transparency and accountability. National governments can also improve the collection, recording, and availability of property registration and ownership data. Such data is important for establishing ownership claims, streamlining property sales and transfers, and finally for accessing commercial mortgage finance by providing the basis for collateral. In short, these data can improve the functioning of local property and housing markets.

Chapter 1

Introduction

Across the world, the housing sector plays a key role in local and national economies, and expanding access to housing can encourage more equitably shared economic growth. The production and consumption of housing brings positive externalities to both cities and countries. Housing policy that considers a diversity of groups and tenure forms can improve education, crime, public health, and employment outcomes in urban areas. The lack of quality, low-cost housing options typically excludes the poor from stable tenure and adequate public service access, which exacerbates and extends cycles of poverty. Housing must be considered an investment that is complementary and interdependent with the use and delivery of urban services such as transportation, infrastructure, education, and healthcare.

There has been a renewed interest for subsidized housing interventions in BRIC¹ countries. These and other countries have experienced rapid economic and urban growth. In the East Asia and Pacific region (EAP), several countries have expressed interest in seeking the Bank's support in direction and policies for urban affordable housing provision. This report documents existing policies and provides critiques and recommendations based on current demographic, economic, and housing affordability conditions in the region.

1. This term refers to large middle-income countries, specifically Brazil, the Russian Federation, India, and China.

This report surveys current policy interventions designed to encourage affordable housing in EAP. The report is a synthesis of English-language desk reports and studies. It also makes use of existing databases that track urban population changes, income, tenure choices, and housing prices, where available. In addition, it reveals that basic available data on supply and demand are scarce, especially in informal and low-income housing markets. There is ample need for future research to provide additional estimates of the tenure prevalence, land and property ownership costs, and the quality of available housing stocks. This report follows the World Bank's geographic definition of East Asia and the Pacific (EAP), which includes 25 countries: Cambodia, China, Fiji, Indonesia, Japan; Hong Kong SAR, China; Kiribati, the Republic of Korea, the Lao People's Democratic Republic, Malaysia, Myanmar, the Marshall Islands, Micronesia, Mongolia, Palau, Papua New Guinea, the Philippines, Samoa, Singapore, the Solomon Islands, Thailand, Timor-Leste, Tonga, Vanuatu, and Vietnam.

The purpose of this report is to provide a general overview of the recent trends in urbanization and development in EAP and to consider different forms of government, market, and nonprofit actions that support housing affordability. It will also highlight key constraints and barriers that restrict the provision of low-cost housing in urban areas. Housing is important because it represents a significant household expenditure. Moreover, the quality and prox-

imity of housing to schools, jobs, and public services have an important role in determining the future health and economic prospects of urban residents. The United Nations (UN) defines housing as affordable provided that it “is adequate in quality and location and does not cost so much that it prohibits its occupants meeting other basic living costs or threatens their enjoyment of basic human rights” (UN-Habitat 2011a: 10).

Housing policies have a direct impact on the form and economy of cities. As such, housing should be considered alongside urban energy, transportation, and infrastructure programming. Planning that promotes density, mixed uses, and infill development in central city areas may have high initial costs, but benefits accrue steadily over a longer time period. These benefits include a more cost-effective provision and maintenance of infrastructure and public transportation, as well as support for economic growth through the close proximity of mixed uses and a large, diverse labor force. On the other hand, development of urban fringes presents a low initial cost, but lower density and segmented land uses promote long-term cost burdens for cities. Fringe development contributes to increased traffic and diminished mobility, which slows economic growth, and also contributes to regional air pollution, representing a higher public health cost. Furthermore, there is a greater marginal cost for governments to extend and maintain public transportation, infrastructure, and public service coverage to more sparsely populated areas.

The report assesses the strengths and limitations of affordable housing strategies used by different countries throughout EAP. Although homeownership is the dominant policy preference in the region, rental housing offers distinct advantages and should be considered as an important alternative option. To this end, civil society organiza-

tions have facilitated access to finance for residents in informal settlements and help them secure tenure rights and upgrades. Overall, this report relies on a supply-side perspective, due to the lack of data on housing demand across EAP. More information is needed to illuminate the quality and costs of different urban housing options, and better descriptions are needed of the likely residents. Data should better describe the contours of local housing markets, including the income distribution of urban populations and variations in housing prices and rent rates over time and across local urban markets.

This report offers broad conclusions that account for the broad social, political, and institutional variation among EAP countries; as such, these conclusions may well be applicable to more than one country context. The report also provides specific recommendations for improvement where existing interventions are new or have proven less successful. This general overview of regional trends will help EAP countries compare existing practices with other countries in order to better identify policy priorities and available options for addressing them. World Bank teams can also use the report in country-level engagements to introduce or deepen policy discussions on urbanization and housing affordability.

The report is divided into four additional chapters. Chapter 2 examines trends in urbanization rates, economic development, and inequality in order to introduce the need for high-quality, low-cost housing options. Chapter 3 examines EAP regional trends in urban housing affordability for owners and renters from select cities. Chapter 4 outlines future directions for affordable housing provision based on a comparative consideration of international best practices. Finally, Chapter 5 surveys different affordable housing policies currently in place in EAP and summarizes their strengths and weaknesses.

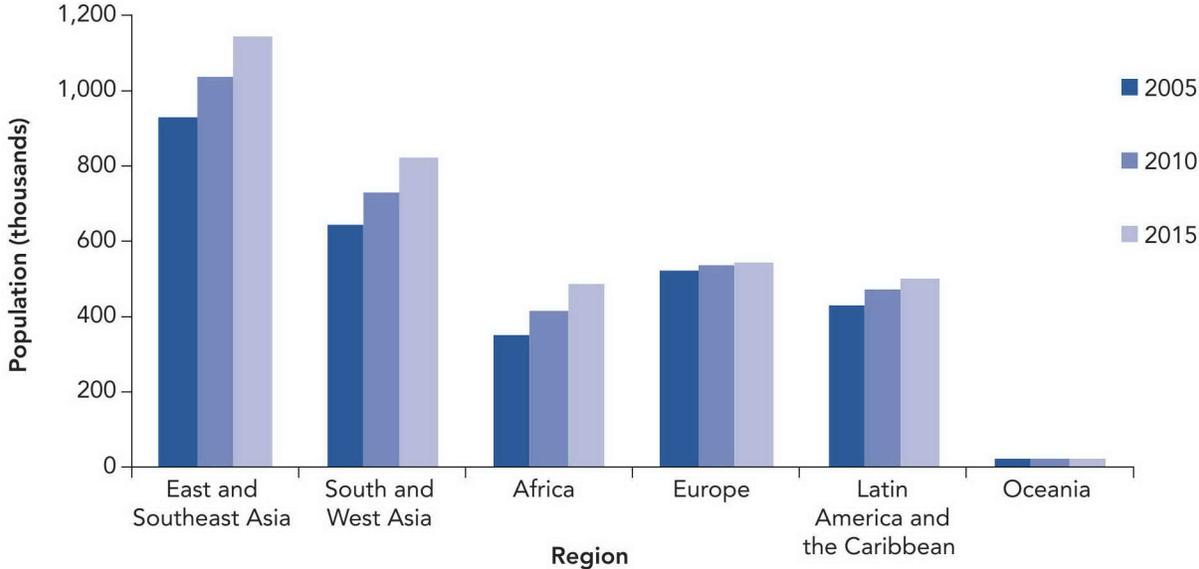
Chapter 2

Context of Urbanization in EAP

Consistent with a global trend, the population of countries in the East Asia and Pacific region (EAP) is approaching an urban majority. Figure 2.1 shows the total urban population of EAP relative to other world regions since 2005. EAP currently has more than 944 million people living in urban areas, more than anywhere else on earth. The United Nations (UN) estimates this figure will reach more

than 1.5 billion by 2050; an annual average growth of 15.4 million people per year. EAP’s overall rate of urbanization is also comparable with the rapid urban growth in the rest of Asia and Africa. By contrast, Europe and Latin America, which have higher overall per capita GDP and greater urban-dwelling shares of their total populations, show a leveling in urban population growth rates.

Figure 2.1: Population in Urbanized Areas by Region, 2005–15



Source: UN World Urbanization Prospects, 2009 Database.
Note: EAP corresponds closely to “East and SE Asia.” It includes Japan, but excludes Fiji, Kiribati, the Marshall Islands, Micronesia, Palau, Samoa, Tonga, and the Solomon Islands, which are included in Oceania.

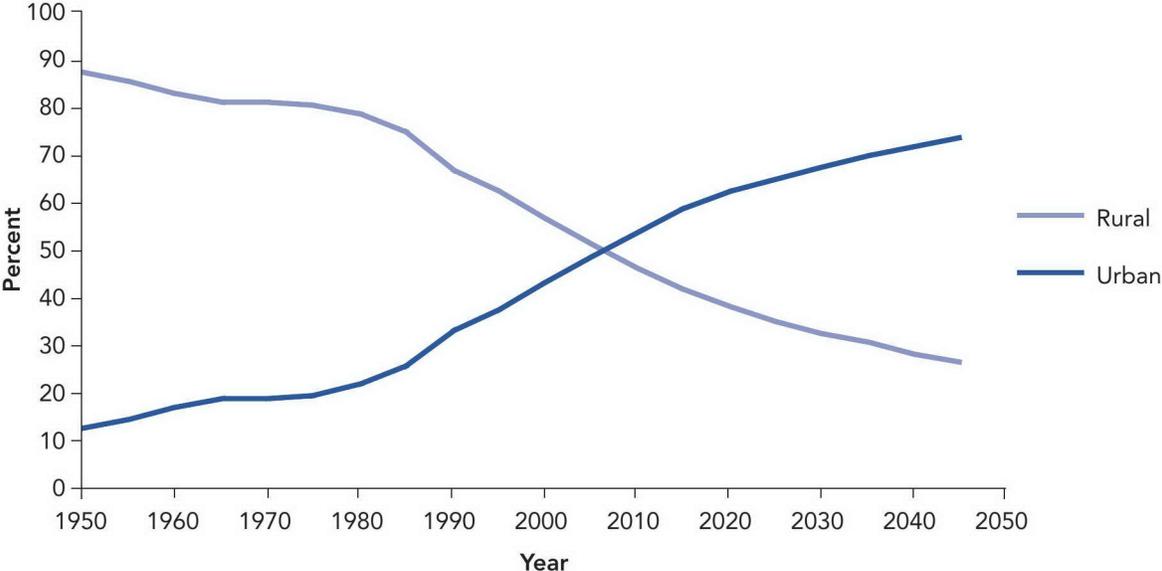
The rate of urbanization in EAP is higher than at any time since the 1950s. At that time, the region was decidedly rural; the urban population share was only 12 percent in 1950 and only passed 20 percent in 1980. Figure 2.2 shows that the rate of rural-to-urban migration increased around 1990 and is expected to continue through the middle of this century. In the 45 years from 1950 to 1995, urban growth every five years averaged 2.2 percent. Beginning in 2000, urban growth doubled and is expected to continue to average around 5 percent through 2050 (UN 2011a). Since 2000, urban population levels across EAP countries have converged and by 2050 more than 70 percent of EAP’s population will live in urban areas.

Some EAP countries and economies are more urban than others, but the trend toward urbanization is ubiquitous. As shown in figure 2.3, the proportion of EAP population living in cities has been steadily increasing, with rates of urbanization increasing in Indonesia, Cambodia, Malaysia, the Philippines, and China during the 1990s. Different urbanization rates are due in part to the inconsistent definitions of urbanization utilized across the region. For instance, Hong Kong SAR, China, Palau, and the Marshall Islands

are the most heavily urbanized; but they also have natural growth constraints or rely on an urbanization measure that includes a single island or principal settlement. Nonetheless, nearly every country has a greater percentage of population in urban areas than just 20 years before.

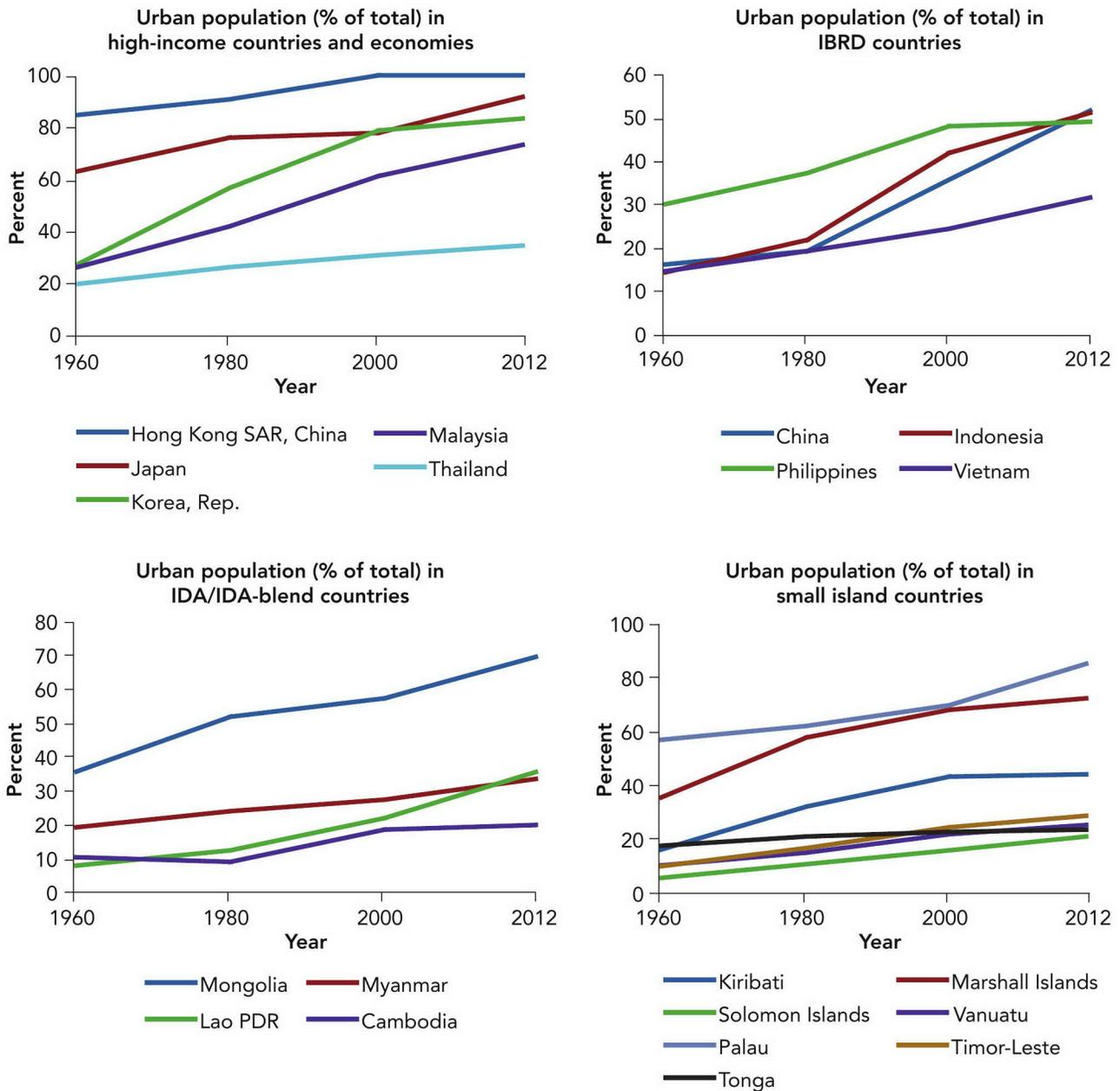
Urbanization varies in scale across the region, though most countries have had substantial absolute growth in urban populations in recent years. Between 2000 and 2010, China led absolute urban growth, adding 204 million urban residents, or nearly the entire population of Indonesia. According to UN projections, the country will top 1 billion urban residents by 2050 (UN 2011). Over the same period, Indonesia added 30 million urban residents, the Philippines 8 million, and Vietnam 7 million. Urban growth has also occurred in less populous countries. Cities in the Lao People’s Democratic Republic added approximately 900,000 people between 2000 and 2010, effectively doubling the country’s urban population. The population of Timor-Leste’s urban areas (living principally in the capital Dili) increased by more than 50 percent, from 201,000 to 314,000 over the decade. The UN expects the Timor-Leste to have an additional 1 million

Figure 2.2: Total Division of Urban and Rural Population in EAP, 1950–2050



Source: United Nations 2012.

Figure 2.3: Urbanization in EAP according to Income Classification, 1960–2012



Source: World Bank staff calculations based on data drawn from <http://databank.worldbank.org/>.

urban dwellers by 2050 (UN 2011). Given the differences in the capacities and resources available to central and local governments in these countries, urban growth will present a range of challenges for adequate housing provision. These challenges include planning and directing

urban growth, managing growing informal settlements, financing infrastructure and service provision, as well as identifying and targeting beneficiaries for subsidized loans, rental vouchers, or other affordable housing interventions.

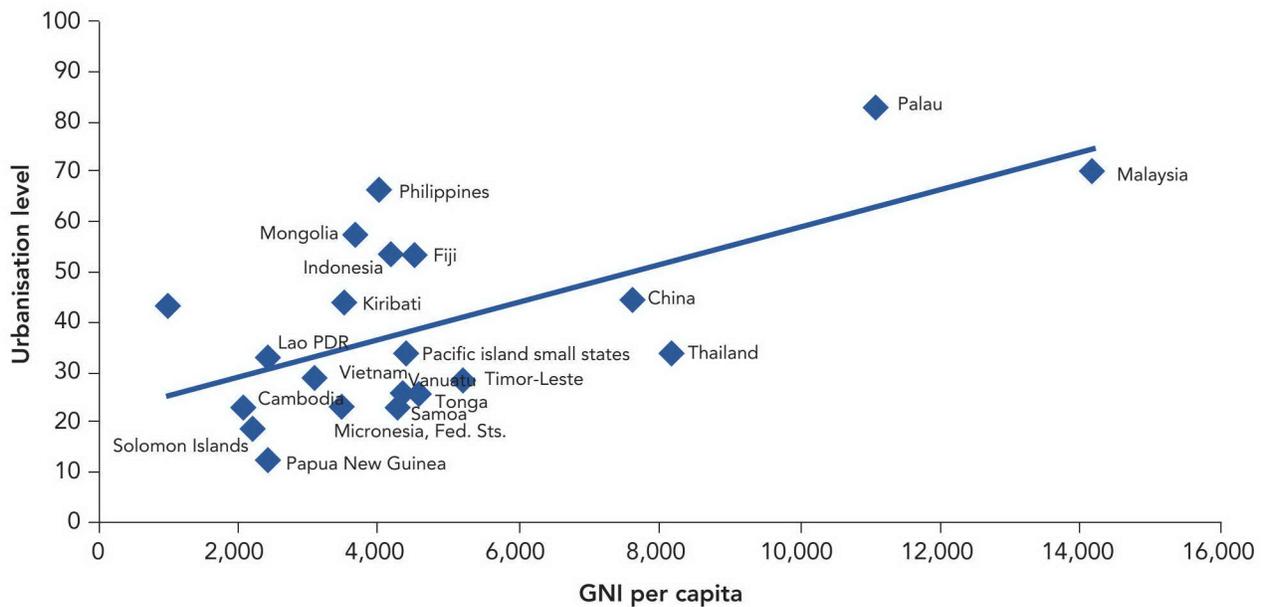
2.1 URBANIZATION AND WEALTH DISTRIBUTION

Over the last decade, EAP has enjoyed robust and sustained economic growth. Urban residents are on average wealthier than their rural counterparts. Cities are key drivers of national economic growth because they encourage agglomeration economies of production and consumption. For rural migrants, cities offer a diversity of employment opportunities, both formal and informal, and improved coverage of basic infrastructure and services. Cities also allow firms access to a diverse labor market, proximity to complementary suppliers and distributors, and a concentration of wealth to consume goods and services. In EAP, the growth in urban populations has also largely coincided with an overall reduction in poverty levels (World Bank 2013b). Figure 2.4 shows EAP urbanization rates and per-capita gross national income (GNI) and suggests that they are intertwined. As more of the region's population moves to urban areas, overall income levels will continue to rise, consistent with a global correlation between levels of urbanization and economic development.

Urban areas attract migrants because they are increasingly the principal drivers of national economic growth and livelihood opportunities. Regional economic policies and specializations coincide with advantages of urbanization. For example, export-oriented manufacturing operations make use of transportation infrastructure, specialized training and education facilities, and diverse labor markets. Major cities such as Hong Kong SAR, China, Seoul, Singapore, and Shanghai are hubs for financial services and banking, and increasingly are centers for research, development, and technology sectors (UN-Habitat 2012). For example, the Bangkok metropolitan area alone created just under half of the entire GDP of Thailand in 2012 (NESDB 2012). Urban areas of the Philippines accounted for 80 percent of the country's economic growth (World Bank 2005). The diversity of employment opportunities and the availability of urban amenities encourage migration from poorer rural areas.

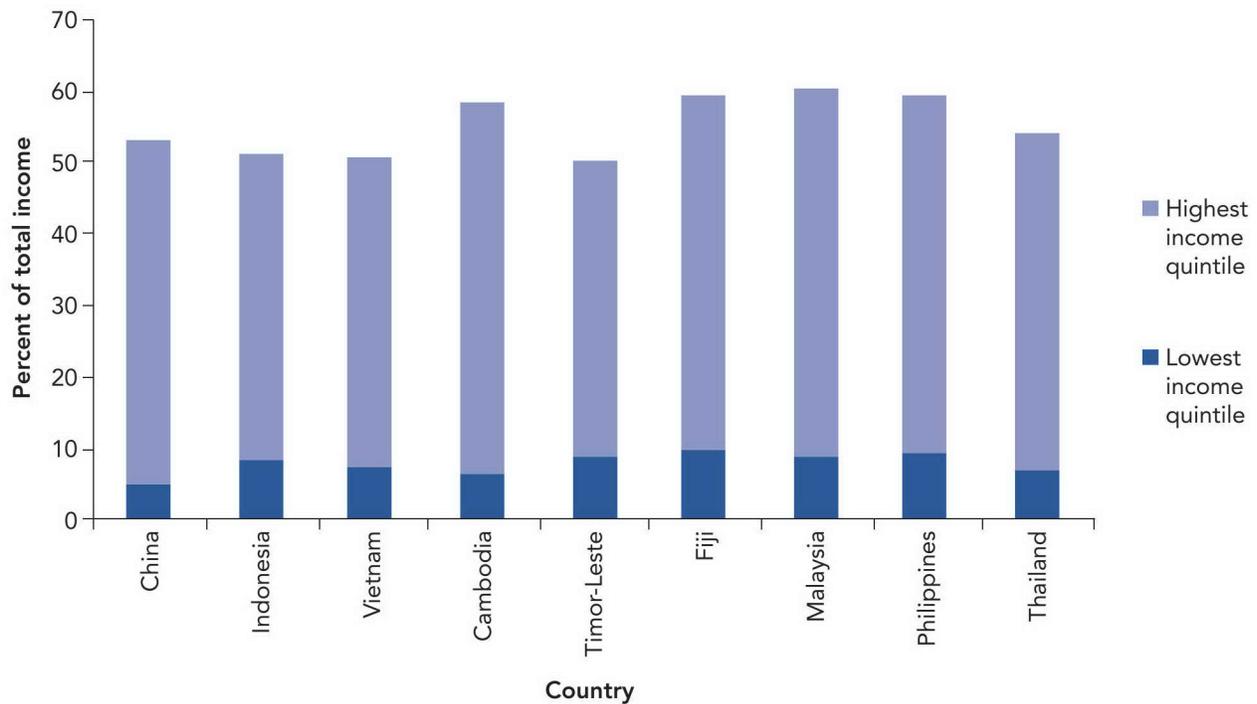
Despite rising incomes, urbanization is also linked to inequality. The economic growth of urban areas is not distributed equally (World Bank 2009). Poor urban res-

Figure 2.4: Distribution of GNI per Capita by Urbanization Level in Selected EAP Countries, 2011



Source: World Bank staff calculations based on data drawn from <http://databank.worldbank.org/>.

Figure 2.5: Distribution of Income Quintiles in Selected EAP Countries, 2005–09



Source: World Bank, World Development Indicators.

Note: Data are from 2005 for China and Indonesia, 2006 for Vietnam, 2007 for Cambodia and Timor-Leste, and 2009 for the others.

idents may have comparatively higher incomes than people in rural areas, but they also have higher costs of living and face larger and more competitive labor markets. As shown in figure 2.5, the wealthiest population quintiles hold nearly half of the wealth in select EAP countries.

2.2 INEQUALITY, HOUSING AFFORDABILITY, AND URBAN SERVICES

Such extreme inequality has particular consequences for urban residents. Urban land and locational amenities are finite, immobile, and exclusive. The wealthy are able to own and acquire premier land and properties proximate to employment centers, schools, and transportation networks. They are also able to pay for public service coverage for their own neighborhoods, but less inclined to subsidize these services in poorer areas. Low-income

groups are priced out of formal land markets and unable to afford collateral-based loans or mortgages. As a result, informal settlements and slums emerge where residents do not have land title and are unable to pay for infrastructure coverage or public safety services.

The unequal access to land and property ownership places informal settlers at risk for eviction. The region's urban poor are also more likely to be forcibly evicted or invited to resettle. In Cambodia, for example, where land records were destroyed by the Khmer Rouge regime, 10 percent of the population of the capital city of Phnom Penh was forcibly evicted or invited to resettle beginning in 2001 (Amnesty International 2012). The UN estimates some 1.5 million Beijing residents were moved over the course of eight years in order to accommodate construction for the 2008 Olympic Games (UN-Habitat 2011a: 23). In 2008, more than 14,000 families were evicted from camps alongside a toll road in Jakarta (COHRE 2009: 83). In

Pacific island states, where the majority of land is held through customary systems, efforts to evict informal settlers aggravate long-standing tribal disputes over land (Larden and Sullivan 2008).

The scale and rate of urban growth presents tremendous challenges for the provision of quality affordable housing options. Urban growth has outpaced the ability of city and regional governments to direct and regulate new housing development and extend infrastructure to newly settled areas. Informal settlements and slums concentrate on the urban fringe with residents who can face eviction because they lack land tenure security. Newly built structures do not meet building and safety standards and unplanned roads and footpaths inhibit circulation and access for emergency and public safety services. Service provision also struggles to keep pace with urban growth. More than 10 percent of urban residents in Indonesia, Lao PDR, and Cambodia had no access to water in 2008. Myanmar and Lao PDR actually had five percent *less* coverage in 2012 (75 percent) than in 2000 (UN-Habitat 2012: 7).

Many urban residents live in slums. Slums are characterized by a lack of access to water and sanitation facilities, disputed or ambiguous land tenure claims, and impermanent structures (Gulyani and Talukdar 2008). As shown in table 2.1, slums house between one quarter to over half of urban residents in some EAP countries. Across Southeast Asia as a whole, approximately one in three urban residents lives in a slum (UN-Habitat 2011a: vii). Since the 1970s, there has been an increased focus among policy makers and practitioners on upgrading and improving slums, rather than evicting residents and razing them (Abrams 1964; Turner and Fichter 1972). Slum upgrading schemes in Indonesia, the Philippines, and Thailand represent some of the world's most sophisticated and comprehensive approaches to improving tenure security and municipal service coverage with limited displacement of residents (Buckley and Kalarickal 2006).

Despite a global trend toward urbanization, urban places themselves are defined and measured differently across the

Table 2.1: Slum Populations in Selected EAP Countries, 2005

Country	Urban population in slums (%)
China	32.8
Indonesia	26.3
Mongolia	57.9
Myanmar	45.6
Philippines	43.7
Thailand	26.0
Vietnam	41.3

Source: UN Department of Economic and Social Affairs, Population Division (2008).

Note: The UN definition of slum is broader, and includes a threshold of three or more occupants per room, as well as a scale of shelter deprivation (UN-Habitat 2011a). As a result, these estimates may overstate the incidence of slums characterized by tenure and infrastructure deficiency. For example, the prevalence of slums the UN identifies in China may be due to a difference in the definition of urban residency (see UN-Habitat 2006a).

world. A number of different measures are used in EAP countries, which present challenges for comparing trends across countries and aligning policy interventions. First, EAP countries reflect a wide variety of linguistic, institutional, and economic variation. For example, Mongolia and Lao PDR are landlocked countries, while island nations such as Fiji and the Solomon Islands are thousands of kilometers from mainland Asia. Definitions of urban areas may rest on political or administrative jurisdictions, population densities, coverage of municipal services or infrastructure, or labor market conditions, among other markers. The next section examines the difficulties in defining urban places and tracks trends and predicted urbanization patterns across the region. The analysis suggests that while cities play an important role in economic growth, the benefits are not distributed evenly among urban residents.

2.3 COMPARATIVE DEFINITIONS OF URBAN PLACES

Urban places are defined differently across the region. As table 2.2 shows, these definitions are often at least partly tied to administrative districts, as in China or the Philippines. They are also used exclusively, as in Mongolia, Indonesia, and Thailand. Other countries such as Cam-

bodia and Vietnam rely on place population thresholds. Cambodia requires that places meet either a population or a density threshold or that male participation in agriculture falls below 50 percent. Island states such as Tonga and Samoa count one city as the urban area, while others such as the Marshall Islands, Kiribati, and Palau restrict urban areas only to specific islands. By contrast, Myanmar has no formally defined urban areas.

Table 2.2: Urban Place Definitions in Selected EAP Countries

Country (year of definition)	Administrative	Population	Population density	Access to services	Economy
China (2000)	Located within City District, and or has a "contiguous built-up area," local government, street, or Resident Committee		City Districts with mean density of 1,500/sq km	Includes villages or towns that receive services from urban municipalities	
Mongolia (2010)	Capital and district centers				
Cambodia (2005)	Communes that meet at least one of the criteria listed to the right.	Commune population exceeds 2,000	Greater than 200/sq km		Less than 50 percent of male labor force engaged in agriculture
Indonesia (2010)	Municipalities (<i>kotamadya</i>) and regency capitals (<i>kabupaten</i>)				
Philippines (2000)	Administrative centers with at least 2,500 residents	Barrios of at least 2,000 residents and barrios with at least 1,000 that are contiguous to an administrative center	Cities and municipalities with at least 1,000/sq km		
Thailand (1999)	Municipalities			Includes classification of sanitary districts	
Vietnam (2009)		Places with at least 4,000 residents			
Fiji (2007)		Places with at least 1,000 residents			

Source: United Nations 2012.

Note: The most recent definition provided by the statistical agency is in parentheses. sq km = square kilometers.

One of the weaknesses of this conceptual variation is the difficulty of comparing urbanized places across these countries. A place with 4,000 people or more is defined as urban in Vietnam, whereas Fiji classifies places that have one quarter as many people in the same way. Urban places in the Philippines must have at least five times the population density as their counterparts in Cambodia. Second, there is little or no reliance on a city's physical size or footprint: "urban" administrative and political jurisdictions may vary widely in area and in frequency within a country. Indonesia, for example, classifies both municipalities and regional capitals as urban, even though the country has four times more of the former than of the latter. This uneven characterization of urban regions presents difficulties for collecting accurate data and making valid interpretations about existing housing stock, the demand and supply metrics for different housing forms, and the extent of infrastructure and public service coverage.

Official urban designations influence public investment decisions and have important consequences for housing markets. In China, growing urban areas can surround or abut formerly rural villages. Land use controls in these designated "urban villages" allow local farmers wide latitude to develop farmland to build housing for new urban migrants from rural areas, often with poor site planning and construction standards (Zhang et al. 2003). City governments have limited resources to purchase the land of these urban villagers or pay for their relocation; and when farmers are relocated, their residency status precludes them from obtaining housing apart from in other urban villages around the city. This cycle encourages residential segregation and concentrated poverty in growing Chinese cities (Song 2011).

Recent work has focused on developing an index of urban agglomeration as a more universal definition of urban

places. Under this approach, an index is constructed by using census and geographic information systems (GIS) data to set thresholds of population, density, and the travel time to the center of a large city (Uchida and Nelson 2008). The main assumption is that population density increases and travel times decrease the closer a given area is to the city center. The advantage of the index is that it more accurately reflects the general characteristics of urban forms, independent of arbitrary administrative or political boundaries and designations of urban places. This allows for more accurate comparisons of urbanization rates both within and between countries.

2.4 CONCLUSION

The EAP's urban transformation will be substantial in absolute terms and is expected to continue apace. This transition presents an enormous challenge for the provision of quality affordable housing in growing cities throughout the region. While strong economic growth has coincided with urbanization, it has also sustained deep wealth inequalities in urban areas (World Bank 2009). The urban poor have few housing options as they typically cannot afford to purchase land, obtain a commercial mortgage, or afford commercial rents in the formal market. As a result, slums and informal settlements proliferate on public and private lands around cities and pose safety and public health risks to residents. Appropriate land use and planning measures can encourage the development of denser, more compact cities with multiple housing options and promote efficient and sustainable investment in transportation and infrastructure. The next chapter provides an overview of regional trends in affordable housing. It also identifies the existing policy tools to address housing needs and the barriers that constrain their wider adoption and use.

Chapter 3

Regional Trends on Urban Housing Affordability

The most common measurement of housing affordability is the proportion of household income spent on housing consumption in a given period. The price-to-income ratio (PIR) is used to assess the affordability of homeownership by comparing median home prices to median household incomes in a given area. The United Nations (UN) considers a PIR of between 3 to 5 as an appropriate range for affordable homeownership (UN-Habitat 2002). A more general indicator, the residual income assessment, catalogs the proportion of total household income spent on housing expenditures, of which affordability is typically expressed between 25 and 30 percent (Dowall et al. 2013). Finally, it is also important to consider a number of ancillary costs that are at least partly mediated by housing choice and housing costs. These include transportation to work, school, or markets, as well as unit repair and maintenance costs, property taxes, insurance, and utilities. The demand for more affordable housing options is only likely to increase in the East Asia and Pacific region (EAP). The UN predicts that by 2025, cities in the region will be home to at least 360 million more residents (UN 2012).

Housing affordability is determined by three principal cost considerations. These include the capital cost of purchasing a plot and completed dwelling unit, the price and availability of finance, and the ongoing costs of occupying it (Struyk 1988). Depending on the tenure arrangement, these costs may be borne by landlords, owner-occupiers, renters, or a combination of each. The recurring costs include transportation expenditures, utility user fees, tax

liabilities, configurations of property rights, and building and construction standards that control future renovation or modifications. Capital costs may vary according to location, unit age and quality, availability of loan or mortgage products, and the relative quantity and demand preference for alternative tenure forms such as renting. Occupancy costs are also influenced by access to transit and the price and quality of infrastructure service. Definitions of affordability must consider the variation of both of these types of costs in order to reach low-income populations.

Affordable housing strategies in EAP countries typically fall into one of two categories: mortgage subsidies for home purchase and subsidized public rentals. Homeownership is widespread, and governments offer assistance with the mortgage borrowing or land and title acquisition. National provident funds, such as those in China, Indonesia, the Philippines, and Singapore, rely on contributions of formal or public sector workers to finance subsidized mortgages. Public rental housing is found in eight countries, though this comprises a small portion of available housing options. Social housing resembles public housing in that its cost is subsidized and it is targeted to certain income groups or workers (such as civil servants) but it can also include owner-occupied units. For example, China and Vietnam have moved toward privatizing social rental housing for civil servants and workers in state-owned enterprises by transferring ownership and sales rights to tenants.

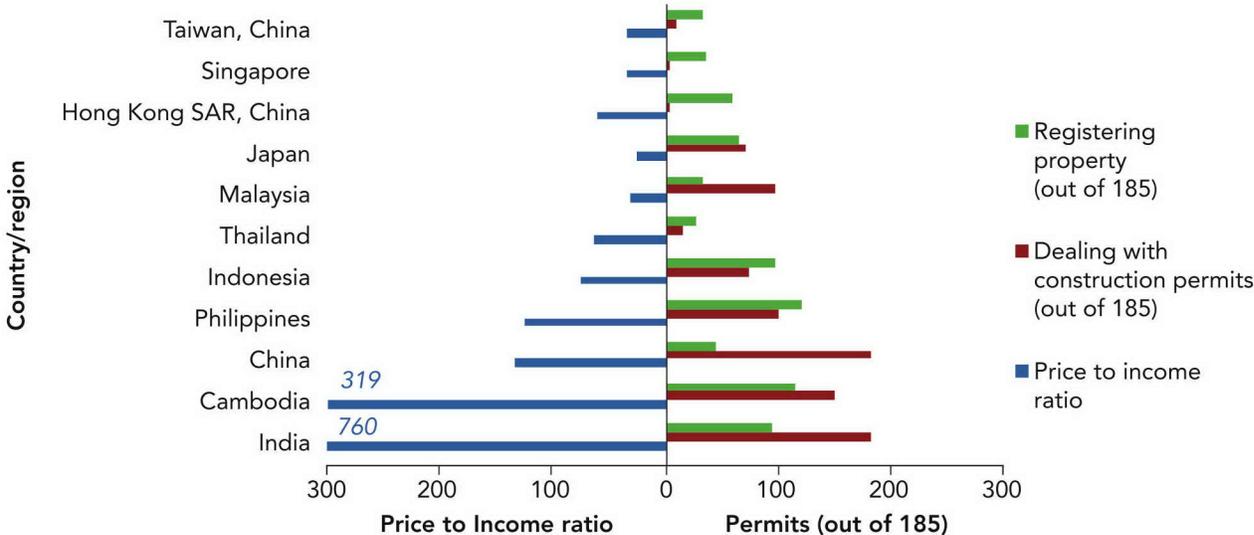
Despite their prevalence, these policies are incomplete and at times inappropriate under current market and institutional conditions. Homeownership is common throughout the region and provides households with secure tenure, increased equity, and access to credit. However, the benefits of mortgage subsidies in the region tend to accrue to formal sector and upper-income workers. Public rentals and social housing represent subsidies that are misdirected to residents who could afford other options and as such reinforce, rather than reduce, wealth inequality. The direct provision of public rental units carries two immediate risks. First, these developments typically do not respond to local market demands for price, location, amenities, and employment opportunities. Second, international experience has suggested that over time, rental housing tends to suffer from lack of maintenance and upkeep of common areas, especially when these buildings are privatized. This deters investment and reduces housing stock quality (Peppercorn and Taffin 2013).

There are many barriers that limit housing affordability. These include market distortions, restrictive regulatory environments, inadequate financial instruments, and po-

litical interference. Governments, private developers, and nongovernmental organizations all have distinct roles in improving the overall quality and supply of urban housing stocks. The rapid urbanization of EAP has put new pressures on these actors to expand the creation and provision of affordable housing interventions. Broadly, the main challenges are the uneven distribution and claims of land ownership, housing and mortgage finance systems that do not cater to low-income groups, the lack of comprehensive housing and land-use planning institutions, and policy preferences for homeownership over other forms of tenure. These market distortions are also reflected in the prices of available housing options. Many urban newcomers find themselves priced out of ownership and rental options and private or nonprofit developers make up a small, but growing, segment of providers.

Housing tends to be less affordable where property registration and construction permitting is costly and slow. Figure 3.1 details the PIR of homeownership from selected EAP countries and economies in comparison to the most recent assessment of ease of property registration and construction permit approvals. Even in high-income urban areas

Figure 3.1: Property Development and Housing Affordability in Selected EAP Countries and Economies, 2013



Sources: Cruz 2008; World Bank’s Doing Business Survey 2013. Note: “Registering Property” and “Dealing with Construction Permits” are rated in the Doing Business Survey on a scale of 1 to 185 points.

such as Singapore and Japan, housing is comparatively more affordable, likely in part because of the ease and security of property and development rights.¹ Restrictions and delays in property registration and construction permit review can increase the costs of providing housing, which limits investment in new stock and raises the price of existing units.²

3.1 AFFORDABILITY TRENDS: RENTING AND OWNING

Throughout the region, ownership is the most common form of tenure in urban areas. As table 3.1 demonstrates, at least two thirds of urban residents report owning their home. However, these data may best reflect formal rental and ownership markets, excluding owners without title or those who rent through informal lease agreements.

1. Due to its size and government, Singapore also enjoys the advantage of being able to capture and retain tax revenue generated through economic activity without the need to transfer any portion to other levels of government as occurs in most countries.

2. The limited availability of price data suggests that these relationships should be treated with caution. First, PIRs in countries with lower inequality and a lower incidence of urban poverty are likely more representative of housing affordability than PIRs from poorer countries where reported housing prices tend to be at the highest end of the market. Second, property regulation and rights regimes are also likely to be correlated with economic development and are probably reflective of broader social and economic reforms (Monkkonen and Ronconi 2013).

Table 3.1: Urban Tenure in Selected EAP Countries, 2006–11

Country	Year	Owners (%)	Renters (%)
China	2011	89.7	—
Indonesia	2008	67	8.36
Malaysia	2006	67	—
Philippines	2009	80	—
Thailand	2011	70	30

Source: HOFINET 2013.

Note: — Not available.

Despite the high rate of urban homeownership, there remain significant barriers to extending homeownership to new urban immigrants. First, PIRs for new and existing homes across the region are very high. Second, commercial mortgages are not targeted to low-income groups both because the typical terms and ticket sizes are too great and because they require proof of income and a clearly defined property title.

Homeowners in principal cities and other urban areas are similar. This suggests that the population characteristics of urban homeowners are consistent within a given country, as shown in table 3.2. The mean ages (around 30) and

Table 3.2: Characteristics of Homeowners in Principal Cities of Selected EAP Countries, 2000–11

Country/main city	Ownership rate (%)		Household size		Mean age		Married (%)	
	Main City	Other urban	Main City	Other urban	Main City	Other urban	Main City	Other urban
Bangkok (Thailand)	52	54	4.1	4.1	33	31	66	73
Ho Chi Minh City (Vietnam)	79	86	3.9	3.7	31	32	72	80
Jakarta (Indonesia)	57	69	1.5	1.8	29	30	81	80
Kampong Cham (Cambodia)	81	68	4.9	5.2	28	28	77	76
Kuala Lumpur (Malaysia)	54	68	4.5	4.6	28	28	77	78

Sources: National Institute of Statistics Cambodia, 2008; Statistics Indonesia, 2010; Department of Statistics Malaysia, 2000; National Statistical Office Thailand, 2000; General Statistics Office Vietnam, 2009.

household sizes of homeowners, and to a lesser extent the domestic status (a majority are married), are consistent between primary and secondary urban areas. However, ownership rates are higher outside of the principal cities in each country except Cambodia, suggesting that there is a price disparity for homes in different urban markets.

Renting is more common in urban areas, but data on the rental markets and stock quality are universally scarce. For example, 41 percent of Bangkok residents rent, compared to just 13 percent of Thailand as a whole (UN-Habitat 2008: 3). Renting is also more common in principal cities than in other urban areas as table 3.3 shows. This may suggest that supplies are greater and renter incomes are higher. However, based on available data, renters from different urban areas within these countries are otherwise very similar in terms of mean age and household size. Large cities appear to draw more unmarried renters, possibly due to differences in labor markets or housing stocks. Young professionals may formally rent until they are able to save or establish credit history to purchase a home in the future. They prefer smaller units near work locations and urban amenities. As they are also likely to be single and their incomes increase over time, they are likely to rent larger units sequentially over time. When they retire or their children move out, elderly people and

widows may decide to rent after selling a previously held property. They tend to favor smaller units proximate to services and transportation networks. Finally, foreign professionals and expatriates rent large, expensive units in premier neighborhoods.

3.2 AFFORDABILITY OF RENTAL AND OWNERSHIP OPTIONS

The cost of buying a home in EAP cities is very high. As tables 3.4 and 3.5 show, the cost of purchasing a new or existing home in urban areas is very high. The PIR show that median home prices far exceed the median incomes of urban residents. Japan, with high per capita incomes, progressive housing support, and a robust commercial lending sector, has a PIR that is among the region's lowest, despite traditionally high land values. Jakarta and Manila have among the highest PIRs, as does Vientiane, the capital of the Lao People's Democratic Republic, with a PIR of 23.2 (UN-Habitat 2011a). There are several reasons for this disparity. In the case of Thailand, for example, these data are likely skewed by prices for properties geared toward wealthy foreign or absentee investors who do not report their incomes. This is one reason why many countries in the region have adopted restrictions to foreign property ownership.

Table 3.3: Characteristics of Renters in Principal Cities of Five Selected EAP Countries, 2000–11

Country	Rental Rate		HH Size		Mean Age		% Married	
	Main City	Other urban	Main City	Other urban	Main City	Other urban	Main City	Other urban
Bangkok (Thailand)	35	24	3.01	3.16	29	28	68	73
Ho Chi Minh City (Vietnam)	20	13	3.29	2.57	26	25	69	76
Jakarta (Indonesia)	35	18	5.29	5.02	25	25	83	83
Kampong Cham (Cambodia)	12	22	3.85	3.97	24	25	81	75
Kuala Lumpur (Malaysia)	31	23	3.94	4.04	24	23	72	80

Sources: National Institute of Statistics Cambodia, 2008; Statistics Indonesia, 2010; Department of Statistics Malaysia, 2000; National Statistical Office Thailand, 2000; General Statistics Office Vietnam, 2009.

Table 3.4: Median Urban Income and Median Urban Home Prices in Selected EAP Countries, 2008, 2011

Country	Year	Yearly income (US\$)	New home price (US\$)	Price-to-income ratio	Existing home price (US\$)	Price-to-income ratio
Thailand	2011	6,588	100,000	15.18	70,000	10.63
Mongolia	2011	6,156	41,600	6.76	42,720	6.94
Indonesia	2008	2,728	15,613	5.72	—	—

Source: HOFINET 2013.

Note: — Not available.

Homeownership is comparatively more expensive in poorer countries, reflecting intense competition for urban land. PIRs tend to decline as per capita income increases. Table 3.5 summarizes PIRs from select cities in the region. However, due to data constraints, the price of condominium units listed in available data sources may skew toward the higher end of the market (reflecting investment or luxury properties), which distorts the PIRs calculated for the lower-income countries and economies shown. Chinese cities are among the most expensive; Shanghai holds a PIR of 31.1, while the PIR to buy a home in central

Beijing is 37.2 (Barth et al. 2012: 14). While China has restrictions on foreign property ownership, urban land markets are heavily distorted by municipal governments, which derive a large revenue stream from land sales and are inclined to limit the supply of new housing for price inflation (Barth et al. 2012). Furthermore, there is a large population of low-income residents who cannot afford conventional mortgages. For these reasons, EAP governments have actively promoted ways of reducing the cost of housing finance and land acquisition. The following section briefly surveys these interventions.

Table 3.5: Home Affordability in Selected EAP Cities, 2006

City	Income per capita (US\$)	Condominium price (US\$)	Price-to-income ratio
Tokyo	45,425	280,000	6.2
Taipei	13,036	81,550	6.3
Singapore	28,578	210,000	7.3
Hong Kong SAR, China	27,670	224,945	8.1
Bangkok	6,317	58,345	9.2
Seoul	10,305	115,500	11.2
Manila	2,217	45,500	20.5
Jakarta	1,861	43,750	23.5
Shanghai	2,474	77,000	31.1

Source: Cruz 2008.

3.3 THE PREVALENCE OF RENTAL HOUSING

Renting is less common than homeownership, though rental units serve a diversity of populations. Across the region, about one third or less of urban residents rent their homes (see table 3.3). Renting carries benefits distinct from homeownership and is suited to a variety of population groups and income levels. Renting also covers a broad variety of social and physical arrangements. Tenants may be individual family members to strangers; landlords can range from owner-occupiers to absentee holders who manage the property through an agent or firm. Property owners may rent units or land temporarily until they can be sold off for a better return, or they can invest in permanent rental housing developments.

Formal rental housing is expensive. The preference for homeownership is reflected in comparable urban rents. The rent-to-income ratio is the share of the median annual rent of a unit and the annual median household income. Across Asian cities, rent-to-income ratios are about twice those of developed countries (UN-Habitat 2011: 23). In secondary cities, rental housing is even scarcer. In Surabaya (Indonesia) the rent-to-income ratio is 19, in Chiang Mai (Thailand) it is 22, and even in Hanam (the Republic of Korea) it is 14 (UN-Habitat 2003b: 275). The UN estimates informal renting comprises 60–90 percent of all low-income urban rental units across Asia (UN-Habitat 2008: 18). In China, informal private rentals in urban villages were estimated to account for one third of housing in major cities (Logan et al. 2011).

3.4 CONCLUSION

Poor and low-income residents, often including recent migrants from rural areas, are mostly likely to rent in urban areas. They typically do not have the savings or assets to acquire a mortgage and they must retain the ability to move quickly according to work opportunities. Due to the declining share of public and formal rentals, informal renting is the most commonly held tenure form. Infor-

mal renters occupy a spectrum of shelters, some of which can be inadequate or constructed ad hoc. They may rent or sublet rooms in privately held tenements, apartments, homes, cheap hotels, or hostels. Rentals may be furnished or unfurnished or a particular bed in a shared room. Others may rent outdoor space in illegal settlements, fields, parks, cemeteries, or at their place of work. These types of informal rental agreements, especially in illegal or squatter settlements, can allow landlords to provide dangerous or substandard accommodations, often without fear of impunity or legal recourse from tenants.

Public housing provided by governments or administered by housing agencies or nonprofits can be affordable rent options—as long as tenants meet eligibility requirements. Large companies can invest in housing for workers and charge a subsidized rent or deduct the cost from workers' payments. Homeowners may also rent extra rooms or ancillary units to students, family members, domestic workers, or other low-income tenants. This type of small-scale informal rental scheme is common in EAP, across both formal and informal settlements and slums. It provides landlords, who themselves may not be much wealthier than their tenants, an additional stream of revenue and enables them to improve and maintain their properties (Peppercorn and Taffin 2013). Absentee landlords or property management firms are comparatively less accommodating to tenant demands.

Renting is an often undervalued alternative to homeownership. However, it contravenes explicit government policies to support homeownership. In recent decades, subsidized units in public and social rental housing projects in countries like China, Mongolia, and Vietnam have been sold to tenants. Furthermore, a lack of construction finance and incentives for developers discourages both the production of new units and the maintenance of existing structures. Linking mortgage contracts to construction finance can provide developers with the necessary capital to complete residential projects. Construction finance is typically raised through pre-sale contracts, where units are sold at discount prior to construction.

Chapter 4

Overview of Current Affordable Housing Interventions

Affordable housing strategies vary widely across the East Asia and Pacific region (EAP), though most countries have at least one demand-side program to reduce the cost of homeownership. As table 4.1 shows, consumer demand subsidies consist of two policies: (i) government-subsidized mortgages or down payment assistance programs, (ii) or national-level compulsory savings programs. Subsidized mortgages offer a below-market interest rate and may be coupled with down payment assistance. Mongolia, for example, has experimented with subsidized mortgages and publicly built housing, which has imposed substantial costs, generated inflationary pressure on housing prices, and has had very limited success in reaching low-income groups (World Bank 2012). Compulsory savings programs, or provident funds, use mandatory contributions from public sector and formal sector workers to fund mortgages, often at subsidized rates, for these groups.

There is also a wide array of supply-side interventions to increase the availability and diversity of tenure forms. Public rental housing and support for informal settlement upgrading is also prevalent in the region; although, apart from Singapore and Hong Kong SAR, China, public rentals comprise a comparatively small part of most housing stocks (Doling 1999). In Fiji and the Solomon Islands for example, public rental housing is primarily reserved for middle-income and public sector employees, while in China, it is provided to qualified, middle-income work-

ers that cities want to attract to grow their economies. The Republic of Korea, Malaysia, and the Philippines have introduced legislation to place limits on the prices of new units and to require new developments to set aside affordable units, though these measures are either contested or ignored by developers. Finally, restrictions on foreign ownership are found in a majority of countries, though this is at best an indirect way of supporting housing affordability as these measures simply aim to control price speculation.

4.1 HOMEOWNERSHIP ASSISTANCE

In EAP, homeownership is the most prevalent official tenure form in urban areas and governments have a number of tools to actively assist prospective homeowners. Homeownership is believed to carry a number of ancillary benefits to owners and to impart positive neighborhood spillovers. First, for owners, the home is a valuable asset that can be used as collateral and a source of intergenerational wealth transfer. Additionally, it is possible that title possession and homeownership encourages local investment that raises property values (Jimenez 1983; de Soto 1989) and encourages more involvement in neighborhood affairs relative to renting (Rohe and Basolo 1997).

Government support for homeownership is widespread throughout EAP. Subsidies for mortgages or down payments constitute the most common means of providing

Table 4.1: Summary of Key Affordable Housing Policies and Programs in EAP Countries

Country	Assisted homeownership	Compulsory savings	Public rental	Cross-subsidy ^a	Settlement upgrading
Advanced and industrialized countries					
Korea, Rep. of	X		X	X	
Malaysia		X	X	X	
Thailand	X		X		X
IBRD countries					
China		X	X		
Indonesia	X	X			X
Philippines		X		X	X
Vietnam			X		
IDA or IDA-blend countries					
Cambodia					
Mongolia	X		X		
Myanmar					
Small island countries					
Papua New Guinea					X
Fiji			X		X
Solomon Islands		X	X		X
Vanuatu		X			

Source: World Bank team analysis.

Note: a. Cross-subsidy refers to legislation allowing governments to impose mandates for inclusive zoning or mandatory set-asides for affordable housing in new developments. IBRD = International bank for Reconstruction and Development; IDA = International Development Agency.

homeownership assistance. These measures comport well with relatively high household savings rates across the region (Horioka and Terada-Hagiwara 2011). Following Singapore’s lead, China and Indonesia have introduced compulsory savings programs for public and formal sector workers, called housing provident funds. Table 4.2 summarizes major homeownership assistance initiatives in the region. This section will briefly discuss these na-

tional-level housing finance institutions and major programs in addition to more site and project-specific interventions that promote affordable homeownership.

Compulsory savings schemes are the most common demand-side intervention throughout the region, though international experience demonstrates that their success is uneven. Compulsory savings programs, also known as

Table 4.2: Homeownership Assistance Programs in Selected EAP Economies

Country	Type of program	Nature of program
China	<ul style="list-style-type: none"> • Housing Provident Fund (1994) • Comfortable Housing Project (1995), changed to “Economic and Comfortable Housing” (1998) 	<ul style="list-style-type: none"> • Housing provident fund • Subsidized home purchase
Hong Kong SAR, China	<ul style="list-style-type: none"> • Housing Authority’s Home Ownership Scheme • The Middle Income Housing Scheme • The Housing Society’s Flat for Sale Scheme • The Sandwich Class Housing Scheme • The Private Sector Participation Scheme 	<ul style="list-style-type: none"> • Subsidized home purchase
Indonesia	<ul style="list-style-type: none"> • National House Savings Fund 	<ul style="list-style-type: none"> • Housing provident fund
Malaysia	<ul style="list-style-type: none"> • Public Low Cost Housing (PLCH) program • Employees Provident Fund 	<ul style="list-style-type: none"> • Subsidized home purchase • Housing provident fund
Mongolia	<ul style="list-style-type: none"> • 40,000 housing units program (2003) • 100,000 apartments project (2008) 	<ul style="list-style-type: none"> • Subsidized home purchase
Philippines	<ul style="list-style-type: none"> • Community Mortgage Program (1988) 	<ul style="list-style-type: none"> • Subsidized mortgage rates (lower amortization and longer repayment period)
Singapore	<ul style="list-style-type: none"> • Central Provident Fund (CPF) • Subsidized Mortgages for Public Homes • CPF Housing Grant Scheme for first time homebuyers 	<ul style="list-style-type: none"> • Housing provident fund • Subsidized mortgage rates • Subsidized home purchase
Thailand	<ul style="list-style-type: none"> • National Housing Authority, which sells units to low-income buyers on five-year hire-purchase contracts with Government Housing Bank providing financing 	<ul style="list-style-type: none"> • Subsidized home purchase/ Subsidized mortgage rates
Vietnam	<ul style="list-style-type: none"> • Subsidized homeownership for public tenants 	<ul style="list-style-type: none"> • Subsidized home purchase

Source: World Bank team analysis.

housing provident funds (HPFs), use contributions from employees and employers to finance long-term home mortgage loans for eligible recipients. These instruments, however, present several risks that could undermine the housing finance sector and reduce access to mortgage-based finance. For example, compulsory savings programs typically also pay out pension or retirement contributions in addition to issuing mortgages. Also, interest rates on mortgages issued by these facilities may be subsidized at below market rates, which puts commercial lenders at a disadvantage and reduces private investment in the sector; this has occurred in Mexico and Brazil (Taffin et al. 2011).

Publicly built, subsidized homes have also had limited success. Programs in Hong Kong SAR, China and Singapore are the models for publicly subsidized, targeted, low-income housing. In Singapore, some 84 percent of residents own and live in housing built by the government Housing and Development Board (HDB) (Yuen et al. 2006). Housing finance is tied to the country’s subsidized provident fund (discussed below). In contrast, Hong Kong SAR, China’s private banking sector is the main supply of consumer finance for housing, though the city’s housing authority and a partner nonprofit organization build and manage these homes. This achievement is due in part because the supply of land is small and mostly owned by

public authorities, allowing the government to subsidize its housing development through the sale of other urban land at market values. Both cities also benefit from competent and effective housing authority administration of these developments (Yeung and Wong 2003). Similar efforts have had less success. Ambitious programs such as Indonesia's 1,000 Towers, Thailand's 1 Million Homes, and Mongolia's 100,000 Apartments have experimented with publicly built units targeted for purchase by low-income groups with subsidized loans. Each of these programs have run into a variety of problems. These include costly delays, offering units that are too expensive for low-income groups, or supplying so much housing that the public program limits private investment in the sector (Kamata et. al 2010; UN ESCAP 2010; World Bank 2012).

Government Housing Finance Institutions

Housing finance institutions are the principal actor in setting policy direction for financing housing construction and consumer mortgage lending. These national institutions vary in their authority and involvement in the housing sector. At one extreme, nearly all of Singapore's housing is government-built and approximately one third of mortgages are originated through a compulsory savings fund (Phang 2010). Similarly, Mongolia's housing finance corporation has devoted considerable resources to building social housing for private purchase among target beneficiaries, such as veterans, but risks crowding out private sector housing finance sources (World Bank 2012). By contrast, Thailand has a specialized set of public housing agencies that provide support for a broad segment of the housing sector and has supported the development of private financial institutions. The government still originates approximately half of all mortgages; and the Community Development Organization Institute (CODI), discussed below, provides support for community-based lending to low-income populations. The government also supports private developers (who are responsible for nearly all housing construction) in providing rental housing through its National Housing Authority (Llanto 2007). Several countries, including Mon-

golia, Indonesia, and Thailand, have recently begun to develop mortgage-backed securities for capital markets. These allow housing finance institutions to accumulate additional finance capital to back new mortgages and other loans. The success of these instruments has so far been limited, and there remain issues with the capacity of markets and regulatory institutions to adequately assess the value and risks of component mortgages (discussed below).

Mortgage Subsidies

Mortgage subsidies make homeownership more attractive by reducing consumer borrowing costs. These subsidized mortgage schemes may also be linked to down payment or plot-acquisition subsidies. However, there are several risks inherent in these programs. First, they tend to be expensive for governments because loans with subsidized interest rates present costs that are likely to accrue over the life of the mortgage due to inflation. Most mortgage products in the region have adjustable rather than fixed rates in order to help reduce the threat of inflation to lenders. However, this also makes the true cost of the subsidies difficult to estimate because the realized value of the subsidy each year is contingent on varying inflation rates. It is also possible, though not clearly established, that subsidized mortgages could increase speculative property consumption and drive up home prices, which would effectively cancel the effect of the subsidy.

Subsidized mortgages are not the best way to extend access to affordable housing to those who need it. Subsidized mortgage interest rates typically benefit middle- and upper-income households that already have access to formal banking institutions. Households without credit or banking history or that earn income through the informal sector will not be eligible for a mortgage in the first place. This distorts the distribution of the subsidy and diminishes its effect on providing access to quality housing for those who otherwise cannot afford it.

Rather than subsidizing mortgage interest rates, there are alternative tools to support housing consumption. One

less-distortionary alternative to mortgage interest rate subsidies is through loan “buy downs.” Under these schemes, the government extends a temporary (five- to ten-year) subsidy to all commercial lenders that lowers the effective market-rate interest on mortgage products they offer. The subsidy tapers off during the mortgage term until the beneficiary undertakes the full, market-rate interest burden, by which point a portion of the principal has already been paid. This encourages lenders to expand the size and number of loans disbursed without presenting the same exposure to the inflation risks. In fact, lenders are able to recover the actual market interest rate through both consumer payments and subsidy transfers. Other subsidies include subsidies that reduce the upfront cost to purchase or finance a home. Examples include down payment assistance grants, and grants to cover closing costs and title. Upfront subsidies are especially realistic when eligibility to such programs is tied to a savings requirement (Hoek-Smit 2009).

Publicly subsidized mortgages can make support and administration of loans and payment collection politically contentious. This has been the case in the Philippines, where loans are disbursed and administered through a government agency, which can make resources and support for the mortgage program politically contentious. By extension, the unpopularity of foreclosure on beneficiaries coincides with low overall repayments, which has severely reduced the long-term solvency of the lending agency. Finally, there are difficulties targeting low-income populations that would benefit the most from the subsidy. Eligibility often requires formal, salaried employment and some form of credit history, which low-income groups do not have (Wu 2002). Even with the subsidy, monthly mortgage payments would remain too high for poor borrowers to purchase even the least-expensive homes. It is also not clear how well-subsidized mortgages reach populations that would otherwise not be able to own a home. Households that could otherwise afford a market rate mortgage may simply opt for a lower, subsidized rate and purchase a home for investment or to rent, as has occurred in Indonesia (Tisnabudi 2010).

Housing Provident Funds

Housing provident funds support mortgage borrowing in China, Indonesia, Malaysia, the Philippines, Singapore, the Solomon Islands, and Vanuatu. These institutions, which resemble retirement or pension plans, rely on deductions from the pay of formal sector or public sector workers to sustain a stable pool of finance for mortgage lending. Singapore’s provident fund has been the region’s most successful, due in part to its connection to a large public housing stock and a near-universal formal sector workforce. The government exempts fund contributions from taxation, provides grants for first-time home buyers, and guarantees mortgages. China introduced a similar program in 1994, but expansion of the fund since then has been limited outside of government workers and has largely failed to reach a majority of low-income households (UN-Habitat 2011a). Similarly, provident funds in the Solomon Islands and Vanuatu have directed housing finance principally toward middle-income households.

There are a number of challenges to the development of national housing provident funds in EAP. First, the requirement of formal employment excludes the urban poor from contributions and eligibility for mortgages. The funds can also resemble a regressive tax; lower-income contributors are likely to borrow smaller amounts and less often than wealthier participants. Second, as in the case of the Philippines’ provident fund, poor contribution collection procedures and low mortgage repayment rates have harmed the stability and solvency of the fund (Alonzo 1997). Finally, various stakeholder priorities present some risk to the long-term stability of the funds. Some portion of the funds is invested toward maximizing returns for pensioners, whereas the portion directed toward originating mortgages seeks to minimize interest rates for borrowers.

Privatization of Social Housing

Countries with a history of direct affordable housing provision under socialist regimes have also moved toward private market reforms of the housing sector. Under socialist

regimes in China, Mongolia, and Vietnam, housing was promoted as a public good to be provided by the state for workers. In each country, these units were later privatized, representing a substantial public asset transfer at no cost to private citizens. In China, for example, much of the housing stock had been heavily subsidized by the government, though investment was uneven and typically directed toward workers in favored economic sectors. In 1988, the government began to sell to these rental units in *danwei*, a kind of worker housing community, to tenants at a low cost. The vast majority of China's housing stock, 80 percent, is privately owned homes, many of which were rental units that were sold below cost to renting tenants; this accounts for China's very high overall homeownership rate of 87 percent (Gan 2013). In cities, the private development and sale of new housing was prohibited and existing rental properties were effectively nationalized (Jing 2011). Once nationalized, unit rents did not cover building maintenance costs. Vietnam's government has also continued to promote social housing, which has been directed toward soldiers, factory workers, and public servants since the 1950s. Under *doi moi* liberalization reforms in the 1990s, the country has also begun to support a small but growing private housing finance market and private development and construction industry.

It is unclear, however, how well converted housing stock serves the needs of low-income households. Recently converted public or worker housing can require significant investment to improve the quality and resale value of units. This investment can be reflected in higher prices to purchase the remodeled units. Further, speculative markets can emerge in the absence of down payment and ownership requirements. China's privatization of state-owned worker housing and more general move toward supporting homeownership also coincided with rapid economic growth, which fueled a speculative investment market of former rental units. The government has taken steps to reduce price inflation of commodity houses from speculation. These include increased minimum required down payments for new purchase, increased sales transaction fees, limits on financing or owning multiple homes, and restricted foreign ownership of property.

Cross-Subsidies and Set-Asides

Low-income units can also be provided through set-aside mandates or through pricing cross-subsidies on new commercial housing developments. In this approach, governments designate a proportion of new units in a residential development as affordable housing. The units are assigned a long-term price limit (usually several decades) that is affordable for low-income groups. Korea introduced mandatory set-asides for new developments in 1989 but this, combined with the economic downturn of 1997, severely reduced private investment in housing (Koh 2004). Set-asides are not usually so heavy-handed. More commonly, developers are allowed to increase density, may obtain access to public land, or may be eligible for certain tax or construction finance breaks in exchange for setting aside units for low-income groups. The developer will also increase the price of market rate units in order to cover the lower price of the set-aside units. In Malaysia, commercial residential developers are required to provide a proportion of units at prices affordable to lower-income groups. Following protests from developers, more flexible mandates for new developments were introduced, which allow developers more latitude in the number and price of targeted units (Shuid 2004). These types of developments also feature a socially diverse mixture of residents, which may help to deter the emergence of pockets of concentrated urban poverty.

Despite the appeal of cross-subsidies, there are several factors that limit their adequacy as a large-scale affordable housing strategy in developing country contexts. First, cross-subsidies depend on particular conditions in an urban real estate market: that is, the potential use value of a given plot of land is far higher than the existing use. At the project level, both developers and regulators must clearly understand local land and property market prices and trends. Then they can correctly assess costs, determine affordable prices, and estimate the likely absorption capacity of market-rate units. Furthermore, because these types of projects represent a greater risk to developers, local officials must offer incentives that will allow developers to secure finance. Incentives can include density bonus allotments, flexible parking requirements,

expedited permitting and planning reviews, land assembly assistance, property tax subsidies, or favorable finance terms. If requirements are too costly, infeasible, or poorly regulated, then developers will avoid or ignore them, as has occurred in the Philippines (Ballesteros 2010). Even with such incentives, cross-subsidy schemes are infeasible in areas where land values are known to be low.

Although these programs reduce public sector involvement in affordable housing production, they require sophisticated public planning and regulatory controls. Local governments and planning authorities must develop specific criteria for designating low-income units and must develop protocols to ensure that these units reach eligible households. In Malaysia, for example, units targeted to low-income groups can be sold to wealthier residents who may then sell or sublet the unit at a market price. The nature of property rights allotted to low-income beneficiaries (individual ownership versus collective or cooperative ownership) also influences the decision of low-income residents to relocate to these projects (Mukhija 2002). Additionally, regulations must be clearly defined and uniformly administered. Uneven and uncertainly applied regulation will discourage private developers, or direct development toward areas where local officials give the greatest concessions, not necessarily where there is demand for affordable units.

4.2 STRENGTHS AND WEAKNESSES OF HOMEOWNERSHIP ASSISTANCE SCHEMES

Despite the prevalence of and government policy support for homeownership, urban housing and land markets are subject to a number of barriers. Commercial mortgages are available to only a small portion of consumers. A measure of mortgage debt, the mortgage-debt-to-GDP ratio, totals just 1.9 percent in EAP, less than Africa, Latin America, and South Asia (Buckley and Kallergis 2012). National-level housing provident funds increase the supply of affordable mortgages, but these subsidized loans compete directly with commercial lenders and are only available to middle- and upper-income groups. Low-in-

come groups and informally employed workers do not enjoy access to this form of public subsidy.

Governments also actively encourage affordable homeownership through housing finance structures that lend at below-market rates, often in the absence of well-developed secondary or wholesale finance markets. Compulsory savings programs require that beneficiaries save a given amount before being eligible to receive a mortgage. Similarly, national provident funds in various countries leverage contributions from formal or public sector workers to allow them to obtain secure mortgages on favorable terms. In Korea, Malaysia, and the Philippines, governments have partnered with developers to introduce cross-subsidized affordable housing. Under this approach, governments acquire and extend infrastructure to land while a developer builds housing. Some units are for purchase or rental at market rates and some are set aside for consumption at below market prices. Private sector involvement in mortgage provision, however, is limited to upper-income consumers with banking and credit history.

There are also constraints to the institutional architecture that underpins mortgage markets in several countries. Government involvement in mortgage finance has limited the growth of private lenders in Mongolia, the Philippines, Vietnam, and to a lesser extent Thailand (Kahn 2010; Vina 2006; World Bank 2012). Additionally, systems of property surveying, recording, registration, appraisals, and rights protection are weak. Credit bureaus that track consumer borrowing history and creditworthiness are incomplete or have loopholes. Mortgage contracts also lack enforcement authority; resolving foreclosure disputes can be costly and slow, especially in the Philippines where many housing loans are disbursed by public agencies. These weaknesses are also present in countries that have recently experimented with developing mortgage security instruments, placing additional risks on rating and tracking the value of these products.

Property ownership may not be suitable for all urban residents. Despite its positive impact, there is limited support for full property titles on housing and infrastructure

investment in informal settlements (Payne et al. 2009). Others contend that the benefits of granting freehold title and ownership rights maybe be overstated relative to the costs and time these procedures impose on governments (Ferguson and Navarrete 2003). Others say that informal settlements can improve over time independent of title or ownership prevalence (Gilbert 1990; Ward 1982), and that collateral-based mortgage finance actually discourages household investment in productive enterprises (Bracke et al. 2012). Even residents' simple perception of tenure security can positively influence housing investment decisions and demands for infrastructure coverage (Gilbert 2002).

As governments explore options to increase affordable homeownership, they should also carefully consider the possibility of property speculation and resultant price inflation. This is especially resonant in countries such as China, Mongolia, and Vietnam, which have begun to privatize vast stocks of social and work housing by selling them to tenants at low cost. There are several strategies to reduce the incidence of property speculation. On the consumer side, these include requirements for higher down payments and restrictions on the number of residential properties individuals may own. Increasing stamp duties on property deeds increases the costs of speculative property transactions and retooling mortgage interest deductions or credits on investment properties can also slow speculation by reducing tax windfalls (World Bank 2012). Finally, nearly every EAP country also has explicit restrictions on foreign ownership of property. These barriers reduce the direct influence of foreign speculators, but also eliminate a source of investment with domestic economic spillovers. Governments can also direct banks to require higher loan-to-value ratios for new mortgages and limit the total share of bank assets that can be allocated to property lending. These policies, however, require careful monitoring of housing market conditions, reliable price data, and improved registries of property and consumer credit liabilities.

4.3 PUBLIC RENTAL HOUSING

Rental housing is an important and often underappreciated housing strategy. It allows residents the mobility to quick-

ly pursue education or job opportunities in new places. It does not require a long-term financial commitment and aids flexibility with household budgets, especially when earnings may fluctuate or a portion of income is remitted to other family members. Renting involves a lease contract between a tenant and an owner (landlord), through which they agree on a price for the tenant to hold certain occupancy rights for a given time. A landlord may be an owner-occupant, absentee owner, or a company that designates agents to manage and maintain the property on their behalf. Occupancy terms may vary from days to months to years; rental payments can be formalized in a written contract or through a verbal agreement between the tenant and landlord. In EAP, renting comprises a minority of urban tenure forms, though data on the dimensions of rental markets are uniformly scarce across the region. This section briefly reviews characteristics of urban renter populations, different forms of rentals, and the landscape of rental housing programs.

Rental housing is an important tenure option for groups in particular life events or circumstances. Demand increases during economic or employment uncertainty, divorce, and retirement. Homeownership becomes more attractive as people age, incomes rise, and households grow. Rental housing is therefore a complement to homeownership and provides an important component of a diverse, dynamic, and responsive housing market. Informal renting and subletting also provide important income sources and ease rental prices in low-income areas. Local regulations should allow for small-scale, petty landlordships of owner-occupied rentals, provided they meet construction and safety standards. However, tenant protections in EAP remain weak. Residents can be subject to ethnic, religious, migrant, or gender discrimination as a basis for denial of housing or eviction, especially in informal markets. Disputes with landlords can be long and costly to adjudicate.

Social housing, targeted at specific beneficiary groups, is a collective term for the most common rental housing arrangements in EAP. Social housing may include rental housing administered by public agencies or nonprofits and offer units for low-income groups or public sector

workers. Public rental housing is found across the region, although it is a comparatively small share of the formal rental market (except in Hong Kong SAR, China). Table 4.3 outlines different types of rental tenure. Rents may be determined through market mechanisms (private

rentals) and price controls (public rentals), or may be affordably set for targeted populations (social housing, company housing). Informal rentals occur where rented property is not titled or registered and may be occupied or subleased illegally.

Table 4.3: A Typology of Rental Tenure Forms

Rental type	Characteristics	Owners	Tenants
Public rental	Land or housing owned by public agencies for allocation to selected beneficiaries, usually at a substantially subsidized rent.	Central or local government agencies.	Individuals or households who meet defined categories of need, such as low income or employment as civil servants. Found in: China, Fiji, the Republic of Korea, Malaysia, Mongolia, Singapore, Solomon Islands, Taiwan, China, Thailand, and Vietnam.
Social housing	Housing provided on a noncommercial basis for rent, with or without external subsidy. May require legal recognition.	Public agencies, nonprofit, or not-for-profit organizations.	A wide range of social and income groups.
Formal private rental	Formally registered land or housing rented out for profit or as a medium or long term investment without subsidy.	Individuals or commercial entities. ^a A high proportion may be absentee landlords. ^b	A wide range of groups, including all income categories, the young, and the elderly.
Informal private rental	Land or housing rented out for profit or as a medium- or long-term investment without subsidy.	Private, non-registered property owners in squatter settlements or unregistered subdivisions of legally acquired land. A high proportion may be living on the same property. Rental income is a valuable supplement to household incomes.	Predominantly, but not exclusively low- and lower-income groups, the young, and recent rural-urban migrants. Very common in most urban centers in developing countries. Provides the cheapest accommodation.
Company housing	Housing provided as part of employment contracts, usually with a subsidy. Provision may cease at the end of employment.	Private companies or corporations. Benefits include influence over employees and investment potential.	Tenants are normally restricted to current employees. Can provide affordable housing at cost of independence/security.
Shared housing	Housing provided without payment of rent or formal contract. Costs may be shared.	Individuals or households.	Members of an extended family network, kin, or close friends of the property owners.
Shared equity	Property owned partly by the entity that purchased or constructed it and partly by the occupants. The share can be adjusted over time. Not yet a common option in developing countries.	Public agencies or parastatals such as housing associations.	A wide range, but commonly younger households with aspirations to become home owners.

Source: World Bank team analysis.

Note: a. UN-Habitat (2003a: 7) makes a distinction between commercial and noncommercial landlords on the basis of the size of their operations. Commercial landlords comprise those who let to 10 or more tenant households, noncommercial landlords to less than 10. b. In many informal urban settlements, occupied areas are titled to absentee landowners. The main issue for residents is to determine modes of purchasing, leasing, or sharing the absentee landowner's property, rather than land titling (Childress 2004: 12).

Prevalence of Renting in EAP

Public rental units are presently a small portion of the rental housing stocks of many EAP countries. Table 4.4 shows public rentals as a share of total housing stock. Hong Kong SAR, China has the largest supply of public rental housing because of a long-term government commitment to rental housing, and because there is a wealthy population that can support subsidy transfers. Korea has set a goal to construct one million new 30-year lease rental units targeted to workers who earn 70 percent of the average urban salary. Yet, as is the typical problem with public rental housing, these units suffer from poorer construction quality than comparable for-sale units and they are sited far from urban jobs and amenities (Kim and Han 2012: 146; Takashima 2005).

China has also moved toward massive public investment in affordable rental housing. The Cheap Rental Housing Guarantee Plan aims to construct 7.5 million subsidized rental units with funding from the central government, offset in part by contributions of local governments to the housing provident fund (Deng et al. 2011). Housing provident funds, however, are not necessarily the appropriate instrument to finance and maintain public housing stock, as they are primarily tied to mortgage lending. Financing rental housing stock, and the liabilities that may incur, reduces the fund's ability to issue mortgages, which could contribute to a housing downturn. In 2006, Vietnam initiated the production of public rental housing tar-

Table 4.4: Prevalence of Public Rental Housing in Selected EAP Countries and Economies, 2012

Country	Share of total housing stock (%)
China	8.0
Hong Kong SAR, China	30.0
Korea, Rep. of	9.7
Singapore	4.0
Taiwan, China	0.08

Source: ACHR 2009; Hong Kong Housing Authority 2014; Man 2011: 84; Peppercorn and Taffin 2013; Chen 2011: 30–7.

geted toward lower-income civil servants such as police officers, teachers, and armed forces members who cannot afford homes in urban areas.

The Indonesian government has also heavily invested in large public rental housing projects, though these have largely failed to meet demand for low-cost housing. Funding public rentals is one of the largest expenditures in the Ministry of Housing's budget. Nevertheless, it provides access to fewer affordable units than homeownership assistance or upgrading schemes because of the high per-unit construction and maintenance costs (Ministry of Housing 2011). Additional costs are passed on to the tenant because once completed, housing management is transferred to local entities. They have fewer resources to administer and maintain units and often raise rents above affordable levels to cover the difference.

These state-led direct provision programs have several shortcomings. Public investment in rental housing stock should be considered against demand-side alternatives such as rental vouchers or tax breaks for landlords (Olsen 2000). Across the region, recent state-led initiatives to build affordable rental housing only meet a fraction of estimated demand. They are also behind schedule or charge rents that exceed affordability levels (Kamata et al. 2010). Project locations are sited and beneficiaries are determined with limited or no participation from civil society groups. Furthermore, subsidized rents may discourage private developers from providing market-rate rental units (World Bank 2012: 16). Additionally, mechanisms to verify and monitor the eligibility of low-income groups are not well developed and subsidized units can be purchased by wealthier consumers as homes or investment properties. In China for example, there is strong evidence that public housing transfers have benefitted middle- and higher-income groups, such as professionals, managers, and public servants. The intended beneficiaries, such as low-income workers and recent urban immigrants, can be excluded based on residency status (Wang 2011).

Other barriers can constrain the growth and diversity of public or private rental housing options. Unit size, location, and building material quality are the most import-

ant determinants of rent cost. Additional factors include the security of the land tenure claim and the proximity to urban amenities, transportation networks, and employment centers. Mandated rent controls, such as those in the Philippines, tend to influence rents by stifling the quality and supply of rental housing stocks (Tipple 1988; UN-Habitat 2011b). Providers of rental housing face similar challenges to those who sell units. Construction finance is often scarce or unevenly supported by local government subsidies. Planning and regulatory standards on new developments may also make construction or renovation time consuming and prohibitively expensive. Design standards may also purposefully or implicitly discourage occupants from running small, home-based enterprises or subletting additional space to others. Both of these activities are common supplemental strategies for expanding household income (Tipple 2004).

4.4 STRENGTHS AND WEAKNESSES OF PUBLIC RENTAL HOUSING

Across the region, public rental housing represents the most direct government investment in expanding the overall supply of low-cost housing, though public rentals seldom reach the urban poor. Current public sector involvement in direct housing provision in EAP is limited. Public rental units comprise an increasingly limited source of housing. For example, China has privatized government-built housing, reducing the stock from 70 percent to now below 10 percent (Logan et al. 2011: 84). Korea, Malaysia, and Thailand have also reduced the involvement of public sector housing finance institutions to encourage private sector lending and construction.

Public rental units are often poorly targeted and do not reach the urban poor. In a number of countries, these units have been available to public employees rather than targeted toward low-income groups. However, they form a small portion of the rental market in EAP cities, apart from Hong Kong SAR, China, Korea, and Singapore. This is because of eligibility criteria, a limited supply of units, tenuous funding support, and project locations that do not correspond to local demand. In recent years, China

has moved to address a shortage of affordable housing through its Cheap Rental Housing Program. The program began in 1998 and in 2009 supplied about one percent of total housing output or about a 500,000 units (Tan 2009). Most urban rental housing continues to be provided privately and informally.

Other forms of rental tenure can provide options for governments and developers. The Korean government has adopted a leasing system called *cheonsei* to encourage investment in a form of rental housing. Under this method, tenants agree to a long-term lease (10–20 years) and pay a deposit of 40 to 80 percent of the property value upfront in exchange for reduced or eliminated rental payments. Landlords can invest the deposit over the course of the lease term, but must refund the amount once the lease expires and the tenant leaves. Approximately two thirds of the country's housing is managed in this way (Ambrose and Kim 2003). An informal version of this system, called *seng*, also exists in Taiwan, China and Thailand, where it has been used to develop low-cost sublets in poor neighborhoods (de Wandeler 2006).

Communal land renting can blur the difference between informal and formal rental markets. Informal settlers can negotiate lease agreements with property owners to occupy land and construct their own homes. Provided that land rental agreements negotiated with property owners have adequate enforcement and reasonable protections for tenants, they represent a mutually beneficial housing option for low-income residents. In Bangkok, urban squatters negotiate land rental contracts with owners of vacant, unserviced plots for permission to settle. Contracts may be renegotiated and renewed, or the occupants may be evicted should the owner decide to sell or develop the property (Mohit 2002). The rental of customary land is common in cities of Papua New Guinea and the Solomon Islands, where informal agreements permit tenants limited development rights in exchange for land rental payments (UN Habitat 2003a: 44).

Owner-occupier landlords are an overlooked source of rental housing provision. Where the costs for financing and developing new rental housing are prohibitively high, petty

or incidental landlords can provide informal rental housing in spare rooms or on vacant property (UN-Habitat 2008). As previously discussed, Chinese urban villagers can provide affordable rental accommodations for recent urban migrants to supplement income from agricultural production (Liu et al. 2010). However, the main weakness to informal rentals is the lack of basic legal protections for both tenants and landlords. Furthermore, a lack of enforceable standards may mean that rental units are often built of inferior materials or may lack access to water, electricity, or sanitation. However, small-scale rentals or sublets in buildings that are also the owners' residences may ensure that units are in better condition than those held by absentee landlords (UN-Habitat 2008).

Adequate support for rental housing provides an affordable alternative to homeownership. Homeownership may not be feasible for those who are unwilling or would otherwise have difficulty financing their own home. Governments can articulate support for urban renting as a complement to homeownership. The direct provision of subsidized public rental housing is not widespread and is prone to investment and maintenance cost problems, along with difficulties in program administration. Small-scale and informal rentals between homeowners and tenants are an alternative to formal rental markets and make use of existing housing stock and a resident's private investment decisions. However, legal frameworks to enforce lease contracts and to support quality rental units are largely absent. Rental markets can be strengthened through developing mechanisms for rental contract enforcement and reasonable protections and dispute resolutions for tenants and landlords.

4.5 INCREMENTAL APPROACHES TO AFFORDABLE HOUSING PROVISION

There are a number of alternatives to direct government investment in housing supply or to housing consumption subsidies. Regional experience has shown that there is ample opportunity to improve and upgrade informal settlements without displacing residents in ways that are socially inclusive and comparably cost-efficient. This section reviews different examples of how alternative financing schemes,

along with support from governments and civil society organizations, can improve investment in the quality and security of poor urban neighborhoods throughout EAP.

Over the past 60 years, policies for developing quality affordable housing in developing countries have greatly shifted. In the 1950s, governments directly provided housing units at subsidized rental rates. In the following decades, governments moved toward providing assistance for self-help housing, typically through extending services to undeveloped land and encouraging the urban poor to build their own homes. Throughout the 1990s, governments promoted the expansion of private markets to cultivate construction and mortgage finance institutions, while at the same time relaxing regulatory and price controls. In recent years, non-profit and civil society organizations have taken more prominent roles in helping organize demand for land acquisition and housing development in low-income settlements, especially in Indonesia, the Philippines, and Thailand (Buckley and Kallergis 2013; UN-Habitat 2011a).

Land Pooling and Readjustment

Land pooling and readjustment strategies help planning authorities subsidize future development by temporarily acquiring and servicing fringe land and reselling it to the original holders. Under readjustment, land owners and leaseholders agree to allow the adjustment entity to subdivide and connect infrastructure and then sell back the newly designated plots, typically based on newly assessed values. With pooling, the land is consolidated upon transfer to the entity supervising the improvements and resold in accordance with prior agreements among land holders. These approaches allow rural land holders in locations coming under increasing pressure of urbanization to transfer certain development rights to local planning authorities (often composed of local residents and delegates). The authorities can then plan and subdivide the property and designate infrastructure coverage. Some plots are then allocated to the previous occupants in return for the value of the land they contributed. The returned plots are less in area but greater in value due to the provision of services. Additional plots generated through the comprehensive development of the com-

bined areas are sold at a profit to cover the administrative and infrastructure provision costs. These techniques have long been used in Japan, Korea, and Taiwan, China and are now being adopted in Malaysia, Mongolia, Indonesia, and Thailand. In Japan, an estimated 30 percent of urban land has been developed through readjustment (Sorensen 2002). In Korea, the government sells a portion of the land to offset development costs (UN-Habitat 2011a).

Community Mortgages

In the absence of access to formal banking and credit institutions, nonprofit and community-based savings and lending organizations have provided an important means for low-income groups in Indonesia, the Philippines, and Thailand to access finance for acquiring land, developing sites, or building homes. These initiatives are the legacy of earlier sites and services upgrading programs, but they seek to cultivate community organization and participation to solicit and control improvements. Indonesia's Kampung Improvement Project (KIP) is an early example of a program leveraging community-based organizations to plan for the improvements of urban informal settlements (Devas 1981). KIP began in 1968 as a sites and services upgrading program and has since benefited some 15 million people. Nearly 90 percent of the funding went to site improvement and infrastructure extension, including drainage, water, and electricity connections and improved streets and footpaths (UN-Habitat 2006b). The program has served as a model for similar schemes in Cambodia, Myanmar, the Philippines, and Thailand, with support from Asian Coalition Community Action (ACCA), a large nonprofit (Buckley and Kallergis 2013).¹

The government of Thailand also introduced support for a similar community-based upgrading scheme, Baan Mankong. The government provides subsidized funding for community organizations that in turn identify and assemble plans to purchase land and extend infrastruc-

1. Brazil's *Favela-Bairro* is an early version of a large-scale slum upgrading program that included the participation of community organizations as partners in identifying local needs, setting agendas, helping to prepare and supervise planning, and development efforts. See Riley et al. (2001) for an overview.

ture for settlement (Booynabancha 2005). Groups also receive small grants from organizations like ACCA to help them identify and undertake initial upgrading plans. These groups are also able to mobilize members' savings and complete construction themselves or through hiring private contractors. A public agency (Community Development Organization Institute—CODI) evaluates plans, disburses loans, and monitors development progress. Participants also agree to resale restrictions on their property in order to discourage price speculation and to ensure that low-income groups are not displaced. A similar community-based upgrading approach has also been introduced in Mongolia (UN-Habitat 2011a). While these approaches appear promising, compared to KIP, they are much smaller in scale and would benefit from additional evaluative research (Buckley and Kallergis 2013).

The Philippines' Community Mortgage Program represents an alternative to traditional, individualized home mortgages. Community organizations pool the savings of members in order to secure subsidized low-interest, long-term mortgages from the state-run Social Housing Finance Corporation, which draws from the country's provident fund. The community organization also holds the property title and collects loan payments on behalf of members. The program also allows community organizations composed of low-income and informal residents to negotiate with land owners for terms of sale and to secure credit from lenders to purchase land for home construction from public or private finance sources. Since 2001, the program has provided loans to more than 77,000 households (UN-Habitat 2011a:47)

Nongovernmental Organizations and Support for Homeownership

Community groups and nonprofits have created innovative partnerships with local governments and the private sector to provide affordable housing. Community mortgage programs in the Philippines and Thailand demonstrate how a partnership between local governments and community organizations can provide access to low-cost finance tools for those living in informal settlements.

Some microfinance providers have also developed specialized loans for home upgrading, but their expansion can be limited by lending restrictions or the availability of wholesale financial products to back these loans. Yet in other places such as China, nonprofits are excluded from providing housing.

Civil society and nonprofit groups have developed a prominent role in affordable housing development in several EAP countries, notably Indonesia, the Philippines, and Thailand. Much of this work serves residents of slums and informal settlements who do not have title or legal claim to the land they occupy. Community groups as well as larger international organizations such as the Slum/Shack Dwellers International, Habitat for Humanity, and the Asian Coalition of Housing Rights have a long history of mobilizing informal settlers, who lack proof of income, formal identification, or access to credit and banking services. Across EAP, among the bottom 40 percent of earners, just 39 percent had an account at a formal financial institution (World Bank 2011). These community organizations have in turn worked closely with local governments to secure mortgage and construction loans, land titles, and lease agreements. These programs have typically focused on land acquisition and savings for self-help home improvement.

Housing Microfinance

Some nonprofit and commercial microfinance lenders in Indonesia, Mongolia, and Vietnam also offer specialized housing microfinance (HMF) loans for home improvement. These loans complement the strategies of low-income households to build their homes incrementally using accumulated savings. HMF loans have ticket sizes and term lengths between those in traditional microfinance loans or commercial mortgages. Unlike traditional mortgages, homes are not used as collateral for the loan, making them suitable for informal settlers and low-income households. Ideally, loans should be tied to building materials discounts and technical assistance to improve their efficacy (Ferguson 1999). Though housing microfinance is an attractive option for home upgrading, many people simply use traditional microfinance loans for the same purposes.

This tendency, combined with lender inexperience with technical assistance and marketing, has accounted for the slow uptake of targeted HMF loans in Vietnam. Furthermore, microfinance lenders may have difficulty accessing sources of wholesale finance at interest rates that would make low-cost housing microfinance loans an attractive separate product to offer.

There are several steps that can be taken to support the establishment of an HMF market. For example, Indonesia has very limited access to formal finance sources for home improvement and existing microfinance lenders have had difficulty designing loan products for low-income groups. The World Bank has recommended that the government encourage lending programs that are linked to a savings requirement to reduce lending risks and enhance reserves. Also, the government can initiate partnerships between lenders, construction material suppliers, and producers to establish a coherent value chain to better assemble and target loan products. Finally, housing policy can support expansion of microfinance lending into housing by leveraging Indonesia's existing Liquidity of Housing Finance Facility (FLPP) to provide startup finance. Government insurance or underwriting instruments for loans can also provide relief for the risks microfinance lenders may initially face upon developing this market.

4.6 STRENGTHS AND WEAKNESSES OF INCREMENTAL AND COMMUNITY-BASED APPROACHES

There are constraints to the transferability and success of incremental and community-based finance and upgrading programs. They require high levels of organization and technical proficiency. In particular, such approaches require extensive collaboration among residents, advocacy organizations, and local governments to identify and develop projects as well as to monitor and repay loans. Communities of ethnically heterogeneous or recently arrived informal settlers may not have shared histories of organized collective action to form and sustain successful community-based organizations. Local governments and land owners may also be hostile or indifferent to the

interests of informal settlers, and may favor eviction or relocation (Mitlin 2011). In the Philippines, mortgage repayment rates are low (75 percent) in part due to poor management and public agencies' hesitancy to repossess property or evict low-income residents for political reasons (UN-Habitat 2011a). Finally, while these programs are cost effective because they leverage community savings and resources, there is a need for improved coordination among donors and administrators to explore how to scale up these initiatives.

There are a number of advantages to land pooling and readjustment programs for residents of informal settlements and slums. First, because these approaches eschew the use of eminent domain, they protect owners' property claims and enhance land values. They also allow local governments some influence over growth and land-use decisions along urban fringes and enable them to align new development with current or future planning goals. The expected appreciation of property values also allows economies of scale to efficiently finance the extension of streets, water, and electricity coverage prior to residential development. Such efficiencies are welcome, because infrastructure improvements are much more expensive to introduce retroactively to informal fringe settlements. Adjustment also clarifies title and ownership claims and allows occupants to obtain a profit through the sale or development of improved land.

Land pooling and readjustment programs for low-income beneficiaries are difficult to sustain and support. Local governments must devote considerable time and resources to initiate adjustment discussions with landowners, who may be hostile or indifferent to proposed changes, and to the accurate recording and assessment of their properties. Furthermore, pooling and adjustment depends on consensus, or at least "consent." As a result, negotiations among property owners and stakeholders can be uncertain and time consuming, especially when many interests are involved, as may occur in Japan (Sorensen 2000). There is also the possibility that land owners may become speculators and slow or block land transfers to allow appreciation of vacant land for future sale, as has occurred

in Indonesia (Archer 1999); or they may free ride by abstaining from involvement but capturing the benefit of higher land values accrued by their neighbors. Due to these factors, development can take many years and will not correspond well with real estate cycles or estimates of current demand. Land pooling and readjustment is often used to assemble land along the edges of cities. In the case of Bangkok, for example, these settlements are far from employment centers (Sheng 2002). Finally, as there are embedded incentives to maximize property values in order to recover costs, there is limited space for ensuring the specific provision of affordable housing units in new development.

Housing affordability is also strongly dependent on local political economy considerations. These can strongly affect the capability of civil society groups to partner with or advocate for poor communities. A few well-financed private developers have a close and often mutually beneficial proximity to regulatory institutions. Large private landowners also have disproportionate access to elected and appointed officials, who in turn may use their positions to obtain discretionary approvals or favorable rulings in exchange for bribes or favors. Public entities and private landowners are inclined to protect and expand their own development rights to their land, rather than encourage property tax reforms or the regularization of informal, low-income settlements. Slums and informal settlements are also the targets of eviction and clearing efforts, even though displacement simply moves residents elsewhere within the city and deeper into poverty. Local political environments and patronage networks, along with the often segmented planning and regulatory purviews of public agencies, make long-term comprehensive planning difficult and slow. Additionally, the highly varied interests and capacities of civil society actors to influence planning and development priorities have important consequences for land tenure security and affordable housing provision in different EAP countries. Collaborative partnerships between public agencies and civil society groups are in some ways a promising channel to securing tenure claims and housing finance. However, they are not easily replicable.

Chapter 5

Future Directions for Affordable Housing Provision

The East Asia and Pacific region (EAP) faces some significant barriers to the provision of adequate affordable housing. At a basic level, reliable data about the supply of formal and informal housing options, their location, and the demand for these or other formal types of housing is limited. Apart from wealthy and investment consumers, data on other income groups or the segmentation of prices in local housing markets are scarce. Further, information on housing stock conditions, occupancy, and resales is also limited. Land use and master planning documents are not widely published and new development may proceed in a haphazard manner and apart from prescribed planning goals. Similarly, property registration and recording practices are uneven and often politically contentious. This limits accurate property value assessment and taxation as a dependable source of municipal revenues.

On the supply side, inadequate data about location, types of housing units, and price can misdirect public or private sector housing investment. In Indonesia, for example, information about land use and development plans is not publicly disclosed. In Vietnam, public lands are transferred directly to private developers at a low cost and local governments collect taxes on the sale of improved land. In China, public agencies acquire land at a low cost and sell it at a much higher price to private developers in order to finance public services. This represents a transfer of public lands to a small number of well-connected developers with limited public input, concession, or transparency.

Such transfers may also deter local authorities from more equitably regulating land use and future development, because they stand to gain from sales and tax revenues (Logan and Molotch 1987). Master land-use plans may only be partially disclosed to the public, and developers must acquire permits incrementally with limited knowledge of whether the development complies with existing or future master plans. Limited public disclosure of property acquisitions and development plans also hinders the ability of existing tenants to contest forced evictions. These practices encourage governments to view new development in terms of fiscal capture rather than its contribution to public welfare or specific planning goals.

On the demand side, scarcity of data about consumers' income levels, demographics, and preferences can hinder the reach of subsidies or targeted loan products. Despite high savings rates throughout EAP, conventional mortgage finance remains out of reach of many, especially the urban poor. Public subsidy programs for affordable rental or owner housing suffer from ineffective administrative mechanisms for screening and assessing target populations. Monitoring and evaluation of program outcomes and goals is also poor. Better data collection can help to more effectively structure and target subsidies, such as vouchers or housing units. More information is needed on tenure variety and demand, property value assessments, transportation patterns, density thresholds, and economic and demographic characteristics of different urban populations.

5.1 URBAN PLANNING AND REGULATORY FRAMEWORKS

Local governments should review permitting and approvals procedures with the goal of reducing burdens of time, cost, and uncertainty for developers and residents wishing to invest in housing. Costly and inflexible building standards raise the marginal price for new development or upgrading of existing buildings. Some forms of occupancy and building design can also preclude residents from home-based enterprises, which enhance household income and offset the overall cost of housing for residents. In some cases, regulations are directly related to colonial land-use regimes with standards that are antiquated, restrictive, or inappropriate for current building technologies and demands. Similarly, administrative and entitlement procedures for property registration can take months, increasing costs and uncertainty for developers and inviting corruption. Subdividing property in the Philippines for example, requires 41 permits (Ballesteros 2002). Finally, public entities, such as state or federal agencies and ministries, may own large areas of land within and surrounding major cities, especially capitals. Municipal governments may have limited control over planning and directing growth on or around these areas.

*Local governments should review existing land use plans and development standards for ways to encourage infill development, density, and mixed-used development.*¹ Overly restrictive building height and density limits in central city areas raise development costs and may encourage fringe development. Such restrictions also increase commuting costs and put greater pressure on local governments to extend services to outlying areas (Bertaud and Buckley 2005; Brueckner 2007). Unplanned urban expansion can also carry tremendous implicit future costs. Inadequate road infrastructure contributes to long commutes and

1. The IFC's Affordable and Socially Sustainable Housing Application (ASHA) is a tool that summarizes key lessons drawn from 38 successful case studies of privately developed affordable housing projects. The tool identifies specific siting, design, planning, and community development practices to improve social inclusiveness and quality of life for residents. It can also be used by both governments and the private sector to explore the feasibility of affordable housing development relative to existing regulations and finance sources (IFC 2014).

traffic delays. Reliance on automobiles for long-distance travel also increases air pollution and public health risks for children and the elderly, among others. New and clandestine informal development in fringe areas also occurs on land that has not been assessed for susceptibility to earthquakes, landslides, flooding, or adequate drainage. The lives and property of people living in such developments may be in danger.

5.2 HOUSING FINANCE AND INSTITUTIONS SUPPORTING HOUSING POLICY

Public and private housing finance institutions both have important and increasingly significant roles in improving the variety of urban housing options. Currently, there are several limitations to housing finance institutions in the region. In countries such as Mongolia, the Philippines, and Vietnam, private finance has a comparatively small share of mortgage originations. The credit and appraisal institutions that support private finance by assessing borrowers and insuring mortgages are weak; so are legal protections for mortgage contracts. Institutional and legal weaknesses heighten risk in countries that are introducing residential mortgage-backed securities. Government-subsidized mortgages can also suffer from low repayment rates without adequate enforcement and collection mechanisms. Subsidized mortgages can crowd out private lenders in the mortgage market and impose substantial public costs that are frequently not quantified.

Across EAP, only four countries—China, Malaysia, Papua New Guinea, and the Solomon Islands—have central housing ministries. Among other countries, housing initiatives are articulated between levels of government or in partnership with nonprofits. On a smaller scale, non-profit and civil society groups in Cambodia, Indonesia, Mongolia, the Philippines, and Thailand have developed innovative collaborative approaches with public housing authorities to upgrade informal settlements, acquire land, and extend finance to the urban poor. A number of these groups are assisting low-income communities, but they face problems in replicating and scaling up their efforts (Buckley and Kallergis 2013).

5.3 URBAN LAND ACQUISITION

Several channels through which land is acquired also support housing affordability. Land pooling and readjustment schemes require careful collaboration with property owners, local governments, and community organizations. With good planning, these schemes can provide the basis for infrastructure investment in slum and squatter settlements, thereby improving property and resale values in the long run. Nonprofit and community-based organizations also have demonstrated an ability to act as alternative savings and lending institutions for the low-income communities they serve. In partnership with public agencies, they can help informal settlers identify and assemble land for purchase or resettlement and extend financing for property acquisition and home construction. Despite some initial successes, as in the case of *Baan Mankong* in Thailand, regional support for these programs is still limited.

Land rental arrangements can permit informal settlers certain usufruct rights to occupy and improve private land, provided lease agreements are adequately enforced. Like pooling and readjustment schemes, land rental requires high levels of sophisticated coordination between government and civil society groups. In Thailand, squatters have negotiated with property owners to lease or purchase plots planned for development. Through this land-sharing approach, developers can incorporate these low-income residents in exchange for density bonus agreements or cross-subsidies. Similarly, communal land agreements can use a nongovernmental organization (NGO) to represent occupants and assemble their lease agreements in order to attract funding and subsidies. The NGO can then negotiate with owners to secure long-term lease agreements (such as a leasehold) or to purchase the property on behalf of the occupants.

5.4 POLICY OPTIONS FOR REDUCING RENTAL MARKET CONSTRAINTS

Weakly developed rental markets in EAP countries could be expanded into an important channel for supplying quality, low-cost housing. Most of the region's urban poor live in informal rentals under agreements without tenant

right protections or unit safety standards. Renting has a number of benefits for low-income residents. It allows for mobility and payment flexibility, it does not require very much savings or a formal credit history, and households can sublet space for additional income. Renting may also be appropriate for populations who are uninterested in or unable to own their own homes, such as the elderly, widows, young adults, and retirees.

There are several steps policy makers can take to reduce constraints on rental markets. First, governments and housing authorities can develop policy agendas that support renting as an appropriate alternative to homeownership. Renting and ownership have particular advantages for different groups of consumers. Policies should support a diversity of tenure choice, rather than favoring one over the other. Furthermore, regulatory and finance barriers to private investment in both informal and formal rental housing should be addressed. The provision of rental housing complements ownership and increases diversity in housing markets, with consequent benefits to all those in need.

Local governments can influence rental markets through subsidies and incentives rather than price controls. The Philippines is the only country in EAP with rent controls, and its current problems with the policy echo past problems of China, Japan, Malaysia, and Singapore, which have all eliminated rent control. Rental price controls secure a small benefit for tenants they cover, but they discourage landlords from adequately maintaining or improving their rental units. Rent control also dissuades investment in new rental housing, which raises the overall price of market-rate units. Rather, subsidies should be targeted to low-income renters. These subsidies can take the form of vouchers or tax breaks for renters. Or they can consist of construction materials, finance subsidies, short-term loans, or development incentives to landlords that agree to provide or set aside affordable units (Mwangi 1997: 157).

Affordable rental units are often leased to tenants who are wealthy enough to afford more expensive, market-priced units. Demand-side interventions such as vouchers

and subsidies should require that local governments and nonprofits administering these programs develop and improve systems to identify, screen, and monitor low-income beneficiary households (UN-Habitat 2008). Subsidies given to developers or landlords can be contingent upon regular verification that affordable units are rented to those who need them. Housing authorities and community organizations should also develop a framework for articulating and protecting tenant rights, which can reduce the power of corrupt and abusive landlords and allow low-income tenants legal restitution and protection from eviction or mistreatment. Finally, tax penalties or incentives can be developed to encourage owners to let vacant properties as rental units (Blanco et al. 2014).

Governments, universities, and nonprofit groups should allocate resources to studying supply and demand contours of urban rental markets. There is little information about EAP tenants, such as the proportion of their income spent on rent, household sizes and structures, and unit turnover or vacancy rates. Nor is it clear what rental options can accommodate traditionally marginalized populations such as children, the elderly, the disabled, or women and female-headed households. Policy makers should also consider existing urban homeowners as potential suppliers of rental housing, as they may build ancillary units for rental or sublet unused rooms to tenants (Carey 2009).

5.5 CONSIDERATIONS FOR FUTURE RESEARCH AND ACTION

Governments, civil society groups, private developers, and financial institutions all have complementary roles in improving housing affordability (Angel 2000; Buckley and Kalarickal 2006). Governments should both facilitate housing markets, which can help expand access to housing finance, and actively support multiple tenure options, including rental housing. Governments should develop technical and regulatory capacities for identifying and correcting housing market distortions, including speculative price fluctuations. Subsidies for housing consumption should be more accurately targeted to low-income

and vulnerable groups. Housing finance institutions have an important role to play in setting regulatory agendas, securing and stabilizing housing finance markets, and directing investment to help meet housing policy goals. Governments can also encourage developers to provide new rental and cross-subsidized developments through planning and regulatory incentives. In cooperation with local nonprofit organizations, housing agencies can upgrade or acquire land for informal settlements through pooling and readjustment, and extend mortgages by leveraging community savings groups.

The lack of data on aspects of housing demand represents a critical opportunity for future research. This report provides an overview of the main supply-side interventions and constraints from across the region. However, appropriate policies for affordable housing are hindered by lack of information on the price and supply of different housing options, and on the market segmentation of consumer populations. Across the region, data on rental and home sales markets are limited, especially with respect to informal markets. In both formal and informal markets, housing stock quality, filtering trends, prices per square meter, and price- or rent-to-income ratios are not well known. Local and regional housing markets are not well defined or understood. This underscores the need for the establishment of housing observatories to identify and record key urban housing market indicators, similar to those developed by the United Nations and Habitat for Humanity.

Demand-side data can improve the investment decisions of both the private sector and public housing agencies. Such data would allow developers and lenders to better gauge demand for particular financial and housing products in segments of the market that may be underserved. These data would also improve the transparency and accountability of public investment in affordable housing interventions, as target populations would be more easily identified and subsidies or assistance better directed to them. Additionally, greater refinement of the definitions of urban areas, such as the inclusion of urban agglomeration as a key component, can help local governments bet-

ter identify urban growth and develop more appropriate infrastructure and service plans.

There is also limited information on housing demand among traditionally marginalized or vulnerable populations in urban areas. There is little understanding of the housing needs of low-income communities, indigenous groups, ethnic minorities, single-parent or female-headed households, and the elderly. Nor is it clear what types of tenure are available to these groups or how well the available options meet their needs. Although these populations have received little attention, they are especially likely to benefit from improved affordable housing programs, such as rental units or rent protections (Ronald and Nakano 2012). Similarly, country-specific data, whether in the form of market assessments or case-based housing policy research, is especially limited in Pacific island countries and Myanmar (Storey 2006).

Regulatory audits can provide important insight into legal and administrative structures that shape urban housing and land markets. Cataloging the regulations, administra-

tive authorities, and jurisdictions can provide guidance for developing affordable housing strategies. An audit can help to identify standards and restrictions that are superfluous, redundant, or overly restrictive and can also help to determine the ideal roles for public agencies charged with planning and land use administration (Payne and Majale 2004).

Innovative land assembly and community-based finance schemes need more detailed study. Despite growing interest in the role of community groups as partners in low-income housing provision, more details are needed about best practices, challenges, and lessons for replication and scaling up (Buckley and Kallergis 2013). Similarly, donors and policy makers need to have a better understanding of various interest groups and stakeholders, whose influence can be leveraged to make key policy changes or with whom collaborative alliances and partnerships can be developed (Lipman and Rajack 2011). An understanding of the local political economy of housing provision is a key first step to applying existing data and resources to more effectively reach affordability goals.

Appendix A

Overview of Key Affordable Housing Policies and Programs in EAP Countries

Country	Affordable housing policy	Policy options applied	Extent of application
Cambodia	No	Policies restricting land ownership by foreigners	<ul style="list-style-type: none"> • Nationwide
China	Yes	Assisted homeownership policies <ul style="list-style-type: none"> • Home-ownership saving scheme • Regulation aimed to reduce speculation in urban property: increased equity down payment, rules against hoarding housing stock, property tax Public rental housing and social housing	<ul style="list-style-type: none"> • Assisted 2.4 million households by 2003 • Nationwide • 36 million social housing units within next five years • Nationwide policy
Fiji	Yes	Public rental housing Settlement upgrading and legal regularization	<ul style="list-style-type: none"> • Nationwide • Nationwide
Indonesia	Yes	Assisted homeownership policies <ul style="list-style-type: none"> • Subsidized housing loans to medium, lower-medium, and low-income workers • National housing savings scheme Settlement upgrading and legal regularization (KIP and CoBild schemes)	<ul style="list-style-type: none"> • Nationwide • Nationwide (for civil servants) • Nationwide since 1979 • Nationwide
		Policies restricting property ownership by foreigners	<ul style="list-style-type: none"> • Nationwide

(Continued next page)

Country	Affordable housing policy	Policy options applied	Extent of application
Korea, Rep. of	Yes	<p>Assisted homeownership policies</p> <ul style="list-style-type: none"> • Subsidies in construction loans <p>Cross-subsidized housing</p> <ul style="list-style-type: none"> • Price ceilings for newly constructed apartments • Mandatory quota of social housing units for new residential redevelopment projects <p>Public rental housing and social housing</p> <ul style="list-style-type: none"> • Public rental housing • Innovative approach to public rental housing—leasing system known as <i>Cheonsei</i> or <i>Jonsei</i> <p>Land readjustment or land pooling</p>	<ul style="list-style-type: none"> • Nationwide • Nationwide • Seoul Metropolitan area • Nationwide (9.7% of the total urban housing stock) • 2/3 of housing is managed under this system • Nationwide
Lao PDR	Information not available	Policies restricting property ownership by foreigners	<ul style="list-style-type: none"> • Nationwide
Malaysia	Yes	<p>Assisted homeownership policies</p> <ul style="list-style-type: none"> • Home-ownership compulsory saving schemes <p>Cross-subsidized housing</p> <ul style="list-style-type: none"> • Quota for provision of low and low-medium cost housing by private developers <p>Public rental housing</p>	<ul style="list-style-type: none"> • Nationwide • Nationwide (limited impact) • Nationwide
Mongolia	Yes	<p>Assisted homeownership policies</p> <ul style="list-style-type: none"> • Housing programs focused on low-income, first-time buyers <p>Public rental housing</p> <p>Policies restricting property ownership by foreigners</p>	<ul style="list-style-type: none"> • 100,000 apartments (very limited success) • Nationwide • Nationwide
Myanmar	Information not available	Policies restricting property ownership by foreigners	<ul style="list-style-type: none"> • Nationwide
Papua New Guinea	No	<p>Settlement upgrading and legal regularization</p> <ul style="list-style-type: none"> • Regulatory structure that ties provision of tenure rights (to informal land and housing) to occupancy 	

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Country	Affordable housing policy	Policy options applied	Extent of application
Philippines	Yes	<p>Assisted homeownership policies</p> <ul style="list-style-type: none"> • Compulsory homeownership saving schemes • Implementation of community asset ownership concept <p>Cross-subsidized housing</p> <ul style="list-style-type: none"> • “Balanced Housing” rule <p>Social housing program</p> <p>Settlement upgrading and legal regularization</p> <ul style="list-style-type: none"> • Recognition of new tenure forms • Community-based financing <p>Policies restricting property ownership by foreigners</p> <p>Other</p> <ul style="list-style-type: none"> • Legal protection against eviction 	<ul style="list-style-type: none"> • Nationwide • Nationwide, US\$487 million, 10-year program • National policy, ignored by most developers • Nationwide (Coordinated by National Housing Authority) • Nationwide • National law • National law
Solomon Islands	No	<p>Assisted homeownership policies</p> <ul style="list-style-type: none"> • Homeownership saving scheme <p>Public rental housing</p> <p>Settlement upgrading and legal regularization</p> <ul style="list-style-type: none"> • Distribution of Temporary Occupation Licenses 	<ul style="list-style-type: none"> • Nationwide • Allocated to civil servants • National, but de facto limited to Part Vila
Thailand	Yes	<p>Assisted homeownership policies</p> <p>Public rental housing</p> <p>Settlement upgrading and legal regularization</p> <p>Policies restricting property ownership by foreigners</p>	<ul style="list-style-type: none"> • Nationwide • Nationwide
Vanuatu	No	<p>Assisted homeownership policies</p> <ul style="list-style-type: none"> • Homeownership saving scheme 	<ul style="list-style-type: none"> • Limited impact
Vietnam	Yes	<p>Assisted homeownership policies</p> <ul style="list-style-type: none"> • Privatization of state-owned housing • Introduction of legal base for private housing market <p>Public rental housing and social housing</p> <ul style="list-style-type: none"> • State housing provision and distribution • Public rental housing 	<ul style="list-style-type: none"> • Nationwide, but mostly in Hanoi • National policy • Nationwide • Nationwide, significant amount of public housing is kept for public servants

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