

# HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance



- **Housing and financial markets in Japan amid global inflation**
- **Ukraine's housing recovery forum – rebuilding a place to call home**
- **The two housing finance crises in Hungary – lessons for the housing policy transition**
- **Round Table on Security Rights over Immovable Property (Part 1) – Objectives and Working Methods**
- **Decarbonising Tenants**



# International Union for Housing Finance

# Housing Finance International

Housing Finance International is published four times a year by the International Union for Housing Finance (IUHF). The views expressed by authors are their own and do not necessarily represent those of the Editor or of the International Union.

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### → Publisher:

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### → Editor:

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ISSN: 2078-6328

Vol. XXXVII No. 3

### → Subscriptions:

Individual Regular Annual Rate €135;  
Individual Three-Year Discounted Rate €360.  
Institutional Regular Annual Rate €155;  
Institutional Three-Year Discounted Rate €420.

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# A brave new world?

While it would be an exaggeration to quote the song title “what a difference a day makes” as an indicator of the speed at which housing markets can change, the past few months have certainly been an illustration of the fact the overall climate can shift very rapidly and in particular that the move from boom to bust can overtake the public and housing commentators alike. No one likes to be the bearer of bad news, so pessimistic observations unfortunately usually tend towards the retrospective.

Here in the UK, house prices were down 1.1% year on year in February and are now down 3.7% since their peak in August 2022.<sup>1</sup> On the first of March the Bank of England announced that net mortgage lending was down by £0.6 billion while actual mortgage interest rates paid by individuals rose 21 basis points to 3.88% pa. At the same time consumer credit borrowing is sharply up, while those who can afford to are choosing to save, with monthly bank deposits by households up by £3.5 billion.<sup>2</sup>

If this picture was only emerging in the UK, one might simply blame a range of UK-specific factors such as BREXIT, the recent difficulties of the Truss Government and continuing splits in the governing party. However bad news about housing markets is certainly not confined to the UK as this issue of HFI demonstrates.

As Mark Weinrich points out in his Europe column, house prices have been falling in Sweden, Denmark, Finland, Germany, Italy and Romania. With predictions of a fall in construction rates; always a sign that developers smell bad news on the horizon.

From the US, Alex Pollock identifies the end of the house price booms in Canada and the US itself with prices falling from their peaks by 10% so far in Canada in 4.4% in the US.

As if that were not enough, our report from the Asia Pacific region highlights intervention by the Chinese government to attempt to prop up their housing market, falling prices in Korea and fears of a housing crash in New Zealand.

While none of this has occurred overnight the changes have happened rapidly enough that this global reversal requires serious analysis to identify underlying causes and likely future

outcomes. HFI will make its contribution to that analysis over the coming months.

Our first main article in this issue focusses on Japan and is aptly titled *Housing and financial markets in Japan amid global inflation*. Sadly, this will be the last article by Masahiro Kobayashi in his capacity as Executive Director of the Japan Housing Finance Agency as he is retiring after a 35-year career in housing finance. Mr Kobayashi has been an astute and regular contributor to HFI over many years and we hope for further contributions from him in a personal capacity. In this important article Mr Kobayashi examines recent policy changes in interest rate policy by the Bank of Japan in the context of global inflation and against the backdrop of long-term relative economic decline in Japan. In the course of the article Mr Kobayashi analyses a number of issues such as the impact of population decline in Japan and of changing household composition away from the “conventional family” of two parents and two children.

In Autumn 2022 HFI published an article on decarbonisation of the housing stock in Hungary.<sup>3</sup> In this issue of the journal we are pleased to follow this with an article by József Hegedüs *The two housing finance crises in Hungary – lessons for the housing policy transition*. In this fascinating historical analysis Hegedus first provides an overview of the developments in the Hungarian housing market from 1979 to the present day, including the transition to a market economy post-1990 and the foreign currency denominated (FX) loan crisis of 2008. In the second part of his article Hegedus examines the housing crisis of 1989-1990 in detail, highlighting the role played by previous state-backed lending in the inflationary period of transition. He then goes on to make an analysis of the causes and outcomes of the FX loan crisis of 2008. The article clearly demonstrates the impacts of two different and competing housing finance strategies of government during different periods.

In this issue we have taken a break from our regular series of articles on national approaches to decarbonising the housing stock. Instead, we present an article by Simone Abram of the Durham Energy Institute; *Decarbonising tenants*. The article looks at the way social housing tenants have too often not been actively or effectively involved in the

process of decarbonising their homes and how previous failures of tenant engagement have led to cynicism when attempts are made to engage tenants over decarbonising their homes. Abram offers examples of best practice and gives a clear warning in conclusion; “To be involved in decisions that affect your life means more than delivering your views. It means understanding the ways that decision-points have been reached, how agendas have been set, what the limitations are, and how other people’s views or conditions might affect future action.” Those with responsibility for transforming the energy efficiency of social housing stock should take note.

We are very pleased to present an update on our previous article on housing in Ukraine. This article, *Ukraine’s housing recovery forum – rebuilding a place to call home*, by Julie Lawson, Oleksandr Anisimov and Edwin Buitelaar takes the form of a report on the symposium “Ukraine’s Housing Recovery Forum,” hosted by the PBL Netherlands Environmental Assessment Agency.

Our final main article is by Otmar Stöcker, of the Verband Deutscher Pfandbriefbanken (vdp) is titled *Round Table on Security Rights over Immovable Property (Part 1) – objectives and working methods*. It forms part one of a two-part article with part two scheduled to appear in the Summer 2023 issue of the journal. The Round Table was formed in response to the increased amount of cross-border mortgage business now being undertaken in Europe. With such business confronting a patchwork of national legal systems there is a clear need for comparative analysis set out in a form that can be used in practice while being as accurate as practicable. It consists of both academics and practitioners with members able to bring to bear a high level of expertise. While such work is seldom glamorous, it is important and these two articles will be a valuable source of reference for those involved in secured lending across borders.

All in all, this issue of HFI presents information that is seldom brought together elsewhere and offer unrivalled analysis of some fundamental and usually topical issues. We trust that you will find it useful.

**Andrew Heywood, March 2023**

<sup>1</sup> Nationwide House Price Index

<sup>2</sup> Bank of England: *Money and Credit-January 2023*

<sup>3</sup> Decarbonising the Hungarian housing stock: the case of the multi-apartment buildings  
Éva Gerőházi, Hanna Szemző, Eszter Turai

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Paulo (CDHU). Claudia has also participated in the development of the National Housing Plan, in the analysis of the Housing Finance System. She holds a PHD in Urban Planning at the University of São Paulo (USP), a Masters in City Planning at the University of Pennsylvania, a Masters in Public Administration at Bahia's Federal University (UFBA) and a BA in Architecture and Urban Planning (UFBA), with a specialization in Real Estate Finance at the Brazilian Economists Order (OEB). She also attended Wharton's International Housing Finance Program.

**Dr. József Hegedüs** is a founding member of the Metropolitan Research Institute, a think tank working on urban and housing policy since 1989. His field of research is housing and urban policy. He has published widely in journals, and he is a co-editor of five books dealing with housing regimes in post-socialist countries. [1.23]

**Andrew Heywood** is an independent consultant specialising in research and analysis of housing and mortgage markets, regulation and policy with both a UK and international focus. He is a research fellow with the Smith Institute. He is also Editor of the Journal, Housing Finance International. Andrew writes for a number of publications on housing and lending issues and publishes reports commissioned by a wide range of clients. EMAIL: [a.heywood53@btinternet.com](mailto:a.heywood53@btinternet.com)

**Masahiro Kobayashi** used to be the Executive Director and a Member of the Board of the Japan Housing Finance Agency (JHF). He retired from JHF as of March 2023 after a 35 year career in the housing finance business. He can be contacted via his successor Toshio Shimizu at [shimizu.8iz@jhf.go](mailto:shimizu.8iz@jhf.go).

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**Zaigham M. Rizvi** is currently serving as Secretary General of the Asia-Pacific Union of Housing Finance and is an expert consultant on housing and housing finance to international agencies including the World Bank/IFC. He is a career development finance banker with extensive experience in the field of housing and housing finance spread over more than 25 countries in Africa, the Middle-East, South-Asia, East-Asia and the Pacific. He has a passion for low-cost affordable housing for economically weaker sections of society, with a regional focus on Asia-Pacific and MENA. EMAIL: [zaigham2r@yahoo.com](mailto:zaigham2r@yahoo.com)

**Otmar M. Stöcker**, PhD, is Managing Director and Head of Department "Cover Assets" in the Association of German Pfandbrief Banks in Berlin. He is responsible for German Pfandbrief law, public finance, comparison of covered bond legislation and mortgage finance in Europe, US, Canada and Japan. He initiated and chairs the research groups called "Round Table Security Rights over Immovable Property" and "Round Table Covered Bond Legislation". He has been working for the Association since 1989 in several senior positions.

**Professor Dr Dres. h.c. Rolf Stürner** is Professor ordinarius emeritus at the University of Freiburg and former Director of the Institute for German and International Civil Procedure Law.

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

# Housing news from the African Union for Housing Finance

↳ By Thandiwe Dhlamini

Sub-Saharan Africa faces significant housing challenges due to spiralling urbanisation and macroeconomic instability. Africa is predicted to reach a population of 2.5 billion by 2050<sup>1</sup>. With inadequate housing and most people living on about US\$1.9 per day, the poor resort to informal construction methods. There is a great need to scale up the construction of affordable housing and improve existing housing. Stakeholders in Africa's housing sector are focused on developing housing finance products, technology and innovation in addressing the need for sustainable and affordable housing. This article shares various initiatives of members of the Africa Union for Housing Finance (AUHF) in addressing the housing gap in Africa.

The AUHF held its 38<sup>th</sup> Conference and Annual General Meeting at the St Regis Hotel in Cairo, Egypt, from 28 - 30 November 2022. Under the conference theme, "A Green Urban Future for Affordable Housing", presentations and panel discussions explored how we can frame our thinking around "green" and building the business case for green affordable housing. Using case studies across the continent, developers and financiers shared their "Green Building" experiences in promoting sustainable and innovative construction practices. Financiers and investors deliberated on the residential construction industry's requirement for "Green Finance" and, critically, the need for this capital to target affordable housing delivery. Click on the link to read the conference report, the 2022 Cairo declaration and presentations delivered at the conference. <https://www.auhf.co.za/auhf-conference-2022-a-green-urban-future-for-affordable-housing/>.

AUHF member, Shelter Afrique welcomes Thierno-Habib Hann as CEO following the change of management in 2022. In a strategic meeting early this year, Shelter Afrique unveiled the organisation's five-year strategy. The plan aims to restore the Institution's performance, competitiveness, and value creation for the long term. According to Shelter Afrique's Chairperson, Dr Chii Akporji, "The new strategic plan that we have dubbed the 'New Dawn' has laid the foundations to refocus our business on growth and impact while creating sustainable returns for our shareholders and all our stakeholders. It has the board's unanimous support and provides the Institution with a clear compass."<sup>2</sup> Shelter Afrique's 42<sup>nd</sup> Annual General Meeting will be held in Abuja, Nigeria during the week of 8<sup>th</sup> to 11<sup>th</sup> May 2023, see more details here: <https://www.agm.shelterafrique.org/> and find out more about Shelter Afrique here: <https://www.auhf.co.za/shelter-afrique/>.

The success of the delivery of affordable housing development depends on strategic partnerships to break ground and penetrate the African housing market. In January 2023, AUHF member, TAF Africa Global signed a Memorandum of Agreement (MOU) with the government of Sierra Leone to partner in the development of real estate projects. The project plans to construct 5,000 affordable homes and other services in John Obay<sup>3</sup>. Partnership with the government of Sierra Leone is part of TAF Africa Global's goal to provide one million reasonably priced homes throughout sub-Saharan Africa. Find out more about TAF Africa Global here: <https://www.auhf.co.za/taf-africa-global-company-limited/>.

AUHF member, Federal Mortgage Bank of Nigeria, together with the Nigeria Labour Congress (NLC), Trade Union Congress (TUC), and the Nigeria Employers' Consultative Association (NECA), plans to inaugurate 1,071 completed houses under the National Affordable Housing Scheme. The homes, which are spread across eight states are based on proven social housing models and comprise one to three-bedroom units with prices ranging from N3.1 million (approx. US\$6,700) to N8.3 million (approx. US\$18,000)<sup>4</sup>. The National Affordable Housing Scheme aims to deliver decent, safe, and quality housing for Nigerian workers at an affordable price as part of the national efforts towards redressing the huge housing deficit faced by Nigeria. In a separate programme, FMBN has also approved funding for constructing and delivering 130 units of a three-bedroom duplex estate located at Aviation Village in Abuja. The bank approved N1.9 billion (US\$ 2.8 million) in construction financing to the Developer Mshel Homes Limited under its Cooperative Housing Development Loan (CHDL) window at a concessionary interest rate of 10 per cent<sup>5</sup>. FMBN will also offer mortgage loans to the FMBN Multi-Purpose Cooperative Society to enable them to purchase the buildings once they are built.<sup>6</sup> Find out more about FMBN here: <https://www.auhf.co.za/federal-mortgage-bank-of-nigeria/>.

Outgoing President of the Republic of Nigeria, Hon. Muhamad Buhari, appointed Mr Abdul Muktar as the new Managing Director of Family Homes Funds Limited early this year<sup>7</sup>. Following his inauguration, the Housing Development Advocacy Network in Nigeria welcomed the newly appointed Managing Director,

<sup>1</sup> <https://www.statista.com/statistics/1224205/forecast-of-the-total-population-of-africa/#:~:text=Forecast%20of%20the%20total%20population%20of%20Africa%202020%2D2050&text=According%20to%20the%20forecast%2C%20Africa's,nearly%202.5%20billion%20by%202050.>

<sup>2</sup> <https://www.shelterafrique.org/en/newsroom/view/shelter-afrique-unveils-new-five-year-strategic-plan-2?title=0>

<sup>3</sup> [https://www.linkedin.com/posts/tafnjie\\_africa-sierraleone-gambia-activity-7026198155465506816-rPE3/?utm\\_source=share&utm\\_medium=member\\_desktop](https://www.linkedin.com/posts/tafnjie_africa-sierraleone-gambia-activity-7026198155465506816-rPE3/?utm_source=share&utm_medium=member_desktop)

<sup>4</sup> [https://www.linkedin.com/posts/federal-mortgage-bank-of-nigeria-fmbn\\_press-release-fmbn-nlc-tuc-neca-to-commission-activity-7020651904561000448-0wDU?utm\\_source=share&utm\\_medium=member\\_desktop](https://www.linkedin.com/posts/federal-mortgage-bank-of-nigeria-fmbn_press-release-fmbn-nlc-tuc-neca-to-commission-activity-7020651904561000448-0wDU?utm_source=share&utm_medium=member_desktop)

<sup>5</sup> <https://www.linkedin.com/company/federal-mortgage-bank-of-nigeria-fmbn/posts/?feedView=all>

<sup>6</sup> [https://www.linkedin.com/posts/federal-mortgage-bank-of-nigeria-fmbn\\_abetterfmbn-abetternhf-everyonedeservesahome-activity-7031279453225824256-qYhh?utm\\_source=share&utm\\_medium=member\\_desktop](https://www.linkedin.com/posts/federal-mortgage-bank-of-nigeria-fmbn_abetterfmbn-abetternhf-everyonedeservesahome-activity-7031279453225824256-qYhh?utm_source=share&utm_medium=member_desktop)

<sup>7</sup> <https://thewhistler.ng/buhari-appoints-special-adviser-muktar-as-new-family-homes-fund-md/>

<sup>8</sup> <https://www.africahousingnews.com/hdan-welcomes-new-fhfl-md-tasks-him-to-sustain-company-legacy-with-5-point-agenda1/>

<sup>9</sup> <https://fhfl.com.ng/president-buhari-commissions-family-homes-estate-in-kano-for-469-low-income-families/>

charging him to sustain the achievements of the affordable housing institution and to uphold its mandate to Nigerians<sup>8</sup>. Also, Family Homes Funds Limited held a ceremony where Outgoing President Hon Muhammadu Buhari officially commissioned the Family Homes Estate in Darmanawa, Kano state for 469 low-income families<sup>9</sup>. To date, FHFL has financed the development of over 15,000 homes for families of low income across Nigeria creating jobs in the process. Find out about Family Homes Funds Limited here: <https://www.auhf.co.za/family-homes-funds/>.

In Zimbabwe, AUHF member, FBC Building Society has begun preparatory work to construct 764 houses and a block of flats in Hwange city. The Empumalanga Phase Six housing scheme intends to counterbalance the town's 4,000 housing waiting list. The construction of houses resonates well with the Zimbabwe National Human Settlement Policy that aligns with the government's vision 2030 of "providing decent accommodation for all Zimbabweans and leaving no one and no place behind."<sup>10</sup> The Policy strives to transform the country into an upper-middle-class economy. Find out more about FBC Building Society here: <https://www.auhf.co.za/fbc-building-society/>.

Like most countries in Sub-Saharan Africa, Kenya is also grappling with a huge housing deficit. The formal housing sector in Kenya is said to be historically exclusionary and conservative with most innovations focusing on short-term small-scale loan<sup>11</sup>. There is hope in the formation and focus of AUHF member, Kenya Mortgage Refinancing Company (KMRC) whose main purpose is to provide

long-term funds to primary mortgage lenders enabling them to lend to homebuyers at affordable interest rates. Over the years, the high and rising inflation increased the cost of input costs creating the need for increased financing to be offered to potential homeowners. KMRC has doubled the size of subsidised home loans due to the rising costs of buying houses. Moreso, KMRC has also raised the loan-to-value ratio to 105 percent from 90percent previously<sup>12</sup>. According to Mr Johnston Oltetia, CEO of KMRC, "Some people will want to own a home, but they cannot raise that deposit required to buy that home. So KMRC has removed that rigidity and increased Loan-to-Value (LTV) to 105 per cent which means five per cent above the value [of the house] will be used for those incidental costs that come in." Find out more about KMRC here: <https://www.auhf.co.za/kenya-mortgage-refinance-company/>.

AUHF member, Swaziland Building Society (SBS) is offering zero deposit property home loans repayable over a maximum of 25 years for a house and a maximum of 10 years for a vacant plot. SBS opened applications for the zero per cent deposit home loan from 16 January 2023 till 30 March 2023 and eligibility is based on monthly income, age and existing loan deductions. According to Mr Veli Dlamini SBS Marketing Manager, this product has made it easier for many to be able to own a loan as most banks in eSwatini require from 10 to 20 per cent upfront deposit for a standard home loan. These are loans for properties on titled land usually situated in urban areas and 99-year leased, usually on farmland for both residential and rental

purposes<sup>13</sup>. Find out more about Swaziland Building Society here: <https://www.auhf.co.za/eswatini-building-society/>.

AUHF members have also taken note of the devastating earthquake that hit Turkey and Syria. AUHF member Miyamoto International continues to assess the damage and look at ways to assist in the reconstruction of a safer Turkey. Miyamoto International's CEO, Dr Kit Miyamoto shares his experience witnessing the aftermath of the disaster. His analysis also warns many in the region to actively respond to the call for resilient buildings built according to good standards and can resist potential natural disasters. Read more in his article "Anatomy of Failure: Turkey Earthquake Disaster" here: <https://kitmiyamoto.com/earthquake-field-reports/turkey/anatomy-of-failure-turkey-earthquake-disaster/>. Also find out more about Miyamoto International here: <https://www.auhf.co.za/miyamoto-international/>.

The AUHF members and other stakeholders in the region continue to work toward promoting affordable housing and housing finance. While challenges of affordability and delivery capacity persist, local practitioners are addressing them with innovation and creativity, many of whom are AUHF members. These initiatives and their consolidating track records are offering improved opportunities for investment in affordable housing. However, the devastating results of the earthquake in Turkey and Syria and tropical cyclone Freddy emphasise the urgent call to action for housing practitioners to consider resilient buildings and affordable housing finance across the region.

<sup>10</sup> <https://www.chronicle.co.zw/fbc-begins-preliminary-work-on-housing-scheme/>

<sup>11</sup> <https://www.businessdailyafrica.com/bd/data-hub/how-affordable-housing-can-drive-kenya-s-growth--4097698>

<sup>12</sup> <https://www.businessdailyafrica.com/bd/markets/banks-saccos-double-size-of-subsidised-mortgage--4108244>

<sup>13</sup> <http://www.times.co.sz/business/138821-sbs-offers-no-deposit-property-loans.html>

# Asia-Pacific Region

↳ By Zaigham Mahmood Rizvi

## Australia

### Housing assistance policy of Australian government

Government policies and funding provide support for people based on whether they are homeless, at risk of homelessness or need support to secure/sustain housing. The state governments are involved in housing assistance in three main areas: social housing services, financial assistance (private housing) and specialist homelessness services. Policies and programs operate at both national and state/territory levels.

The Australian government facilitated around 790,000 Australians in 2020-21 to have a social housing facility in over 440,000 dwellings across the country. The majority (68%) of social housing dwellings were public housing stock and community housing (25%). Commonwealth Rent Assistance was provided to just under 1.5 million units in low-income group at the end of June 2021. A low-income household is the household whose gross income falls in the bottom two-fifths (40%) of households.

(Source: <https://www.aihw.gov.au/getmedia/99cecf0-c493-4fbd-bbc3-953f526852b7/Housing-Assistance-in-Australia.pdf.aspx?inline=true>)

### Cruise ships as the solution to Australia's affordable housing crisis

Some Australians are thinking outside the box for solutions for country's social housing as the cost of living crisis intensifies. In 2021, more than 440,000 public housing dwellings existed around the nation, according to the Australian Institute of Health and Welfare. With low and middle-income housing on the minds of families in poverty, renters and struggling homeowners, one innovative person, Mr. Brown, proposed an idea that could see more people with roofs over their heads. In a petition published to the Parliament of Australia website, Mr. Brown says billions of dollars' worth of unused new cruise ships could be repurposed as social homes. "A cruise ship is a self-contained town with generally high-quality accommodation, entertainment, shops (and) sickbays," Mr. Brown wrote to justify his petition. "A ship also provides appropriate power generation and waste treatment. Cruise

ships can be tied up at all major cities and used to quickly bring housing capacity 'online'" he added. As for where these cruise ships would be docked, the petitioner suggests underused or closed ports like Brisbane's Portside Wharf – which was recently shut due to the precinct undergoing a \$20 million revamp.

(Source: <https://www.news.com.au/finance/money/wealth/why-cruise-ships-arent-the-solution-to-australias-affordable-housing-crisis/news-story/88c98090f8104c02b1a49919ca0a61c5>)

### Initiative acknowledges the complexity of housing systems and works thereon

Melbourne, Australia, is facing rapid population growth and a severe housing affordability crisis. Home purchase is among the least affordable in the world, and there is an acute shortage of low-cost rental housing. The Affordable Housing initiative was created to address these challenges, the challenges that can't be solved by one discipline alone. The combined pressures of population growth, demographic change, sustainability imperatives and equity challenges are driving an urgent need to better understand and deliver affordable housing in Australia.

Hence an initiative has been taken in this regard. The initiative acknowledges the complexity of housing systems and their role in supporting or inhibiting sustainability, social justice and economic stability. This is why it brings together researchers from numerous disciplines, including architecture, urban planning, property economics, public health, geography, economics, and sociology. The initiative is also supported by an advisory group of industry experts and includes collaboration with government, not-for-profit organization, and community stakeholders.

(Source: <https://research.unimelb.edu.au/research-at-melbourne/multidisciplinary-research/hallmark-research-initiatives/affordable-housing>)

## Bangladesh

### Bangladesh government's efforts to meet UN SDG and its successful disaster management

Queen of Belgium and UN Sustainable Development Goal advocate Mathilde Marie

Christine has visited Bangladesh. During this visit, she paid a courtesy call to the country's prime minister Sheikh Hasina Wajid and held discussions on the workings of implementing Sustainable Development Goals, among many other things of mutual interest. PM Sheikh Hasina informed the visiting dignitary about her government's works of constructing cyclone shelter centres and durable houses in the coastal areas and imparting training to up to 85,000 volunteers throughout the country for disaster management. The prime minister also informed her that the success of Bangladesh on disaster management has attained global acclamation. Noting that Bangladesh was one of the most climate vulnerable countries, Sheikh Hasina briefly described her government's initiatives to offset the impacts of climate change, particularly in terms of habitat and rehabilitations.

(Source: Bangladesh govt tirelessly working to implement SDGs: Hasina (newagebd.net))

### Affordable housing: a billion-dollar opportunity

There is a scarcity of affordable housing in Bangladesh, particularly in Dhaka city. As of 2021, approximately 22 million people reside in the greater Dhaka metropolitan area, according to the World Population Review. The Sustainable Development Goals set by the UN in 2015, under goal 11, aim to make cities of member countries inclusive, safe, and sustainable. This necessitates affordable housing to be made available to all by 2030 around the world and in our country. The urban population of Bangladesh makes up approximately 40% of the total population, and it is projected that by 2030, it will be 50%. With temperatures and sea levels rising, the number of climate refugees from low-lying areas of the country moving to urban areas will reach approximately 20 million.

The middle-income population of the city is increasing, and so is the demand for housing. The middle-income population is expected to be 37% of the total population by 2025, according to the IFC. However, the rent per square foot of the homes that cater to the middle-income people is on the higher side compared to those catering for the

upper-middle and upper economic segments. That creates a challenge of affordability.

Bangladesh, like many other developing countries, has been facing a huge shortage of affordable housing both in urban and rural areas and that is why it received enormous attention by developers. Massive demand exists for plots and flats. There have been many ups and downs in the last 40 years as the real estate business has taken the challenge of providing affordable housing for all segments of society.

In South Asia, Bangladesh holds the second position in terms of urbanization rate and proportion of urban population and that is why Bangladesh is one of the most attractive real estate markets in South Asia. Here both public and private sector institutions came forward to contribute to the housing sector. There are challenges on the supply-side of affordable housing, which has huge challenges in the finance side of the system. However, in the last four decades' private developers have strongly come forward to ease the pressure and supplied more than 100,000 units of apartments to the nation and will be supplying 25,000 more in the next three years.

(Source: <https://www.thedailystar.net/business/economy/opinion/news/affordable-housing-billion-dollar-opportunity-2210261>)

## Cambodia

### Cambodian MFI gets \$7M to offer low-cost housing finance

Local microfinance institution (MFI), the First Finance Plc has successfully penned an agreement with Mauritius-based GuarantCo Ltd. to provide affordable housing finance to low- or middle-income borrowers. The MFI has received an approximately \$7 million debt financing package from Mauritius-based GuarantCo Ltd, a member of the London-headquartered Private Infrastructure Development Group (PIDG), and the US' Cargill Financial Services International Inc ("CFSI"). GuarantCo CEO Layth al-Falaki voiced confidence in First Finance's plans to provide the Kingdom's low- and middle-income households with affordable housing finance, and hinted that his company and CFSI would consider extending similar financing solutions to other financial institutions in the future.

(Source: <https://m.phnompenhpost.com/post-property/mfi-gets-7m-offer-low-cost-housing-finance>)

### Cambodia's moving towards high-middle-income status and its social and low-cost housing

Prime Minister Hun Sen has said that "sustainable economic growth over the past two decades has moved Cambodia from a low-income country to a lower-middle-income country and Cambodia is striving to achieve its vision of a high-middle-income country by 2030."

Cambodia has 3,827 construction projects nationwide with a total floor area of 6,596,936 square meters according to the Ministry of Land Management, Urban Planning and Construction, but if the pandemic taught us anything, it's that those at the lowest end of the economic scale need more support. At the tail-end of last year, Cambodian Prime Minister Hun Sen made a publicized plea for private real estate developers to come up with projects for low-cost residences, adding that there was high demand, especially among civil servants and low-income or middle-income consumers. To qualify as affordable housing in Cambodia, units must be priced at USD \$30,000 or below. The aim of Cambodia was now to move the nation from low-income group to high-middle-income status.

(Source: <https://www.cambodiaproperty.info/tackling-cambodian-social-and-low-cost-housing/?amp>)

## China

### China facing rapid urbanization

In China, domestic population flow continues to be concentrated in economically developed cities, creating rapid urbanisation and driving up housing demand. In 2020, internal migration within China totaled 376 million people, or 41.6% of the urban population. However, a rising shortfall of housing supply in Tier 1 cities is making housing increasingly unaffordable for most residents. According to the South China Morning Post, the Tier 1 Chinese cities consist of Beijing, Shanghai, Guangzhou, Tianjin, and Chongqing.

The price of residential housing has been rising since the mid-2000s and the average home price in Tier 1 cities has increased further since the COVID-19 pandemic, when government strengthened policies to de-leverage the property sector for sustainable growth. A lack of affordable housing may discourage younger workers from making long-term plans to live in cities, reducing the supply of labour in more developed regions and so increasing pressure on China's economy. In response, the central government has

launched policies to promote the development of affordable housing for new migrants to major cities, as part of wider real estate market reforms.

(Source: <https://www.swissre.com/institute/research/topics-and-risk-dialogues/china/risk-management-affordable-housing-china.html>)

### China's housing market teeters between boom and bust

A significant change is on the cards for China's real estate sector in 2023, according to reports from the country's recent Central Economic Work Conference – the landmark event which sets the economic course for the coming year. The delegates insisted on one hand that "housing is for living not speculation", but on the other, emphasized the critical importance of real estate to China's economic growth. This statement sent real estate developers' shares multiplying, to the delight of global investors. But even if the worst time for China's real estate sector is behind, the country's housing bubble remains a serious structural problem. Just this week, a local government finance vehicle in Guizhou province was allowed exceptional approval to delay its loan repayment to banks by 20 years.

(Source: <https://www.ft.com/content/b9f17616-3654-4a04-a778-e7fa66d8a898>)

### China is finally trying to fix its housing crisis after a year

This week's intervention by the government took on greater urgency as Covid-19 cases hit record levels. The infections have prompted a new wave of strict lockdowns that are disrupting factories and other businesses, cutting into spending by consumers, and preventing home buyers from visiting apartment complex showrooms. This has further strained an economy already under severe pressure.

(Source: <https://www.nytimes.com/2022/11/25/business/china-property-developers.html>)

## Fiji

### Development of affordable housing for low and middle-income Fijian families

International Finance Corporation, IFC, signed a landmark agreement with the Fijian Government to bring in the private sector to help provide affordable and climate-resilient homes for low and middle-income families. The move is in line with the Government's vision to provide affordable and decent housing for all communities. It aimed at supporting families who struggle to find housing due to rising land and home prices. Coupled with the

government's drive to harness the expertise of the private sector to deliver high-quality public services, Fijian citizens can look at improved services in the near future.

The Fijian Government had set up a new ministry – the Ministry of Housing and Community Development – to tackle the housing affordability issue and asked for IFC's support. As an adviser, IFC, with support of the Australian Government, worked to design the right public-private partnership model to deliver affordable housing that's also environmentally friendly and resilient to climate change. Homes under the project used EDGE, a green building certification system created by IFC that had helped cut energy and water usage, as well as building material costs. IFC draws on its global work in helping tackle housing affordability issues in various developing countries as were being done in Fiji. For example, an IFC supported project in Odisha, India, was building 2,600 affordable homes for about 12,000 people.

(Source: <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=24662>)

### **"Fijians need to have their own affordable houses"- Minister**

A Fijian minister had said that there was a critical need to increase numbers of homes in Fiji.

Fiji's Attorney General and Housing Minister Mr. Aiyaz Sayed-Khaiyum said this while inaugurating 12 houses at the Koroipita Model Town in Lautoka, Fiji's second-largest city. As reported by the Fiji Broadcasting Corporation, he said that housing had been neglected in Fiji for decades, and in his opinion every Fijian has a right to live with dignity. He said that the Fijian government had introduced some initiatives to encourage people to own affordable homes. This includes a housing grant of 30,000 Fijian dollars (13,000 U.S. dollars) for those earning up to 50,000 Fijian dollars (21,000 U.S. dollars).

(Source: <https://english.news.cn/asiapacific/20221104/dc812c537f9845c6b2aca3152cf1c2b7/c.html>)

## India

### **Over 4.02 lakh homes completed in top seven cities in 2022**

Over 4.02 lakh homes (ten lacs equals one million) were completed in the top seven cities, namely Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai Metropolitan Region (MMR), National Capital Region (NCR) and Pune in 2022, 44% higher than in 2021, when approximately 2.79 lakh homes were completed,

according to recent data by ANAROCK, the leading Indian real estate services company. According to the company, 2023 is poised to be another rocking year as long as construction proceeds as per timeliness and no major headwinds obstruct it. If construction proceeds unhampered and as per schedule, NCR is likely to see the maximum completions in the year.

(Source: <https://tinyurl.com/India-4laksHomeCompleted>)

### **India's HDFC Bank plans megamerger with its housing finance parent**

India's largest private sector bank and its biggest mortgage provider are set to merge in a \$40bn deal, creating a financing titan that is positioned to capitalise on the country's economic recovery and rising demand for credit. The all-share amalgamation announced on Monday would combine HDFC Bank, India's third-biggest listed company by market capitalisation, and parent Housing Development Financing Corporation (HDFC) Limited, one of India's biggest mortgage lenders, to create a finance entity with a market capitalisation of \$185bn. If approved by shareholders and regulators, the merger is expected to be one of the biggest deals in India's corporate history. It comes after the Reserve Bank of India encouraged shadow lenders such as HDFC to convert into banks in a bid to reform the sector after a liquidity crisis.

(Source: <https://www.ft.com/content/1503b89e-b288-40b7-ad4e-e0260248faa9>)

### **Housing finance companies clock 15% YoY portfolio growth in Q1**

Housing finance companies have clocked a 15% year-on-year growth in their on-book portfolio in Q1 FY23, according to credit rating agency ICRA. However, the high growth in Q1 was due to moderate growth in the same period last year, the ratings agency said. Overall, housing finance companies' on-book portfolio stood at INR 127 billion at the end of June 2022, up from INR 110 billion a year ago.

"The growth was driven by the healthy demand in the industry and the increasing level of economic activity. Going forward, demand is expected to remain firm," said Sachin Sachdeva, VP and sector head - financial sector ratings, ICRA, while retaining growth and asset quality estimates for FY23.

However, the boost from the low base effect in Q1, combined with the rising interest rates, could result in a slightly slower pace of growth in FY23 than Q1 – the ratings agency pegs the full-year growth between 10-12%. According

to India's prominent business website, Livemint reported that the weighted average increase in interest rates on fresh rupee loans from banks between April and August 2022 stood at 82 bps. 1 USD equals 82.64 Indian Rupee

(Source: <https://www.businessinsider.in/finance/news/housing-finance-companies-clock-15-yoy-portfolio-growth-in-q1-but-rate-hikes-could-moderate-growth-for-fy23-says-icra/articleshow/95276755.cms>)

Latest news on Pradhan Mantri Awas Yojana-PMAY

### **Union Budget 2023: PMAY outlay increased by 66%**

Finance Minister Nirmala Sitharaman on February 1, 2023, said the Union Budget 2023-24 increased the allocation for the PM Awas Yojana (PMAY) by 66% to Rs 79,000 crore. This additional allocation will provide a major boost to the programme.

### **Maharashtra to build 375,000 houses under PMAY-Urban by December 2024**

In an upcoming development, the Maharashtra government has decided to build over 375,000 houses under the PMAY scheme by December 2024. These 375,000 units are a part of the 1.58 million units sanctioned for the state in 2015, of which 693,000 or 44% have been completed. The earlier deadline was 2022, which was revised to 2024 in the Centre's bid to offset the impact of Covid-19 pandemic.

(Source: <https://www.magicbricks.com/blog/pm-ay-pradhan-mantri-awas-yojana/114376.html>)

## Indonesia

### **Japan's JICA signed agreement with Indonesian Mortgage Bank to provide loans**

The Japan International Cooperation Agency (JICA) had signed a 7 billion Japanese yen loan agreement with PT Bank Tabungan Negara Persero Tbk ("BTN") in the Republic of Indonesia through Private Sector Investment and Finance (PSIF). The purpose of this loan is to promote housing loans for the low-to-middle income segment in the country. This loan is co-financed with Citi and PT Bank Central Asia Tbk. In addition, this loan is in line with the Initiative on Overseas Loan and Investment for ASEAN announced by the Government of Japan in 2019, and is implemented by utilizing the "Facility for Accelerating Financial Inclusion in Asia", (FAIA).

In Indonesia, due to the growth of population and household migration from rural to urban

areas, the annual housing demand exceeds 1 million, mainly in urban areas. On the other hand, the country's housing loan balance is only 4% of its GDP, lower than that of neighbouring countries such as Thailand (22%) and Singapore (50%). Limited financial access to a housing loan is a critical issue for a household wishing to have its own house. It has been estimated that "self-constructed houses," built by low-middle income residents themselves, account for approximately 70% of all houses in Indonesia. However, these houses have safety issues such as being at a high risk of exposure to natural disasters. The need for safe and clean houses with sanitation is also increasing in terms of preventing infectious diseases such as COVID-19.

(Source: [https://www.jica.go.jp/english/news/press/2022/20220518\\_30.html](https://www.jica.go.jp/english/news/press/2022/20220518_30.html))

### Indonesia to break ground for \$2.7 billion housing project in new capital in Q2-2023

Indonesia announced in 2019 a plan to move its capital city from Jakarta to a forested area in Indonesian Borneo, a project estimated to cost \$32 billion. The new capital will be named Nusantara. Indonesia expects to begin construction in the second quarter of 2023 on apartments worth \$2.7 billion for thousands of civil servants in the new capital city. Authorities have already started building basic infrastructure in the area, with an aim to start relocating some government administration and civil servants in 2024. Bambang Susantono, the head of the Nusantara National Capital Authority, said his office was in negotiations with three private developers for the housing project: a consortium of China's CCFG Corp and a firm Risjadson Brunnsfield Nusantara (CCFG-RBN), South Korean firm Korea Land and Housing Corp and local developer PT Summarecon Agung.

(Source: <https://www.reuters.com/markets/asia/indonesia-break-ground-27-bln-housing-project-new-capital-q2-2023-01-18/>)

### In Indonesia: housing subsidy to match with people's purchasing power

The issue of housing provision is a crucial issue for the Indonesian government at this point. The government's backlog data shows that the gap between the number of constructed houses and the number of houses that the people need reached 12.7 million in 2021. This figure becomes the foundation for the government to provide housing ownership subsidy in the coming years. The global economic recession in 2023 created

a challenge to provide housing, especially in relation to the people's purchasing power. Nonetheless, housing sector stakeholders remain optimistic that the purchasing power of formal workers, state civil apparatus (ASN), private sector workers, and state-owned enterprise employees is still high enough to purchase a house.

(Source: <https://en.antaranews.com/news/262457/measuring-housing-subsidy-with-peoples-purchasing-power>)

### Youngsters set to take over Indonesian housing market

In Indonesia, the domestic property industry is presently going through a process of recovery. In this process, the younger generations are expected to take over the majority of the housing-market share. But reduced buying power means government assistance is needed to assist this segment. A housing consultancy-firm Indonesia Property Watch (IPW) estimated that more than 63.4% of potential house buyers are millennials or members of Generation-Z (Gen-Z).

Statistics Indonesia's latest census showed that millennials and Gen-Z comprise 25.87% and 27.94% of the total citizen population, respectively. Statistics Indonesia categorizes millennials as those born between 1981 to 1996 and Gen-Z between 1997 to 2012.

(Source: <https://www.thestar.com.my/business/business-news/2022/09/05/youngsters-set-to-take-over-indonesian-housing-market>)

## Japan

### Japan's biggest banks to raise housing loan rates after BOJ's policy tweak

Japan's three biggest banks said on Friday they would raise interest rates for housing loans for next month, reflecting the Bank of Japan's tweak in its ultra-loose policy. Sumitomo Mitsui Banking Corp, the main banking unit of Sumitomo Mitsui Financial Group (8316.T), will raise 10-year fixed-rate loans by 0.26% to 3.79%, while the rate for Mizuho Bank, the main banking unit of Mizuho Financial Group (8411.T), will be 3.50%, up by 0.3 percentage point

(Source: <https://www.reuters.com/business/finance/japans-biggest-banks-raise-housing-loan-rates-after-bojs-policy-tweak-2022-12-30/>)

### Higher mortgage rates – a new headache for Japanese homeowners

The Bank of Japan whipsawed global financial markets when it said that it would allow

rates to rise a little more, signaling a potential end to ultra-low rates and easy money after decades of trying to revive the world's No. 3 economy. The government-backed Japan Housing Finance Agency offers 35-year, fixed-rate mortgages as low as 1.65%. That compares with 1.33% in December last year and is more than four times as high as some variable mortgage loans.

Floating-rate mortgages aren't expected to move anytime soon as they are tied to short-term rates that are still stuck in negative territory. Nevertheless, the central bank's move has plenty of borrowers worried they will one day face higher payments.

(Source: <https://www.japantimes.co.jp/news/2022/12/23/business/home-mortgage-payments/>)

## Kazakhstan

### Affordable housing finance for women in Kazakhstan

The ADB's \$100 million project provides targeted support for Kazakhstan women, especially those in provinces, to obtain affordable housing. Over 2,000 women have already benefitted from this project implemented jointly with Otbasy Bank.

To avoid exchange rate risks for borrowers, ADB provided the funding in local currency raised through the first tenge (local currency) gender bonds issued on Kazakhstan's stock exchange.

(Source: <https://www.adb.org/news/videos/affordable-housing-finance-women-kazakhstan>)

### Kazakhstan would fund young generation's education and housing through personal accounts set up at birth

Kazakhstan's Finance Ministry has unveiled a new social welfare project geared towards funding housing and education expenses for the next generation of Kazakhstan's citizens. The Kazakh news outlet Tengri News writes that, starting in 2024, each new citizen born in Kazakhstan will be given a savings account to be funded in regular installments from the National Fund (which is itself funded by the country's natural resources). By the time the beneficiary reaches the age of 18, they should have around \$3,500 to use towards education anywhere in the world, or for buying a home in Kazakhstan.

(Source: <https://meduza.io/en/news/2023/02/14/kazakhstan-will-fund-young-generation-s-education-and-housing-through-personal-accounts-set-up-at-birth>)

### Korea

#### Fears grow over hard landing for housing market

Korea's housing market is feared to be heading for a hard landing as multiple indicators show a steep downturn approaching. Home prices have continued on a downward spiral, while transactions keep falling and the number of unsold new apartments is rising. What is more concerning is that home prices in the nation have dropped more sharply than most other countries in the Asia-Pacific region in the midst of high interest rates, price misalignment and other downside risks in the region. The report also showed that Korea was only behind New Zealand and Australia, which saw a decline of about 35 percent and 23 percent, respectively, during that period. The rate of decline turned out to be nearly 10 percent for the entire world and nearly 15 percent for advanced economies. The IMF had said, "Tighter financial conditions are raising borrowing costs significantly, and, as a result, housing demand has started to cool off, with market corrections already underway in some economies".

(Source: [https://www.koreatimes.co.kr/www/biz/2022/12/488\\_341942.html](https://www.koreatimes.co.kr/www/biz/2022/12/488_341942.html))

#### Korea unveils \$7 Billion in financing for property market

South Korea rolled out fresh measures to help its struggling real estate market, after a decline in home prices worsened recently.

The government will have state-owned enterprises guarantee additional project financings of 10 trillion won (\$7.3 billion) "to curb excessive contraction of housing projects," according to a joint statement from several ministries. It adds to 10 trillion worth of similar guarantees already unveiled in October as part of a broader 50 trillion won aid package for the nation's crisis-stricken credit market.

The nation's housing market continued to drop in recent weeks after the worst monthly decline since the global financial crisis, and for this the central bank and the other banks globally raised interest rates to fight inflations.

(Source: <https://www.bloomberg.com/news/articles/2022-11-10/korea-unveils-7-billion-in-financing-to-help-property-market?leadSource=uverify%20wall>)

### Laos

#### Laos requires USD 22 million for its 5th Population and Housing Census

The Ministry of Planning and Investment awaits more than LAK 320 billion to execute the 5th Population and Housing Census which will take

place in 2025. This 5th Population and Housing Census (PHC) will require approximately LAK 321 billion, or USD 22 million for conducting the Population and Housing Census. This Population and Housing Census is expected to account for all those who have been living in Laos for six months or more.

Ms. Mariam A. Khan, UNFPA Representative, said, "A Population and Housing Census requires timely and accurate planning, financing, and monitoring. Delays in financing will significantly affect the implementation of the census and hamper access to quality data, which in turn limits the possibility of decisions and policies being based on data. With LSB we planned well, now we count on the active involvement of key stakeholders, including media, to adhere to the census timetable and commit support to the census implementation." Four PHCs have been conducted by the government so far in the years 1985, 1995, 2005, and the most recent in 2015. In the meanwhile, the United States Agency for International Development (USAID) has committed \$500,000 USD to support preparation of the 5th Population and Housing Census (PHC) 2025. The funds will be provided through the United Nations Population Fund (UNFPA).

(Source: <https://laotiantimes.com/2022/11/21/laos-requires-usd-22-million-for-its-5th-population-and-housing-census/>)

### Malaysia

#### Documentation fee for housing loan borrowings abolished

The documentation fee for housing loan borrowings has been abolished by local banks following a "notice of cessation to all banks" from Bank Negara Malaysia, according to a report by The Star. The newspaper reported that notices posted by a number of banks mentioned the directive from Bank Negara, detailing that they must from today "cease charging a fee relating to the provision of housing loan or home financing documentation for financial customers". A documentation fee of between RM100 to RM600 for housing loan borrowings had always been charged by banks before this directive was issued.

(Source: <https://www.edgeprop.my/content/1905118/documentation-fee-housing-loan-borrowings-abolished-says-report>)

1 USD equals to 4.44 Malaysian Ringgit (RM)

#### Easing housing loans may further burden the poor, government told

A public policy expert on housing Ms. Suraya has questioned the wisdom of reviewing financing schemes to make home ownership

more affordable for low-income earners just to reduce property. Ms. Suraya said income and house prices were not the only determinants of loan approval, adding that buyers' debt commitments were also a key factor. "Each bank has to perform due diligence" with regard to these factors, she said. "The rejection of loan applications may indicate that these potential buyers may be over indebted." Recently, Prime Minister Ismail Sabri Yaakob said Bank Negara Malaysia should review its financing model to make home ownership easier for the B40 and M40 groups. He said this would ultimately reduce the property overhang in the country. In a recent report, the National Property Information Centre said houses priced at RM300,000 and below accounted for a major share of overhung properties.

(Source: <https://www.freemalaysiatoday.com/category/nation/2022/04/21/easing-housing-loans-may-further-burden-the-poor-govt-told/>)

### Maldives Islands

#### Maldives government opens application for low-interest housing loan

The Maldives government has invited applications for new construction loans in the islands, as reported in the press. President Ibrahim Mohamed Solih introduced the "Gedhoruveriyaa" loan scheme, meaning the scheme, available through Housing Development Finance Corporation (HDFC), provides loans up to MVR700,000 (USD45,265) with a six% interest rate, and a maximum repayment period of 20 years. Mabrook Azeez, the spokesperson of the President's Office, said that application forms will be available on the HDFC website.

(Source: <https://www.asiapropertyawards.com/en/the-maldives-government-releases-application-for-low-interest-housing-loan/>)

### Mongolia

Mongolia provides about 6,500 housing mortgages Mongolia has provided housing mortgages to 6,469 borrowers since the beginning of this year, the country's Ministry of Construction and Urban Development said on Monday. Over 80% of housing mortgages were provided to residents in the capital city of Ulan Bator, which is home to over half of the country's 3.4 million population, the ministry said in a statement. The Mongolian government started implementing a mortgage loan program in 2013 to increase the affordability and accessibility of apartments for urban residents, particularly young families and those living in ger (largely unplanned predominantly

residential) districts. Since then, a total of 109,800 borrowers have benefited from the housing program, according to the ministry.

(Source: <https://english.news.cn/asiapacific/20221114/f616cafae2d342a288c89f904b5c3e7e/c.html>)

### EDGE green building certified house in Mongolia

A pilot EDGE certified home, developed with support from international and Mongolian partners, including the German Corporation for International Cooperation (GIZ), the Mongolian Bankers Association (MBA), and the Mongolian Sustainable Finance Association (ToC) is set to be just the first of its kind in Mongolia.

“IFC and the Ministry have been cooperating in the field of green building certification and promotion in Mongolia,” said E. Zolboo, Deputy Minister of the Ministry of Construction and Urban Development (MCUD). Green buildings can help meet the growing housing demands of a rapidly urbanizing city like Ulaanbaatar while reducing carbon emissions. Sakura House, an energy-efficient private house in the capital city Ulaanbaatar, is an important milestone for Mongolia’s work in the area of green building certifications in Mongolia. Going forward, the Govt. will support more public and private buildings in the country to help them adopt energy efficiency measures.

(Source: <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=27001>)

### Model green townhouse commissioned in ger district

The Ulaanbaatar Housing Corporation, the GIZ, and Hybrid House LLC are jointly implementing an energy-efficient, green housing project in Denjiin Myanga of Chingeltei district, Ulaanbaatar city. Under the project, about 2,100 square meters of land was vacated, and a model townhouse for seven families was commissioned. The main feature of the model townhouse is that it has clean groundwater, treats up to 98 percent of wastewater and can be reused, and has the advantage of saving energy with the help of its solar heating technology. It also has a positive effect on reducing air and soil pollution, improving the appearance of ger areas, and enabling every household to live in a healthy and comfortable environment.

(Source: <https://montsame.mn/en/read/296141>)

## Nepal

### Nepalese cement demand to exceed 10 million tons by 2023

According to CW Research’s 2018 Nepal Cement Market Report, cement demand in

the country is expected to exceed 10 million tons per year by 2023. The stabilizing political environment, coupled with pressure from the population to complete vital construction projects in the aftermath of the 2015 earthquake, as well as transportation and energy infrastructure, will further accelerate this upward trend in domestic cement consumption. According to Raluca Cercel, Associate with CW Research: “the Nepalese cement market is a price-driven one, with the end user having limited purchase criteria in regards to quality considerations. Small-scale plants mostly cater cement to individual households, which decide on their supplier on pricing considerations only.”

(Source: <https://www.cwgrp.com/cemweek-features/497295-nepalese-cement-demand-to-surpass-10-million-tons-by-2023>)

## New Zealand

### Is New Zealand vulnerable to a housing crash?

The Reserve Bank recently raised the official base rate by 75 basis points to 4.25%, in an unprecedented effort to counteract the country’s stubbornly high inflation. This, including many other factors, would make the country’s housing market unusually vulnerable to a crash: it has one of the world’s highest price-to-income ratios, and most of New Zealand’s mortgages are fixed on very short terms of one to three years, with about half of all mortgages due to be refinanced in the next year. The interest rate rises mean that when many of New Zealand’s homeowners are forced to refinance their mortgages, they will be doing so at rates that are more than double or triple what they were currently on. At the same time, the ultra-low interest rates and cheap finance have driven a global house price boom and in New Zealand the house price to income ratio has topped that of many OECD nations. But as interest rates rise and prices dip, the nation’s housing market may be a warning for the rest of the world. (NZ housing: a canary in the coalmine: FT.com)

(Source: <https://www.theguardian.com/world/2022/nov/24/new-zealand-particularly-vulnerable-to-a-housing-crash-tightens-its-belt-as-rates-soar>)

## Pakistan

### World Bank supports Pakistan to improve property rights

The World Bank’s Board of Executive Directors today approved \$435 million in financing for three projects in Pakistan: the Pakistan Housing Finance project, the Punjab Urban Land Systems Enhancement project

and the Punjab Affordable Housing Program. These projects will expand access to housing finance, particularly for low-income households, improve land tenure rights and facilitate affordable housing developments in urban Punjab.

“Affordable and accessible housing is in high demand in Pakistan, which is home to over 230 million people and is the most urbanized country in South Asia,” said Najy Benhassine, World Bank Country Director for Pakistan. “These projects will contribute to addressing housing needs, particularly for low-income households, by leveraging the private sector and by facilitating access to mortgage options for those who currently cannot access financing to buy a home. They will also strengthen property rights and increase the supply of climate-resilient, affordable housing developments.”

(Source: <https://www.worldbank.org/en/news/press-release/2022/03/10/world-bank-supports-pakistan-to-improve-property-rights-and-increase-access-to-affordable-housing-and-mortgage-finance-f>)

### Banks approve Rs180b in low-cost housing loans

Building upon current momentum, banks have shown strong progress in approving and disbursing the financing under the Mera Pakistan Mera Ghar Scheme against the increase in applications by borrowers to avail of housing finance. Up until April 11, 2022, banks had received applications for housing finance amounting to Rs409 billion, which had reached merely Rs57 billion a year ago, reflecting an increase of more than seven times. Out of these, banks have approved applications amounting to Rs180 billion and disbursed Rs66 billion against the approved applications. This shows an increase in approvals of applications of more than 11 times as, a year ago, in April 2021, the banks had approved only Rs16 billion. Similar trends can also be observed in the overall financing of the housing and construction sector by banks. Banks almost doubled their housing and construction finance portfolio to Rs404 billion as of March 31, 2022, from Rs204 billion a year earlier. In increasing their housing and construction finance, banks have also achieved almost 100% of the first quarter target of Rs405 billion for 2022.

(Source: <https://dailytimes.com.pk/919690/banks-approve-rs180b-in-low-cost-housing-loans/>)

### Housing sector: Sustainable Housing Ecosystems, (SHE), announces investment of \$50 million over 3 years

The Sustainable Housing Ecosystems (SHE), a joint consortium between Altair, AMC and Trellis on Wednesday announced

an investment of \$50 million in Pakistan during the next three years, aimed at providing affordable homes to the lower- and middle-income people of the country. “The Consortium has already invested \$50 million and provided 3000 houses units to the lower- and middle-income class,” said CEO of Ansaar Management Company, AMC, Jawad Aslam while addressing at a roundtable conference “Resilient and Sustainable Housing for All: Delivering for People and Planet” here on the eve of the First International Housing Expo. The goal of the event was to bring together key players in the housing industry and work towards building environment-friendly projects across Pakistan.

(Source: <https://www.brecorder.com/news/40213247>)

### **Pakistan, Turkey to increase cooperation in housing sector**

Pakistan and Turkey have agreed to increase cooperation in various sectors, especially in low-cost housing during a meeting held between Federal Secretary, Ministry of Housing and Works Iftikhar Ali Shallwani and Turkish Ambassador Mehmet Paçacı on Monday. Both sides vowed to implement the accords signed between the two brotherly states. Mr. Shallwani extended his support to the ambassador in all relevant matters. He reiterated that Pakistan and Turkey enjoy cordial fraternal ties and mutually beneficial bilateral relations. “This very relationship is based on common faith, values, culture, civilization linkages, history, and mutual trust”, said Mr. Shallwani. He underscored that Pakistan immensely values its ties with Turkey. The ambassador expressed similar thoughts for further promoting ties between both the brotherly countries in all domains of mutual interest, particularly in the housing and manufacturing sectors.

(Source: <https://mettisglobal.news/pakistan-turkey-to-increase-cooperation-in-housing-sector/>)

## **Philippines**

### **Pag-IBIG to finance over .7 million houses in 6 years**

The Home Development Mutual Fund, commonly known as Pag-IBIG, plans to finance more than 700,000 housing units under the Marcos administration as it banks on its low interest rates. In a television interview, Pag-IBIG CEO Marilene Acosta said the agency’s business model remains on track, but it plans to increase the number of homes that it will fund over the next six years. “We intend to finance at least 708,000 housing units. This is an increase of about 33% from the

531,000 units that we financed during the past administration,” Acosta said. “We will continue to extend affordable interest rates for our Pag-IBIG members. As of now, we offer the lowest rate at 3%,” she said. Under the Pag-IBIG’s Affordable Housing Program, eligible borrowers have a special subsidized rate of 3% per annum for home loans of up to P580,000 for socialized subdivision projects.

(Source: <https://www.philstar.com/business/2022/10/19/2217626/pag-ibig-finance-over-700k-houses-6-years>)

## **Singapore**

### **Singapore tightens housing loan limits as rates rise**

Singapore unveiled a package of measures for the property market, including tightening lending limits for housing loans in response to a rise in interest rates, as well as new steps to moderate demand. The move would ensure “prudent borrowing” and “avoid future difficulties” in servicing home loans, said Singapore’s central bank, the Ministry of National Development and the Housing & Development Board in a joint statement late on Thursday.

In the meanwhile, it is being reported that the Government will launch the Growth and Transformation Scheme (GTS) to digitalise processes and upskill workers through the entire value chain of the Built Environment sector that encompasses the construction, real estate and environment and facility services businesses.

The GTS for the Built Environment sector will require developers to work closely with their consultants, contractors and suppliers to level up as an ecosystem or value chain, Deputy Prime Minister Heng Swee Keat said on February 16.

The Ministry of National Development gave details of the scheme during the debate on its budget.

(Source: <https://www.bloomberg.com/news/articles/2022-09-29/singapore-tightens-housing-loan-limits-as-interest-rates-climb?leadSource=verify%20wall> and Budget 2021: Scheme in offing to transform construction, real estate value chain | The Straits Times)

## **Sri Lanka**

### **Minister for continuing housing projects for low-income earners and artists**

Prasanna Ranatunga, the Minister of Urban Development and Housing, has instructed the

Urban Development Authority to continue the implementation of the housing projects that were started last year. As the country is facing an economic crisis, the minister has also advised them to focus on finding the necessary funds to implement the housing projects without burdening the General Treasury.

Accordingly, the construction of 1,996 housing units under five housing projects for artists and low-income earners will begin early this year, the Ministry of Urban Development and Housing says. These houses are being built under the loan assistance program of the Chinese government. The Chinese government would grant 552 million yuan of loan assistance and the agreement for that was signed on January 9 last year. The representatives of the Chinese government and the Urban Development Authority have jointly conducted the population studies for this purpose. House construction plans have been made by the Urban Development Authority.

(Source: [http://www.colombopage.com/archive\\_23A/Jan01\\_1672556606CH.php](http://www.colombopage.com/archive_23A/Jan01_1672556606CH.php))

### **Sri Lanka embarking on integrated market-driven housing finance**

A World Bank report states that Sri Lanka has embarked on a gradual transition from a system of directed credit in a highly segmented market toward an integrated market-driven housing finance system. This transition has included an increased role of private universal banks in the immediate term and a functioning secondary mortgage market in the long term. An active system of housing finance provides real economic benefits and positively affects savings, investment, and household wealth. It provides an investment option for long-term funds in the economy as an alternative to investment in treasury bonds. In turn, each dollar invested in the housing sector catalyzes economic activity in other sectors, exerting an indirect positive impact on employment levels, the retirement system, fiscal returns, and consumption. Housing finance enables households to accumulate assets that can provide the collateral for their investment needs, thus stimulating small business. Housing finance development boosts equitable economic growth and reduces poverty by improving living conditions, empowering the middle and lower-income population, and strengthening communities. Housing policy focuses on improving government land use and maximizing the use of the existing housing stock by providing basic public services and upgrades.

(Source: <https://openknowledge.worldbank.org/handle/10986/8106>)

## Thailand

### Government Housing Bank of Thailand issues First Sustainability Bond with ADB support

The Government Housing Bank of Thailand, with support from the Asian Development Bank (ADB), has issued its first sustainability bonds in accordance with the International Capital Market Association's Sustainability Bond Guidelines and the Association of Southeast Asian Nations (ASEAN) Sustainability Bond standards.

The Government Housing Bank issued the 8.5 billion Thai baht (approximately \$244 million) in sustainability bonds with 3- and 12-year maturities on 9 December 2023. The bonds were sold to Thai institutional investors, with subscriptions nearly twice the issuance amount. The proceeds will be used to refinance and finance the bank's environmental and social projects, including homeownership programs for low- to middle-income households and to promote ownership of energy-efficient housing units.

(Source: <https://www.adb.org/news/government-housing-bank-thailand-issues-first-sustainability-bond-ADB-support>)

### Thai central bank wants to see household debt below 80% of GDP

Thailand's central bank said it wants to see household debt levels below 80% of gross domestic product (GDP) to help reduce economic and financial risks, an official said on Tuesday.

(Source: <https://www.reuters.com/markets/asia/thai-cbank-wants-see-household-debt-below-80-gdp-2023-02-14/>)

## Turkey

### Turkey vows to boost purchasing power and address soaring housing prices

President Recep Tayyip Erdoğan on Monday pledged arrangements to boost the purchasing power of lower-income citizens, as he said that the government is aware of the difficulties created by the high cost of living. Erdoğan also announced several measures to address soaring real estate prices, as residents struggle to find affordable homes to rent or buy. Propelled by rising energy, food and housing prices, Turkey's annual inflation runs at a 20-year high of nearly 70%. Soaring commodity prices and Russia's invasion of Ukraine, which led to a surge in gas, oil and grain prices, have compounded the situation in import-reliant Turkey. Speaking

after a Cabinet meeting, Erdoğan reiterated the government's determination to address the soaring prices and said they would work to improve the purchasing power of lower-income households through arrangements as of July.

(Source: <https://www.dailysabah.com/business/economy/turkey-vows-to-boost-purchasing-power-address-soaring-housing-prices>)

### Turkey's housing crisis: New cheap loan scheme sees prices soar further

Turkey's President Recep Tayyip Erdoğan introduced new measures aimed at stimulating the purchase of real estate by offering low interest rates. Mortgage loan interest rates in Turkey currently oscillate annually between 18.5 and 24%. The new package, however, offers first-time buyers much cheaper credit, with annual interest rates of 11.88%.

"Due to sharp increases in raw materials globally and also supply problems, the construction sector slowed down while prices increased dramatically," Erdoğan said on Monday evening after a cabinet meeting.

The new house package includes three different schemes. First, loans with a monthly 0.99% interest rate and up to a 10-year maturity will be available to first-time house buyers for new properties worth up to two million Turkish liras (\$130,000).

(Source: <https://www.middleeasteye.net/news/turkey-housing-cheap-loan-scheme-prices-soar-further>)

### Turkey announces cheaper mortgages for mid-income Turks

Mortgages with lower rates and longer maturities will be offered to middle-income Turks looking to buy new housing, Turkish Finance Minister Nureddin Nebati said recently. Nebati told a news conference the mortgage loans with amounts up to 5 million lira (\$266,823), will have up to 15 years maturity and rates will start from 0.69%. "We prepared 'my new home program' for middle-income citizens with advantageous rates, three-year finance ministry support for payments and a household income-based payment plan," Nebati said. The loans with favourable rates will be extended to new housing, before, during or after construction, Nebati also said. Contractors that promises to build housing will also have credit guarantee fund-backed access to financing of some 25 billion Turkish lira, Nebati added.

(Source: <https://www.reuters.com/world/middle-east/turkey-announces-cheaper-mortgages-mid-income-turks-2023-01-04/>)

## Uzbekistan

ADB supports housing finance in Uzbekistan The Asian Development Bank (ADB) approved a \$150 million loan that would help expand green renovation loans in Uzbekistan while boosting the funding available to commercial lenders in the country to continue providing affordable home loans.

The loan, under ADB's Mortgage Market Sector Development Program, will supplement funding for the Mortgage Refinancing Company of Uzbekistan (UzMRC) to make local currency resources available to eligible financial institutions that provide residential mortgages, home improvement loans, and refinance green renovation loans. In Uzbekistan, borrowers can use green renovation loans to refurbish or install heating and cooling systems, install solar panels and improve insulation and water – improving energy efficiency.

(Source: <https://www.adb.org/news/adb-supports-housing-finance-uzbekistan>)

## Vietnam

### Vietnam lender gets \$100m from IFC for middle-class home loans

The International Finance Corporation (IFC) is investing \$100 million into Vietnamese lender SeABank to provide loans for affordable homes in a market that offers plenty of luxury condos but not enough cheaper units to meet demand. The IFC is targeting low- and middle-income borrowers in the fast-growing economy, which requires 374,000 new homes a year, IFC the World Bank arm said on Tuesday. But the investment does not address the more chronic problem of supply in Vietnamese real estate. The state has had limited success promoting social housing, including a major loan program that was swiftly over-subscribed, while builders have focused on high-end property beyond the reach of most people in the developing country. Then came a corruption crackdown, which last year saw property executives arrested, making both public and private officials nervous that any missteps in new projects could invite scrutiny.

(Source: <https://asia.nikkei.com/Business/Markets/Property/Vietnam-lender-gets-100m-from-IFC-for-middle-class-home-loans>)

### Vietnam to focus on promoting housing development for low-income earners to tackle supply crunch

The Government will create a project on housing development, especially for low-income

earners, to tackle the supply crunch in the real estate market. The plan will help the market strike a balance between supply and demand and grow sustainably, Prime Minister Ph m Minh Chín said. PM Chín made the point at a national online conference in Hà N i which aimed to seek ways to remove obstacles in the domestic real estate market and promote its development in a safe,

healthy and sustainable way. Chín said that the domestic real estate market was facing a number of problems. The market saw a serious imbalance between supply and demand with an oversupply in the high-end segment but a shortage of homes for low-income earners. Prices were also at unreasonable levels compared to per capita income. Legal bottlenecks were also hindering the development

of real estate projects, which affected supply, coupled with difficulties in accessing capital, including sources from credit, corporate bonds and others.

(Source: <https://vietnamnews.vn/economy/1484804/vn-to-focus-on-promoting-housing-development-for-low-income-earners-to-tackle-supply-crunch.html>)

# Europe: trends in house prices and construction

↳ By Mark Weinrich

For several years this spring column has taken the pulse of European housing markets. For the past nine years, house prices across the European Union have risen steadily. Even though large parts of the world economy – including Europe – were in turmoil for the first year after COVID-19 emerged, house prices continued to climb. Since the beginning of 2022 mortgage rates in the euro area have risen significantly – the European Central Bank (ECB) reports that the first half of 2022 was the largest six-monthly increase ever recorded –, following a historical low in 2021. As empirical evidence suggests that housing market dynamics are very sensitive to mortgage rates, this has raised concerns that house prices could start to drop in the European Union

Nevertheless, the annualised average growth remains high: over the European Union as a whole house prices in the third quarter of 2022 compared with the same quarter of the previous year were up by 7.4% and in the euro area by 6.9%.<sup>1</sup> However, the trend is reversing: While in the first and second quarter of 2022 no country in the European Union reported a quarter-on-quarter decline in house prices, Sweden, Denmark, Finland, Germany, Italy and Romania experienced quarter-on-quarter declines in the third quarter and the trend strengthened in the last quarter of 2022.

However, euro area housing markets are so far more resilient than could be expected given the rapid increase in mortgage rates. Pandemic-induced shifts in housing preferences and continued constraints on housing supply most likely provide some support for

prices. It will be interesting to see how housing markets develop in Europe in 2023.

The annualised growth rates in the third quarter of 2022 show as always considerable regional differences. The lowest increases in house prices were registered in Denmark (-2.4%), Sweden (-1.1%), Finland (-1.3%) and Italy (+3.0%). The highest increases were recorded in Estonia (+24.2%), Hungary (+21.0%), Lithuania (+19.3%) and the Czech Republic (+16.6%).

The occurrence of COVID-19 in 2020 caused disruptions in the construction sector. In the first year of the pandemic 2020, construction volume in the EUROCONSTRUCT area<sup>2</sup> shrank by 4.4%. In 2021 (+5.8%) and 2022 (+3.0%), the European construction sector recovered strongly.<sup>3</sup> The corona-related impediments on the construction sites hardly played a role anymore. The economic revival and the pent-up demand for investment outweighed the negative factors such as the rapidly rising construction costs and interest rates. However, the outlook till 2025 has deteriorated significantly in view of the economic slowdown, significantly more expensive financing and sharply higher construction prices – these even increased by double digits in 2022 in ten out of 18 member countries (excluding Spain due to lack of data). Nevertheless, the current EUROCONSTRUCT forecast assumes “only” stagnation in 2023 and 2024. For 2025, moderate growth of about growth of about 1% is expected. However, residential construction, which had developed very dynamically in the past two years, will shrink this year and next. The decline is mainly due to changes in the “superbonus” introduced in Italy in 2020.

In summary, the superbonus is a state subsidy for modernisation (energy-efficient renovation, increase in earthquake resistance), the use of which granted a tax deduction of 110% of the implementation costs – the property owners thus received more money back from the state than they had invested. In January 2023, the subsidy rate was cut – but less than was assumed at the time of the EUROCONSTRUCT forecast, so the negative effect could be less. Besides Italy, the residential renovation sector is only declining in Hungary and the UK and is thus relatively stable. New residential construction, however, is expected to slump in 10 of the 19 EUROCONSTRUCT countries. An extremely positive outlier is Ireland, where various government programmes and initiatives are trying to tackle the extremely pressing problem of the housing shortage in many places. It is predicted that at the European level the number of completed dwellings will fall to 1.75 million units by 2024. That would be 60,000 fewer housing units than in 2022. The outlook for non-residential construction and in particular civil engineering looks positive for the next three years, so that construction output in total will only stagnate in 2023 and 2024.

The effects of the conflict in Ukraine, high energy prices, inflation and interest rates will have a long-lasting impact. While the European construction sector is predicted to be spared a market downturn in the next three years, the outlook for the real estate markets is bleaker. Here, some countries will have to struggle with falling prices. How serious the situation will be and whether and what consequences are to be expected for the financial sector cannot yet be foreseen.

<sup>1</sup> All data on house prices are from Eurostat: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Housing\\_price\\_statistics\\_-\\_house\\_price\\_index](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Housing_price_statistics_-_house_price_index)

<sup>2</sup> Countries which belong to the EUROCONSTRUCT network are France, Germany, Italy, Spain, United Kingdom, Denmark, Finland, Ireland, Norway, Sweden, Austria, Belgium, Netherlands, Portugal, Switzerland, Czech Republic, Hungary Poland, and Slovak Republic.

<sup>3</sup> For the following see Press Release on 94<sup>th</sup> EUROCONSTRUCT Conference: [https://euroconstruct.org/ec/press/pr2022\\_94](https://euroconstruct.org/ec/press/pr2022_94)

# Mortgage banks: Public vs. Private

↳ By Claudia Magalhães Eloy

In my previous Column (Winter 2023 Edition), I provided some references on how inequality and racial discrimination persist in the US mortgage market, as a means of introducing the discussion on the issue in Latin America and the Caribbean (LAC).

Recently I attended a Joint Center for Housing Studies' Webinar<sup>1</sup>: *Housing Finance & Social Equity: Learning from the New Economy Project*<sup>2</sup>. The speaker – Deyanira Del Rio, co-director @ New Economy Project – argued for, amongst other things, a public housing bank for New York City, as a means of ensuring equal access to affordable mortgages. The US mortgage market relies on private banking and capital markets for the allocation of resources and today, there are only a few public banks in the country, the oldest being the Bank of North Dakota – a 100 years old institution, owned by the state of North Dakota, it focuses on supporting local businesses and farmers. Two other examples are the Public Bank of San Francisco, owned by the city of San Francisco established recently, in 2019, to provide funding for affordable housing and other community development projects; and the Vermont Economic Development Authority, which operates as a quasi-public bank. While the mortgage market relies almost exclusively on private agents, there is a massive guarantee system backed by the US government, often times and always fascinatingly debated about by Alex Pollock in this Journal.

Concerns about increasing inequality and persistent discrimination were issues present in Del Rio's call for a public bank.

The webinar inspired me to, once again, bring back the discussion regarding public banks in LAC, a topic I previously discussed in this column in the Winter 2017 edition. Back then

I mentioned that the widespread process of financial liberalization of the 80s and 90s, was also seen in LAC countries, maybe even more so than elsewhere. In spite of this, many LAC countries retained important publicly owned mortgage lenders that continue to be relevant domestic actors, often having retained or expanded their market share in the domestic market.

High inflation and interest rates for a longer than expected period, and their impact on borrowers' ability to pay, have currently been suppressing banks' lending appetite across LAC. As the risks of a recession increase, banks become even more risk averse, notably in relation to long term loans. These trends tend to be more pronounced amongst private banks, while public ones may step in, due to their public control and social mandate. Government banks that offer housing credit in the region include:

- Banco de la Nación Argentina (a state-owned bank), Argentina
- Banco Nacional de Bolivia (BNB, a commercial government- controlled bank ), Bolivia
- Caixa Econômica Federal (a state-owned bank), and Banco do Brasil (a commercial government- controlled bank<sup>3</sup>), Brazil
- BancoEstado (a state-owned bank), Chile
- Banco Nacional de Costa Rica (BNC, a state-owned bank), Costa Rica
- Banco de Desarrollo del Ecuador (BDE, a state-owned bank), Ecuador
- Banco Hipotecario in El Salvador (a government-controlled bank<sup>4</sup>), El Salvador
- Banco Nacional de Fomento (BNF, a state-owned bank), Paraguay
- Banco de la República Oriental del Uruguay (BROU, a state-owned bank) and Banco Hipotecario Del Uruguay (BHU), Uruguay

- Banco Hipotecario Nacional (BNH, a government-controlled bank<sup>5</sup>), Panamá

Let's take a look at three of them:

In Chile, **BancoEstado**, – a survivor of the waves of bank privatization between the mid-1970s and 1990s – has a mandate to cater to certain segments, including housing finance to lower income families. Lagos & Tapia (2014)<sup>6</sup>, in analysing BancoEstado's role in the 2008-2009 crisis and its aftermath concluded that although the countercyclical stance adopted by BancoEstado was clear in all types of credit, mortgage lending fell across all banks in 2009 and the behavior of BancoEstado did not differ much from the rest of the banks as it was seen in other segments such as commercial credit<sup>7</sup>.

Its portfolio of mortgage loans total CLP\$ 13.2 billion as of December 2022<sup>8</sup>, a market share of 17.6% of the CLP \$ 74.9 billion total outstanding mortgage debt in the country (3rd place, behind Scotiabank and Santander, with 18% and 21%, respectively)<sup>9</sup>. Yet, BancoEstado has been the market leader in terms of number of mortgages issued.

The rise of inflation and consequently interest rates has increased “vulnerability associated with mortgage financing with mixed or variable rates due to their greater exposure to interest rate risk when the fixed component expires” (Central Bank financial stability report, 2021). In May 2022, when the reference interest rate was at 8.25%<sup>10</sup>, the bank announced:

*“In this complex economic scenario, Banco de Estado, as an instrument of the Chilean's government, supports Chilean households in their dream of homeownership, by providing a fixed-interest rate of 3.85% + UF on 20-year term mortgage loans. With that we aim at reactivating the*

<sup>1</sup> Of Harvard University, part of a lecture series on housing finance and social equity.

<sup>2</sup> A non-profit that works with community groups to build a new economy that works for all, rooted in racial and social justice, cooperation, neighborhood equity, and ecological sustainability.

<sup>3</sup> As of 2021, the Bolivian government owned 33.85% of the bank's shares.

<sup>4</sup> As of 2021, the Salvadoran government owned 33% of the bank's shares.

<sup>5</sup> As of 2021, the Panamanian government held 25% of the bank's shares.

<sup>6</sup> Lagos, Luis Felipe; Tapia, Matias. Credit stabilization through public banks: the case of BancoEstado. Macroeconomic and Financial Stability: Challenges for Monetary Policy. Central Bank of Chile, 2014.

<sup>7</sup> The authors also observe that: “While publicly owned, BancoEstado operates as a (constrained) profit-maximizing institution that tries to attain certain public policy objectives (like providing access to banking in remote areas) while still being competitive and profitable [...] Its public role is more related to its relative specialization in specific segments rather than on the type of credit policies it follows. In fact, its rate of return compares favorably to that of the private sector: between 2002 and 2007 the Banco Estado return on equity systemically exceeded average return in the banking system.” In 2022, mortgages account for 37% of Banco de Estado total credit portfolio (42.7% in 2021 and 38% in 2017).

<sup>8</sup> Before allowances.

<sup>9</sup> An overall market share of 13.8% on total loans as of Dec,2021.

<sup>10</sup> In November, 11.25%

*mortgage market amidst the higher costs and uncertainty that variable rates bring*<sup>11</sup>.

A 6 month-grace period prior to the 1<sup>st</sup> installment and up to 2 months of forbearance per year, were also added in an attempt to foster affordability. Current mortgage lines include a fixed-rate loan with up to 30 year-terms and 90% LTV. Overall, mortgage loans now account for roughly 30% of GDP in Chile, the highest ratio in the region.

**Banco Nacional de Bolivia (BNB)**, founded in 1871, one of the oldest and largest banks in Bolivia with a market share of about 28% of the overall credit market (as of September 2021), offers various banking services, including residential mortgages that account for 40% of the bank's overall credit portfolio. BNB has a social housing credit program called "Mi Casa Mejor" that targets low-income families and provides financing for the purchase or construction of homes to a maximum value of BOB \$ 150,000. Mortgages offered by BNB have terms of up to 30 years and LTVs of up to 80%<sup>12</sup>.

BNB funds most of its loan portfolio with deposits and over the last 4 years, it has made efforts to increase the supply of mortgages which included the creation of "Fondo para Créditos", channeling funding to social housing (Vivienda de Interés Social III) from the reduction of compulsory deposits. Moreover, regulation regarding the valuation and classification of credit portfolios has increased the portfolio of working and housing credit from 50% to 60% (ASFI/666/2020 del 28/12/2020)<sup>13</sup>.

**Caixa Economica Federal**, a Brazilian state-owned bank, has been the main protagonist in the major expansion of mortgage lending to the lower end of the market, which financed around 4.5 million new units affordable to low to moderate-income households between 2009 and 2022, by channeling funds from FGTS, the national workers' indemnity fund. Banco do Brasil, a state controlled bank and more recently, credit cooperatives have also contributed (albeit to a lesser extent) to this development. Private banks that participate in the savings and loans system (alongside the afore-mentioned institutions), in their turn, continue to target middle to high-income

households. Caixa also maintained mortgage supply during the 2015/2017 economic recession, while private banks sharply reduced issuance of new mortgages. A similar trend is being observed now (although at a lower level), with the reference rate (Selic) at 13.75%, when long-term mortgages become strategically much less attractive to private banks.

Caixa is the main player in the Brazilian mortgage market, having inherited the role from the former National Housing Bank (closed in 1986), with 65.7% market share as of now. It has also been responsible for innovations in assessing borrowers' payment capacity around 2001, which has led to improved regulation by the Central Bank (2012 and 2018). Yet, Caixa has failed in several attempts to offer housing microcredit lines and has not been able to provide access to housing finance to informal workers. Moreover, due to political interference, Caixa set up an investment fund and a REIT, which prevented larger FGTS' investments in the housing market. Acting also as the manager of FGTS, it instituted indirect interest-rate subsidies, that benefitted its spreads but compromised the allocative efficiency of the subsidy policy. It must be noted that in the absence of public policies, Caixa tends to behave as a profit driven private bank.

### The debate: public vs. private

Public/government/'state-owned' banks vs. private banks; their differences have generated fierce debates regarding comparative performance in terms of efficiency, outreach, financial inclusion, governance, and profitability. The debate also involves their relationship to economic growth and development, as well as their position during periods of crisis.

The importance of government banks is evident when it comes to financial inclusion, i.e. providing services to those underserved by private-sector banking (individuals, firms and locations), addressing market failures (Stiglitz 1993). During crises, as market driven agents restrict credit supply, government banks may become instruments of counter-cyclical monetary policy. Schclarek (2014)<sup>14</sup> cites empirical evidence and observes a consensus that public banks act in a less

pro-cyclical or even counter-cyclical manner in comparison to private banks (Bertray et al; Micco and Panizza). Studies conducted by Davydov (cited by Schclarek) on the impact of public bank lending and risk-taking over the period 2005/2011 in Russia, show that during the crisis of 2008/2010, public banks increased their lending at the same time that they charged lower interest rates, in contrast to private domestic banks and foreign banks.

Leaning in the opposite direction, others argue that "the increased lending by public banks over private ones in times of crisis is an inefficient consequence of their lower capacity to screen good projects, not an active and rational policy decision" (Schclarek, citing Duprey, 2014). A similar view to those who perceive government banks as being less efficient than their private counterparts.

Another common criticism regarding public banks is that they are vulnerable to political interference, which could lead to distorted lending decisions based on political interests (Shleifer and Vishny 1994).

Von Mettenheim & Lins (2008)<sup>15</sup>, following their attendance at an international seminar on government banking<sup>16</sup>, produced a paper on policies and experiences of savings banks and other government banks toward financial inclusion and sustainable development in order to infer why government savings banks remain important domestic actors. They suggest that:

*"savings banks and microfinance policies are capable of steering domestic financial systems toward better income distribution, social inclusion, political development, and democratization. This is not to disregard critics of government banking; if public banks are abused, they may undercut policies of social inclusion and become agents of crony credit, rent seeking, and manipulation of elections. Notwithstanding these risks, government banks, and especially savings banks, provide considerable comparative advantage over private commercial banks for policy and development."*

These authors argue that savings banks in many parts of Europe<sup>17</sup> serve as important

<sup>11</sup> Jéssica López, president of BancoEstado, translated by this author. Source: <https://www.df.cl/mercados/banca-fintech/bancoestado-lanza-credito-hipotecario-a-tasa-de-interes-fija-de-uf>

<sup>12</sup> <https://www.bnb.com.bo/PortalBNB/Creditos/Vivienda/101>

<sup>13</sup> [https://www.bnb.com.bo/PortalBNB/Documentos/ContenidosFinancieros/Memorias/mem\\_finanzas\\_2021.pdf](https://www.bnb.com.bo/PortalBNB/Documentos/ContenidosFinancieros/Memorias/mem_finanzas_2021.pdf)

<sup>14</sup> Butzbach, Olivier; von Mettenheim, Kurt et al. Alternative banking and financial crisis. PICKERING & CHATTO, London, 2014.

<sup>15</sup> von Mettenheim, Kurt; Lins, Maria Antonieta Del Tedesco. Government Banking: New Perspectives on Sustainable Development and Social Inclusion From Europe and South America. Konrad Adenauer Foundation, 2008.

<sup>16</sup> Getulio Vargas Foundation (FGV-EAESP), in São Paulo, August, 2006.

<sup>17</sup> The referred authors observe that far from being destined to failure under pressure from increased competition from commercial and foreign banks, local, regional, and national savings banks appeared to have modernized to remain at the center of domestic banking systems and political economy, retaining large market shares in most European banking systems in the 21<sup>st</sup> century. savings banks have instead reformed, modernized, consolidated, and adopted new strategies to compete during the liberalization of European banking and markets.

paradigms for reassessing finance and development in Latin America; while theories and policies from capital market-centered financial systems, and liberal-market economies such as the US and UK, are often amiss or out of place in Latin America and other developing countries and regions. Looking specifically at two of the LAC government banks mentioned above – the Brazilian Caixa Econômica Federal and the Chilean BancoEstado – they found evidence that these institutions provide significant comparative advantage for public policies toward social inclusion.

A study conducted by Lucas Argentieri, in 2020, and published by the World Bank<sup>18</sup>, focused on the outcomes of a Brazilian banking reform that privatized several government-owned banks in the country, found that branches of privatized banks experienced a large decrease in lending supply (-45.6%) and branch operation (-20.9%); localities that were exposed to bank privatizations experienced a large, disproportional contraction in economic and financial outcomes, reducing local lending by 29% when compared with the trend in the locality before

privatization. He concluded that the reform benefitted the central government's finances and the banking sector's financial stability at the expense of negative effects on the local economy.

The importance of public banks was highlighted in the 2015 Addis Ababa Financing for Development Action Agenda, a global framework adopted by the United Nations in 2015 to guide international efforts to finance sustainable development. The agenda called for their role in financing sustainable development, and for strengthening their capacity to support sustainable investments, while improving their governance structures, risk management systems, transparency and accountability mechanisms.

Based on the scholarly references offered here, one can conclude that public banks may indeed have a fundamental role in fostering down-market mortgage expansion, in avoiding the deepening of financial and economic crisis, and in implementing counter-cyclical housing policies. This is even more notable in LAC economies, in the

context of their late economic and capital markets development, but mostly due to their volatile economic and business cycles and their generally unequal income distribution patterns. Hermann (2011)\* argues that a low degree of economic development can be expected to hinder financial development, which explains why financial market incompleteness in developing countries is, in general, more serious and restrictive than in more developed countries, which reinforces the need for Public Banks to act in the former. Yet, those public entities should have well-structured governance systems that protect them from political interference and should be subject to regulation, so as not to act to crowd out private participants. Finally, the dilemma between having a social/policy mandate and being profit driven (whether to pay dividends to its controllers and/or bonuses to its management) should be equated by proper and transparent parameters.

Let's look forward to the Summer edition of this column, as it will address an equally important, but rather unusual topic.

<sup>18</sup> <https://blogs.worldbank.org/allaboutfinance/do-we-know-it-all-what-are-real-costs-and-benefits-public-banks>

<sup>19</sup> Hermann, Jennifer. Bancos públicos em sistemas financeiros maduros: perspectivas teóricas e desafios para os países em desenvolvimento. Revista de Economia política, julho-setembro, 2011.

# International house price deflation #2

↳ By Alex J. Pollock

The 21<sup>st</sup> century's second international house price bubble ended in 2022. A second deflation of house prices began then and continues in 2023. Recall that numerous experts, as Bubble #1 expanded in the early 2000s, pronounced that in the U.S., a fall of house prices on a nationwide basis was not possible. A bad call! They have since experienced that whether and how far nationwide house prices can fall depends on how much they had been inflated beforehand. We have now vastly inflated them twice in this still-young century.

## Back to normal

"Housing bust #2 has begun," a February 2023 commentary by the provocative financial observer, Wolf Richter, is entitled. He rightly puts house prices in the context of the great "Everything Bubble" in asset prices, which was stoked by the suppression of interest rates and the vast bond buying by leading central banks, as they pushed short-term interest rates to zero and even negative, or "free money." Says Wolf:

*"What we are seeing is the unwinding of the biggest asset bubble ever, including house prices... driven by the disappearance of free money that everybody had gotten used to since 2008. Housing Bust #2 may turn out to be a sobering trip from the free money decade back to normal."*

This seems a good summary to me. On his "back to normal" point, interest rates now seem very high to us after years of suppression, but they are not particularly high, historically speaking. In fact, they are historically normal. The U.S. effective federal funds rate, for example, at 4.6%, is just about at its 70-year average since the 1950s.

A U.S. 30-year fixed rate mortgage now costing 7% is likewise historically pretty ordinary, and certainly not very high compared to the historic peak of 18% in 1981. But compared to the less than 3% low in the fall of 2021, the rate is high indeed and forces downward house price adjustments. The 3% mortgage was created by the Federal Reserve's buying \$2.7 trillion in long-term mortgages, which pumped up the air in house prices until it belatedly stopped buying in March 2022.

I know of no one who now defends the Fed's staying with the mortgage buying for so long.

In my opinion, the Federal Reserve needs to get out of being a mortgage investor and cease being functionally the world's all-time largest savings and loan. The amount of mortgage securities the Fed owned from its founding in 1913 until 2008 was always zero, and it should go back to zero again. But this will not happen soon, because the Fed has a remarkable mark-to-market loss on its mortgage securities portfolio – the unrealized loss was \$438 billion on September 30, 2022. The Fed will not be selling, which would mean realizing the big losses. It will hold on, letting the mortgage securities run off. But these securities are composed of 30-year fixed rate mortgage loans: most are going to be around for years.

Having moved from a 3% interest rate to 7% on mortgage borrowing of course means that the interest payment on the same-sized mortgage has more than doubled. The total monthly mortgage payment on a median-priced U.S. house has about doubled, so for a great many borrowers, the house price previously affordable has become out of reach. And down the prices must go.

## Comparing Canada and the U.S.

It is interesting to compare Canada and the U.S., both trans-continental, advanced and financially sophisticated countries, and how both had Housing Bubbles #1 and #2, followed by house prices sinking.

In Bubble #1, Canadian national house prices peaked in July 2008 and then fell for 20 months, until March 2009, dropping a total of 7.7%. This was a much less severe price deflation, in both amount and time, than in their neighbor south of the 3,000-mile-long border. Canadians were proud of how much better their housing finance system had done. For after U.S. national house prices peaked in July 2006, they fell for six years, until 2012. According to Carmen Reinhart and Kenneth Rogoff, in the ironically titled *This Time is Different* (2009), six years is the international average of house price declines following a severe financial crisis. During this period, U.S. national houses dropped 27% in total.

The housing bull market which became Housing Bubble #2, began in Canada in 2009 and ran for 13 years, until 2022. Exactly when the inevitable end of an asset price bubble will actually arrive is as hard to predict successfully as any other aspect of the financial future. The bubble accelerated after the panic of 2020 and peaked in May 2022. Canadian house prices went up to 2.4 times their 2007 peak – a truly remarkable price inflation. Canadian national house prices have now fallen about 10% from their recent peak but are still very high. In 2022, particular cities had from their peaks to year end the following rapid drops:

Hamilton .....	-17.5%
Halifax .....	-12.9%
Toronto .....	-14.3%
Vancouver .....	-9.8%

The U.S. house price bull market which turned into Housing Bubble #2, ran for ten years, from 2012 to 2022, also accelerating toward the end. National house prices during that decade reached 1.7 times their previous bubble peak-extreme, but hardly keeping up with Canada. Since the peak of Bubble #2 in June 2022, U.S. national house prices have fallen 4.4%, but as reported by the AEI Housing Center in February 2023, house prices have fallen in every one of the 60 U.S. metropolitan areas it tracks. The biggest price drops include these:

Seattle .....	-15.0%
San Francisco .....	-14.9%
San Jose .....	-14.7%
Phoenix .....	-12.8%
Las Vegas .....	-12.2%

The real estate company Redfin estimates that "U.S. homeowners lost \$2.3 trillion in value since June." In my opinion, since the "value" was an artifact of the bubble, the homeowners did not really have it. They only thought they had it. But now they think they have lost it.

This brings us to the inevitable question to which we inevitably don't know the answer: How far down is the bottom this time? However far from the inflated peak it may prove to be, Reuters has succinctly described our current situation: "Global house price fall underway."

# Housing and financial markets in Japan amid global inflation

↳ By Masahiro Kobayashi

## 1. Housing price in Japan

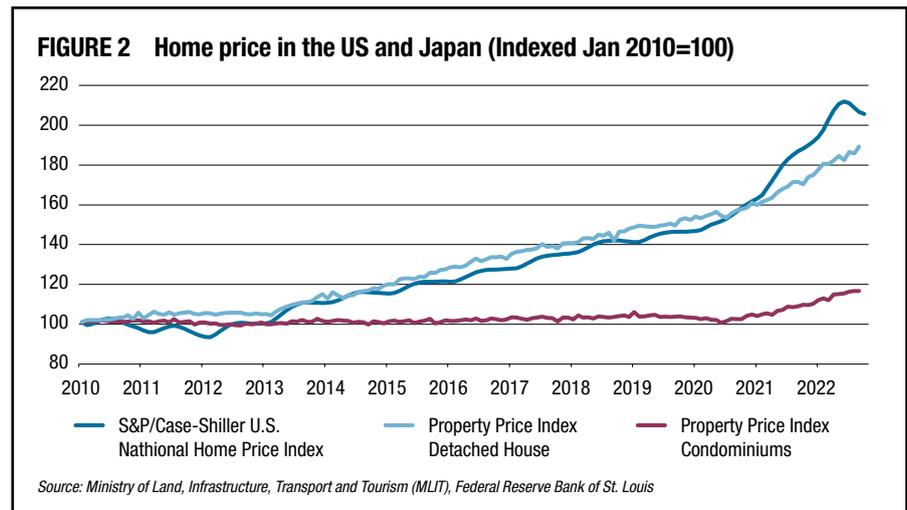
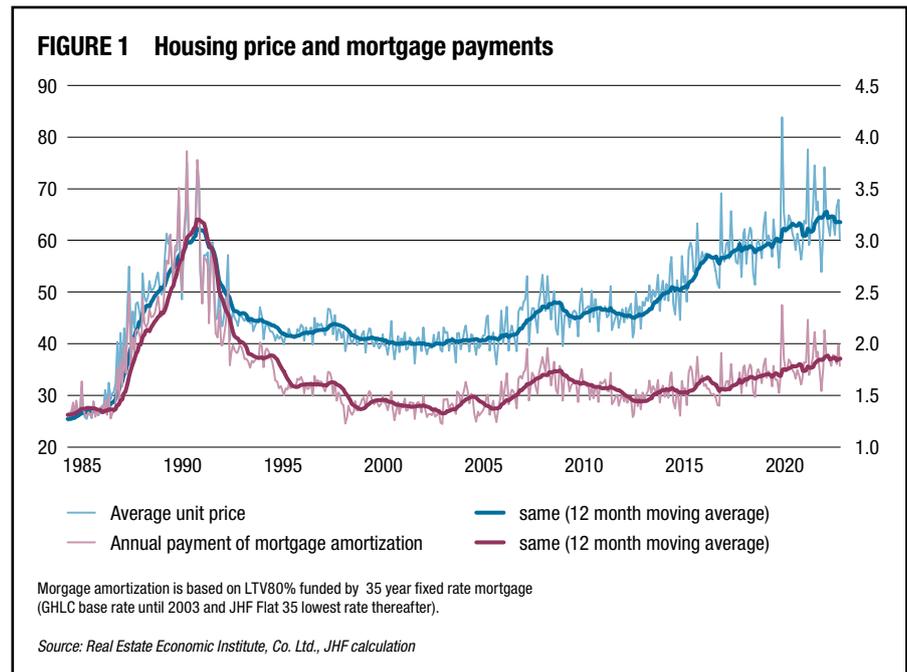
Japan experienced a “housing bubble” from the late 1980’s to the early 1990’s and then faced the collapse of the bubble which had a negative lingering impact on the overall Japanese economy [Figure 1]. The period is often referred to as the “lost decades”. The per capita GDP of Japan used to be higher than the US in the early 1990’s but has become two-thirds of the US recently. Japan used to be the second largest economy in the world, only second to the US. In 2010, Chinese GDP exceeded that of Japan and the difference has widened. In 2020, Chinese GDP is 2.5 times of Japanese GDP.

The shrinking Japanese economy is attributable to the declining population to some extent, and it is widely believed that changing the trajectory of the declining population is quite difficult. As the population declines, there will be less demand for goods and services, which has been translated into the mindset of people that deflation in Japan will continue for some time. This pessimistic view, however, focused too much on the demand side of the economy. Housing prices in Japan started to rise in late 2000.

In 2021, the average unit price of a condominium in Tokyo Metropolitan Area exceeded that in 1991 when the housing bubble was at its peak. However, housing remains affordable thanks to low mortgage interest rates.

The condominium price has been rising not only in Tokyo Metropolitan Area, but also at national level at a pace comparable to that of the US [Figure 2]. The US home price as measured by the S&P Case Shiller National Home Price Index is represented by single detached houses. If we compare the property price of single detached houses in Japan, it remains much lower than the US, although there is a moderate rise after 2020.

One of the reasons why the condominium is enjoying more popularity with Japanese



citizens than single detached houses is the change of the composition of households. In the past, a household with 4 people, i.e. father, mother and 2 children, was considered to be the “standard” household, and many social interventions were designed based on this standard household. However, the size of household has become smaller over time, and

as of 2020, the share of households with more than the “standard” number represents only 17.4% of total households in Japan, according to the Census conducted every 5 years [Figure 3]. There has been less demand for single detached houses with large floor area. Also, more married females have participated in the labor market and there is more demand

for facilities to take care of the children while they work. Such facilities are located more in the urban areas than rural areas and in urban areas, condominiums are preferred because of the scarcity of land.

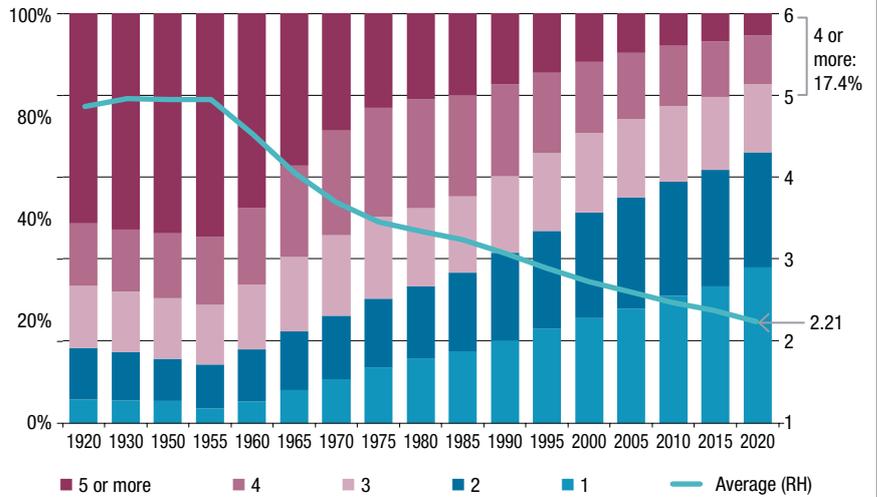
## 2. Financial market conditions in Japan until December 2022

In the US and Europe, central banks started to raise policy interest rates rapidly after spring of 2022 amid soaring inflation. The Federal Reserve, for example, raised the target range for the federal funds rate 5 times in 2022 and raised the range by 4-1/4 percent over a 9 month period. This is an unprecedented pace since the US economy faced “double digit inflation” in late 1970’s and in the early 1980’s.

However, the Bank of Japan continued to maintain extraordinary monetary accommodation until December 2022. The difference of monetary policy between the Bank of Japan and the Federal Reserve widened the difference of interest rates in both capital markets. At the beginning of the year 2022, the yield on the 10 year Constant Maturity Treasury Bond (CMT) in the US stood at 1.66% while that of 10 year Japanese Government Bond (JGB) stood at 0.104%. The difference was 1.556%. At the end of October 2022, the figure was 4.10% for the US and 0.253 for Japan and the difference widened to 3.847%. In the foreign exchange market, the Japanese Yen depreciated dramatically against the US Dollar and dipped below 150 yen per USD [Figure 4].

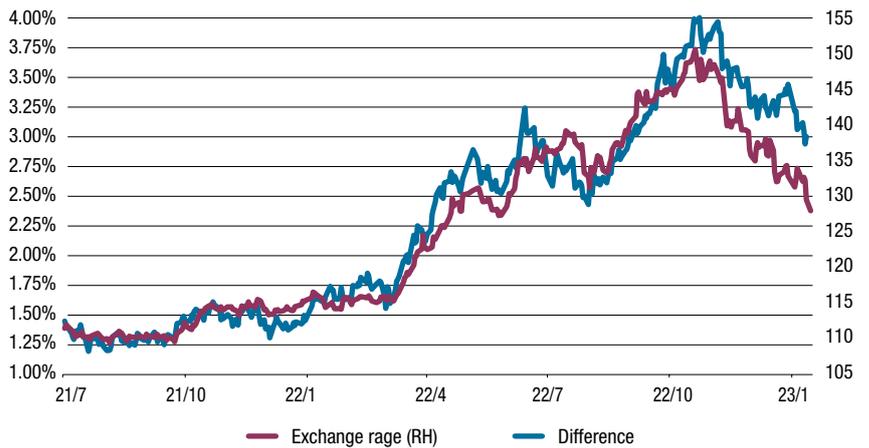
Along with soaring oil prices and other commodity prices which were accelerated after the Russian invasion of Ukraine, depreciation of the Japanese Yen was regarded as one of the major causes of inflation and the Bank of Japan was criticized that it was doing nothing to prevent currency devaluation. In fact, foreign exchange policy falls within the jurisdiction of the Ministry of Finance, not the Bank of Japan and it is understood that monetary policy should not be intended to manipulate the foreign exchange rate. The annual rate change in the consumer price index (CPI) had exceeded 2% in the middle of the year 2022, which was the target of the Bank of Japan to achieve. However, this inflation was triggered by the soaring price of food and energy and the impact was regarded as temporary and likely to subside in a year. The Federal Reserve also regarded US inflation as temporary in the summer of 2021 based on the same reason, but it turned out that their projection was wrong in retrospect. The Bank of Japan was well aware that they should not repeat the same mistake, but the nature of the

FIGURE 3 Composition of households by number of people



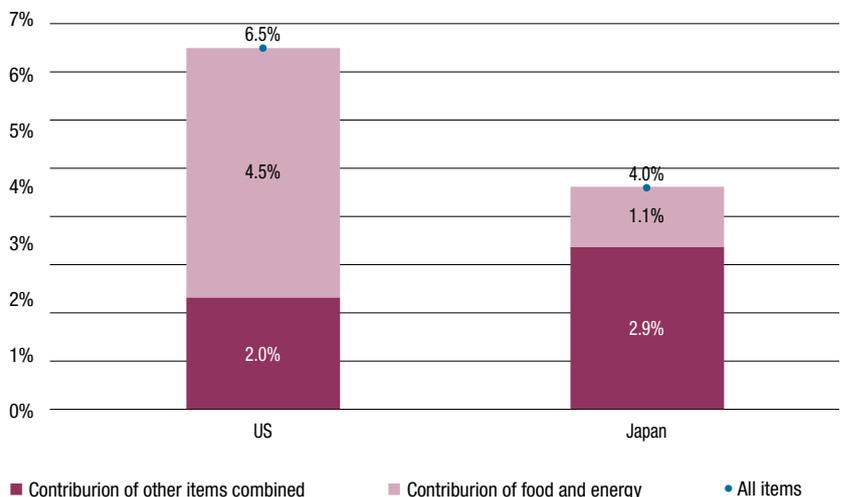
Source: Statistics Bureau of Japan

FIGURE 4 Difference between CMT and JGB and exchange rate



Source: FRB, Ministry of Finance, Bank of Japan

FIGURE 5 Components of inflation for the US and Japan (December 2022)



Source: Department of Labor, Ministry of General Affairs and Communications

inflation in Japan was different from the US. In the US, not only food and energy, but also wages were rising in a strong recovery of the labor market after the COVID-19 pandemic. In contrast, wage increases were limited in Japan, so the inflation in Japan was mainly driven by the supply side, not from the demand side, and it was anticipated that the Bank of Japan will not change monetary policy until they are confident that 2% inflation has become sustainable caused by the wage hike [Figure 5].

From a macro-economic perspective, a weak yen is good for the Japanese economy as a whole. However, expenditure on food and energy is not elastic in relation to the level of income. Compared to income, lower income people spend a higher share of their income on food and energy [Figure 6]. A weak yen might be good for large companies such as the automobile industry but not good for ordinary people, especially for those elderly households who depend on fixed pension income, and Japan is one of the most aged societies in the world.

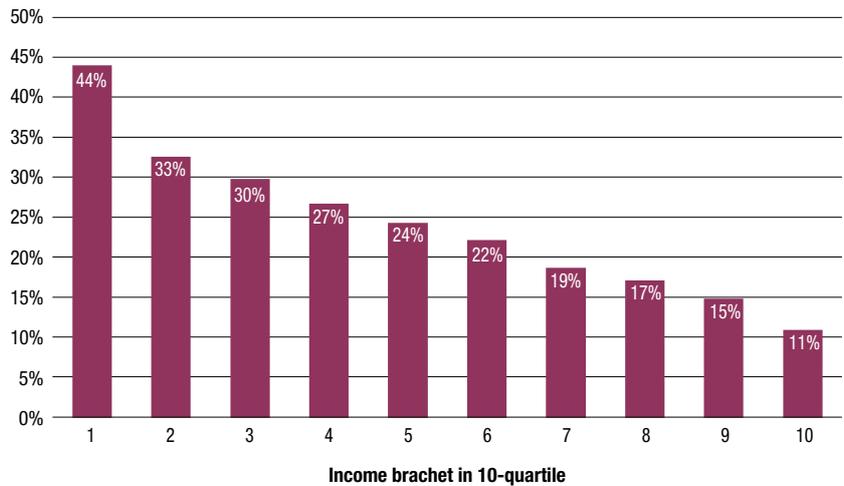
### 3. Financial market conditions in Japan up until December 2022

The term of the Governor Kuroda expires in April 2023 and many people have anticipated that the Bank of Japan will maintain its extraordinary monetary accommodation until he retires. At the Monetary Policy Meeting held on December 20, 2022, however, the Policy Board of the Bank of Japan decided to modify the conduct of yield curve control in order to improve market functioning and encourage a smoother formation of the entire yield curve, while maintaining accommodative financial conditions. It was a great surprise for market participants to hear that the Bank of Japan will expand the range of 10-year JGB yield fluctuations from the target level: from between around plus and minus 0.25 percentage points to between around plus and minus 0.5 percentage points [Figure7].

Bank of Japan explained that “since early spring of 2022, volatility in overseas financial and capital markets has increased and this has significantly affected these markets in Japan. The functioning of bond markets has deteriorated, particularly in terms of relative relationships among interest rates of bonds with different maturities and arbitrage relationships between spot and futures markets.”

Amidst global inflationary pressure, the yield curve of the JGB faced bear steepening pressure since the beginning of 2022. However, the yield of the JGB over the 10-year maturity

**FIGURE 6 Ratio of expenditure on food and utilities per income (2021)**



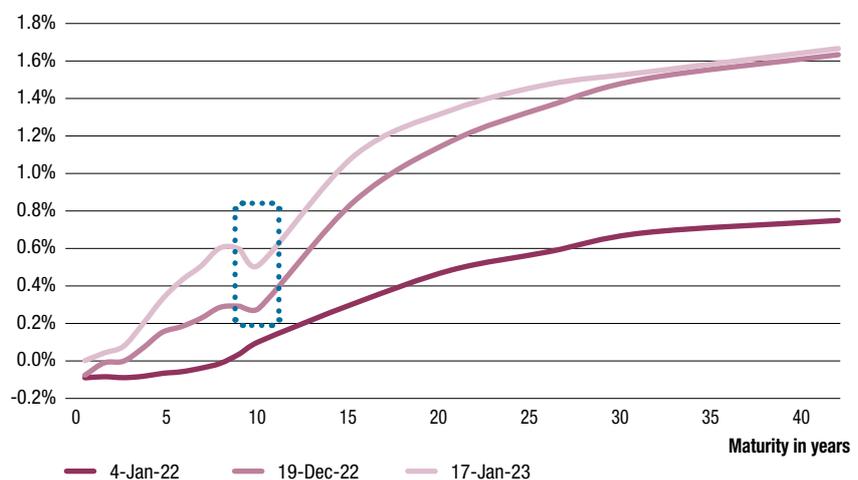
Source: Statistics Bureau of Japan

**FIGURE 7 Yield of 10-year JGB and upper limits under YCC**



Source: Ministry of Finance, Bank of Japan

**FIGURE 8 Yields curve of JGB since 2022**



Source: Ministry of Finance

range was artificially twisted because of the “yield curve control” implemented by the Bank of Japan since September 21, 2016. In order to amend this distortion, the Bank of Japan expanded the range of fluctuations from 25 basis points to 50 basis points, but the shape of JGB yield curve remained distorted [Figure 8].

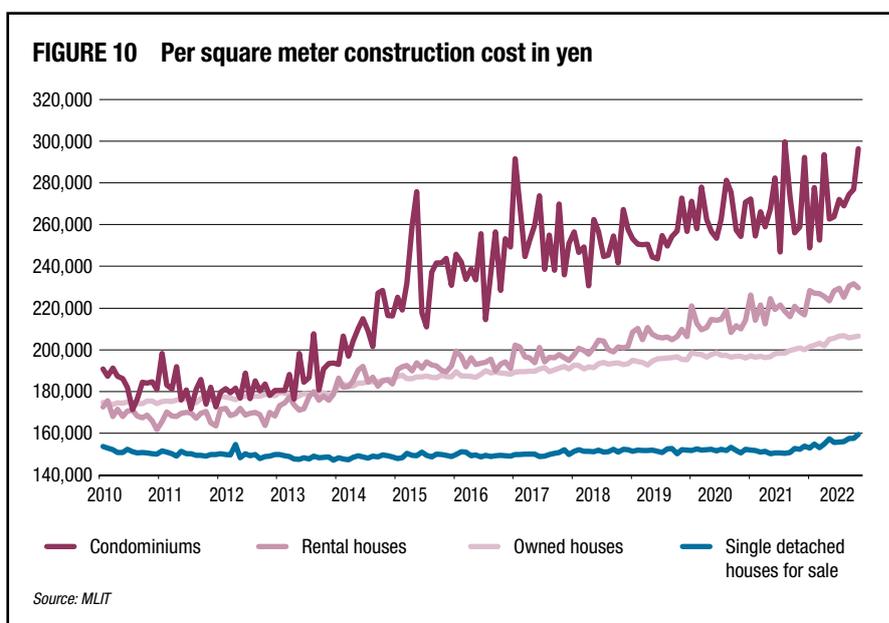
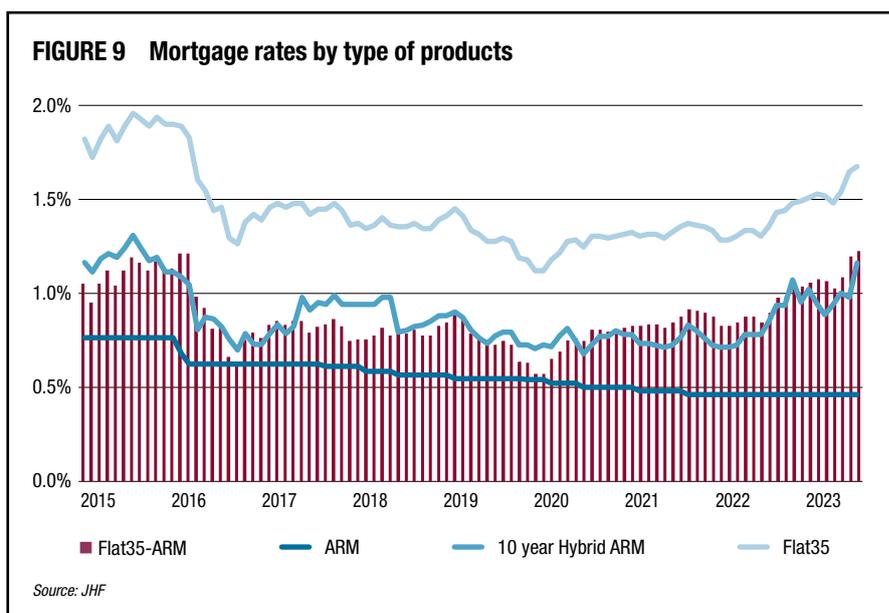
Some market participants anticipated that the Bank of Japan might be forced to expand the range again in the Monetary Policy Meeting in January 2023 and sold JGB, which shifted the yield curve upward over various maturities. The distortion of the curve around the 10-year range was a sort of signal that the market was expecting the Bank of Japan to further expand the fluctuation range to 0.75%, but at the press conference after the Monetary Policy Meeting on January 18, 2023, Governor Kuroda dismissed the need to change monetary policy and stated that the Bank of Japan will continue monetary accommodations.

## 4. Impact of monetary policy on Japanese housing market

JHF is the single largest provider of liquidity to the mortgage market in Japan and its main funding source is mortgage backed securities (MBS). JHF issues MBS every month and the nominal coupon of a certain month is the benchmark for the interest rates of Flat 35 of the following month, though it is not automatically related. The nominal coupon of JHF MBS is decided by asking investors how much spread over 10-year JGB they would like to pay. As the long-term interest rose, mortgage rates of Flat 35 also rose in late 2022.

Contrary to Flat35, interest rates of adjustable rate mortgages (ARM) are linked to short term interest rates, typically the overnight call rate, equivalent to the federal funds rate. Although the Bank of Japan raised the upper limit of 10-year JGB in December 2022, the Bank of Japan maintained the negative interest rate policy and short-term interest rates remained almost unchanged. Because of this, the interest rate of ARMs remained unchanged and the difference in interest rate between fixed rate mortgages and ARMs widened. [Figure 9]

Generally speaking, rising interest rates would negatively impact on the affordability of houses. There is a concern that the housing price in Japan may decline amidst rising interest rates. This may prove to be the case, but there are other factors that support the housing price to stay elevated.



First of all, construction cost has been rising because the price of materials and wages of construction workers are rising and the housing industry would have to transfer the cost to home buyers [Figure 10]. This is typical for condominium suppliers because there are less suppliers after many small businesses went bankrupt after the collapse of Lehman Brothers. The surviving big developers have less competitors than before and they have bargaining powers to maintain the price of their products, i.e. condominiums.

The second reason is that the Kishida Administration is strongly encouraging business owners to raise wages for their employees to counter inflation. If the wages rise, home buyers would find the housing affordable even when rising construction cost is transferred to the housing price.

The third point is that the interest rates of mortgages are rising for fixed rate mortgages and hybrid ARMs, but interest rates of ARMs are not rising. If a 35-year fixed rate mortgage is available at 1.68%, many people in the world would think this product is lucrative. That is not the case in Japan where interest rates remained so low for so many years. In recent years, roughly speaking, 70% of the borrowers choose ARMs, 20% hybrid ARMs, and less than 10% fixed rate mortgages including Flat35.

As the vast majority of the borrowers choose ARMs, which are not affected by the modification of the monetary policy of the Bank of Japan last December, their affordability is not affected as well, at least for the moment. Negative interest rate policy would be lifted only after the 2% inflation target is achieved

in a sustainable manner, and also only when the wage hike becomes a matter of reality. In such a case, the income of the borrower would offset the borrowing cost to some extent.

We have not experienced an interest rate hike for a couple of decades in Japan and we are not sure when the Bank of Japan judges it is time to normalize monetary policy. According to the survey conducted by JHF, 30% of the ARM borrowers have no idea whether the interest rates will rise in the future. Some borrowers could pre-pay the outstanding balance, and others think that they would refinance to fixed rate mortgages. The latter option may not be feasible because the interest rate of fixed rate mortgage might be much the higher in such a case.

In the US, the vast majority of the borrowers choose fixed rate mortgages, typically with 30-years maturity, funded by Agency MBS, guaranteed by Ginnie Mae, Fannie Mae, or Freddie Mac. The basic structure of the mortgage market as well as price competitiveness of fixed rate mortgage against ARMs are not significantly different between the US and Japan. However, the popularity of fixed rate mortgage is less in Japan. Why?

One of the possibilities is the difference in the way the risks of ARMs are explained to consumers. In the US, the Consumer Financial Protection Bureau (CFPB) regulates mortgage industries in the field of consumer protection.

Under the regulation enforced by CFPB, as a part of Truth in Lending Regulation, mortgage

originators must show the borrower either of the maximum rate or “1. Index movement. This section requires a creditor to provide an historical example, based on a \$10,000 loan amount originating in 1977, showing how interest rate changes implemented according to the terms of the loan program would have affected payments and the loan balance at the end of each year during a 15-year period.” It would be less complicated for the lenders to recommend fixed rate mortgages than ARMs.

In Japan, the Japanese Bankers Association issued a memorandum to its members to explain the risk of ARMs to borrowers, but not as specifically as in the US, and it is not a regulation.

### 5. Conclusion

After the Berlin Wall fell in 1989, the global economy enjoyed free trade and people could buy many things from overseas markets at more competitively prices. This made it possible for the global economy to contain inflation to some extent because there was a scale merit. The situation has changed since the Russian invasion of Ukraine in 2022 and we are facing rapid inflation which had not previously been observed for nearly 40 years. We might be at the beginning of new decades of divided markets and Japan might be getting out of the deflationary economy even though this would happen in an unexpected manner. We are not sure if we are standing at the turning point of financial conditions in Japan or not.

What is certain is that Japanese population has been declining for 20 years and in recent years, the pace of decline is accelerating [Figure 11].

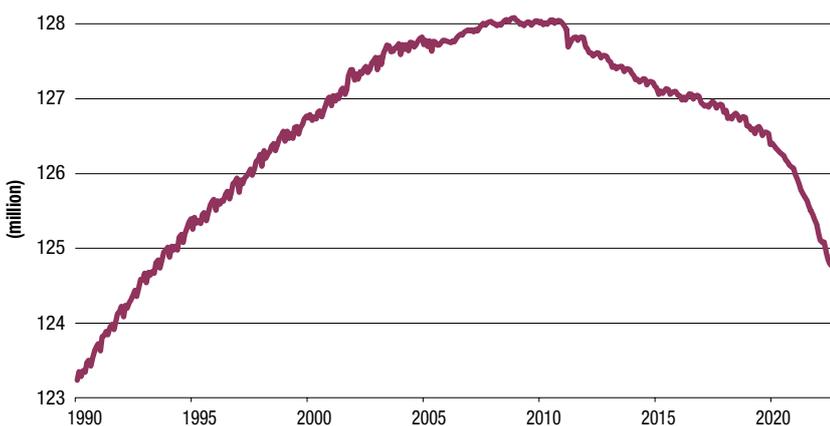
The number of births has been declining while number of deaths has been increasing because of aging demographics [Figure 12]. The government is trying to change the trajectory, but it is not an easy task.

This demographic trend is not peculiar to Japan. Many countries in the world, including our neighbor China and Korea, are facing the same challenges. The population of China was exceeded by India at the end of 2022.

One of the ways to supplement the declining domestic population and to stimulate the economy is to attract foreign visitors.

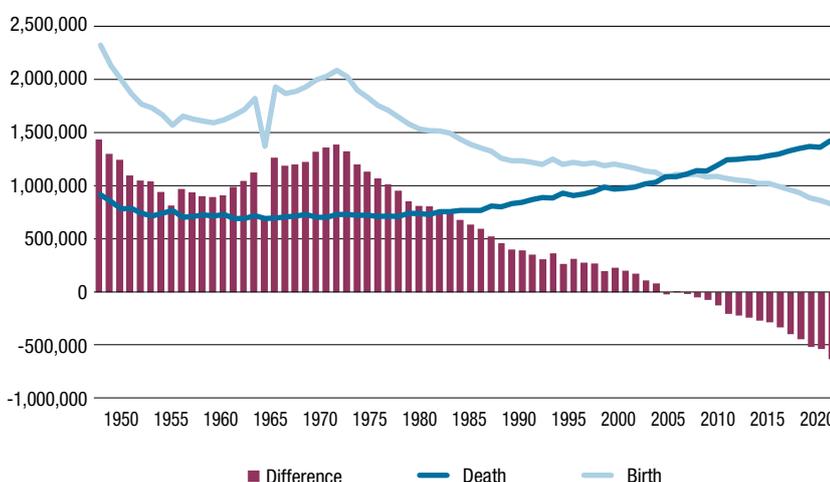
Before the COVID-19 pandemic, number of foreigners visiting Japan increased steadily

**FIGURE 11 Total population in Japan**



Note: Preliminary after June 2022  
Source: Statistics Bureau of Japan

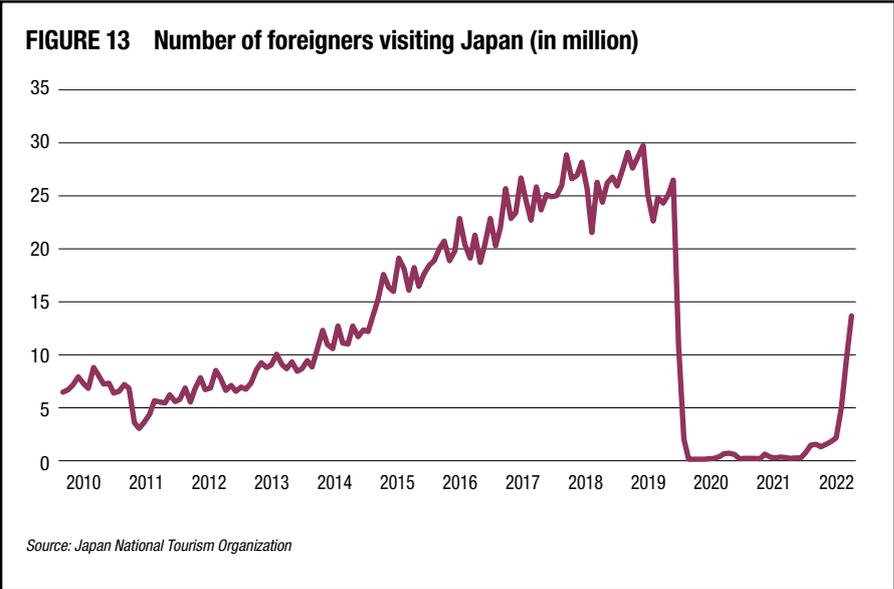
**FIGURE 12 Number of births and deaths in Japan**



Source: Statistics Bureau of Japan

and exceeded 30 million in 2019. After the outbreak of COVID-19, the number declined to almost nil, but along with the acceleration of vaccinations, the number is recovering [Figure 13]

We just hope that the world will be united again to enhance welfare of the people including the housing market that is the basis of all human activity.



# The two housing finance crises in Hungary - lessons for the housing policy transition

↳ By József Hegedüs

## 1. Introduction

This study tells the story of the two major housing market crises in the past 40 years of Hungary's housing system. The causes and the management of the two very distinct crises provide ample information about the nature of the transition from the socialist to a market-based housing system. The analysis also points out the differences and limitations of the two housing policy paradigms that prevailed during the two periods ("enabling markets to work" and "housing for all").

The first part of the paper provides an overview of the five periods of the transition process, the second part summarizes the two housing finance crises, and the third part lays out the conclusion.

## 2. The analysis of the two housing crises

### 2.1. Overview of the last four decades

Over the course of the last four decades, Hungary has undergone radical social, economic and political changes. Despite being a small country without significant natural resources, Hungary has always been strongly connected to the global economy. The country went through five main stages:

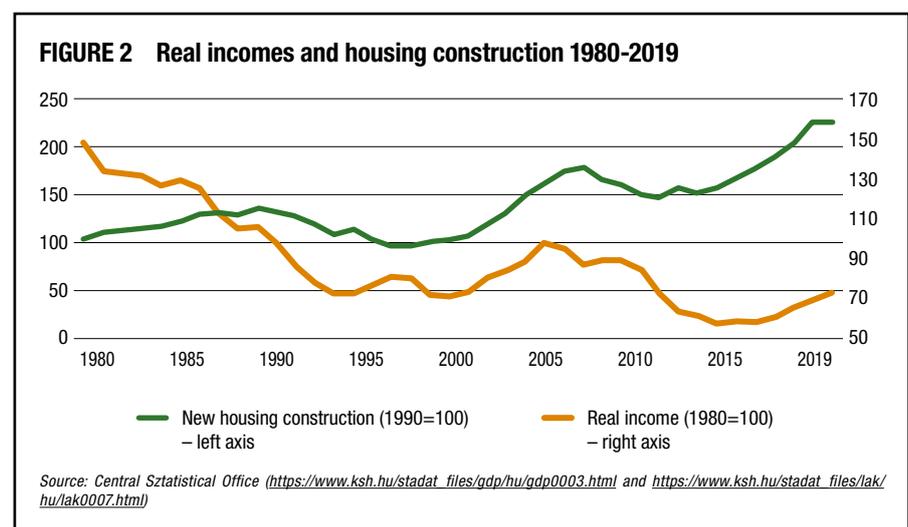
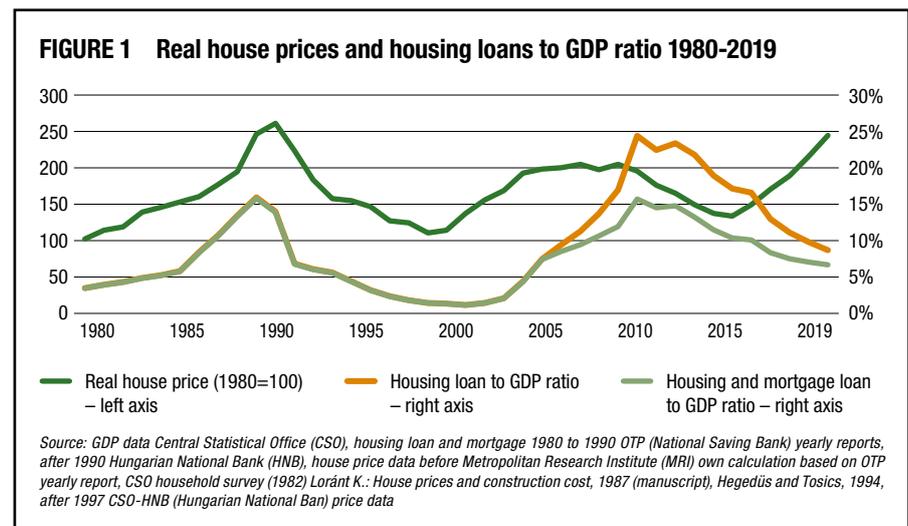
- 1979-1990: Introducing market elements into the state controlled system
- 1991-2000: Transition to market economy: recession and recovery
- 2001-2008: Dynamic growth fraught with state and market failures
- 2009-2014: Crisis management
- 2015 to date: Market boosting

Most of the former socialist countries in the Central and Eastern European region that went on to join the European Union went through

similar periods. Hungary diverges from their shared development process at two points. First it opened up to controlled market mechanisms in the 1980s (Hegedüs and Somogyi, 2016). Second, the country adopted a so-called "unorthodox" governance following the 2008 crisis, accompanied by the gradual dismantling of democratic controls from 2010 onwards (Bohle, 2014; Cszimady et al., 2019).

Figures 1 and 2 show the main trends by basic housing system indicators.

By the early 1980s, the socialist societies of Central and Eastern Europe were facing a serious economic crisis as the Soviet Union was losing out in its economic competition with the developed world (Matras, 1989, p.2). The Soviet Union was unable to support



the countries under its influence, and consequently its control over them had declined (illustrated, among other things, by unrest in Poland, and the “separate path” taken by Romania). Hungary came very close to state bankruptcy in the early 1980s, in part due to the 1973 oil price crisis. In order to prevent the economic downturn (with the tacit agreement of the Soviet Union), the country joined the IMF in 1982, gaining access to financial resources on the international capital market. The government introduced a series of economic measures that allowed quasi-market processes, resulting in the emergence and gradual growth of a “second economy”. By the late 1980s, foreign debt and debt servicing had increased, and a worsening fiscal crisis led to rapid inflation. The economic and political collapse of the Soviet Union and the stagnation of Hungary’s economy forced the political elite to finally accept the inevitability of a regime change.

Between 1990 and 2000, Hungary moved from a state-controlled planned economy to a liberal market system through the relevant economic strategies, such as price liberalisation, privatisation of state-owned enterprises, and the consolidation and privatisation of banks. As a result of the subsequent transitional recession, the GDP shrank by 15 percent in the first half of the 1990s. After a stringent austerity programme (the so-called “Bokros package”) introduced in 1996, the economy started to recover, and the GDP had gradually returned to its pre-transition levels by the end of the decade. In general, demand for housing is falling, as shown by the fall in house prices and the decline in new construction (see Figure 2), with lower income groups’ main priority being to coping the economic crises. The informal economy remained large, estimated at 25-33% of the GDP between 1990 and 1997 (Laczkó, 2000).

From 2000 onwards, economic policy became more optimistic, shifting from austerity to a demand-driven model, in which housing finance played an important role. Global economic prosperity and the boom on the financial markets further fueled some irresponsible government policies. Hungary joined the European Union in 2004, which further strengthened the trust in continued economic growth. Thanks to the growth driven by EU Structural Funds, the rapid economic decline could be halted. Loan funded household consumption continued to grow until autumn 2008, while industrial production, employment, and exports already began to decline. Irresponsible fiscal and monetary policies left Hungary’s economy fragile and

vulnerable, further weakened by the adverse effects of the 2008 Global Financial Crisis.

Between 2008 and 2010, the government pursued a traditional crisis management policy (IMF loan, austerity measures, tax increases). After 2010, the newly elected conservative government with a two-thirds majority introduced an “unorthodox” economic (and political) regime, which introduced populist measures to gradually move towards a more authoritarian political system. In its crisis management, public policy aimed to avoid direct austerity measures that were economically necessary, and instead used economic reserves (such as private pension funds) in addition to EU funds. The government imposed special taxes on foreign-owned companies (banks, energy companies and trading companies) and gradually introduced autocratic elements into the political system with the help of its two-thirds parliamentary majority (new constitution, restrictions on freedom of the press, control over prosecution, dismantling the independence of the Constitutional Court etc.).

From 2015, new elements were introduced in housing subsidies, while at the same time utility prices were frozen (effectively subsidizing all activities), a regressive flat income tax was introduced, the unemployment benefit system was restructured, a massive public works programme was launched, the targeting of social spending further was narrowed, and a number of resources and entitlements (e.g. major public contracts, or the rights distributing tobacco products) were redistributed to party-controlled business circles close to the government.

### 2.2. The Hungarian Housing Crisis in 1989/90 – the “old loan” problem

In the socialist housing finance model a significant proportion of housing construction (and purchase) was financed through

centrally controlled state-owned banks, state budget contributions, and, as a supplement, the resources of state-owned enterprises. The typical loan product (low, fixed-rate loans with around 1.5-3% interest rate over 35 years) was effectively a state subsidy. The size of the loans and the terms varied according to the housing provision form (Hegedüs, 1988). There was no proper underwriting process; instead, selected households were automatically eligible for the subsidy and loan. There was a crucial difference between a state-developed financing scheme and an individually organised scheme (self-build housing). Public (state owned) real estate developer companies built both public rental and owner occupied housing, which were allocated by councils and state agencies. This was essentially part of state housing according my definition (Hegedüs, 2020). Between 1970 and 1990, 40-55% of all housing construction was organized by future owner, which can be categorized as self-build because there was no professional developer behind it. (Hegedüs, 1992, p 224) In 1973, for example, 35% of the total investment in the state-managed sector was financed by loans, 53% by budget support and 12% by household savings, while in the private sector the contributions were 24, 1 and 75% respectively (Hegedüs and Tosics 1996, p. 249). The schemes were designed in such a way that the typical official salary could be enough to pay the cost of the loan, the bank could get sufficient repayment to cover the risk of default, and thanks to the artificially maintained full employment, lending did not involve significant risk for the bank.

As macroeconomic conditions in Hungary deteriorated in the late 1980s, economic policy increasingly relied on the so-called second economy. The second economy became more extensive during the decade and included work outside formal working hours, from backyard farming to second jobs. The opening up to market processes

**TABLE 1 Tenure structure, 1970-2011**

	1970	1980	1990	2001	2011
<b>Owner Occupied</b>	66.5%	71.5%	72.3%	90.0%	88.0%
<b>Council/Municipal housing</b>	33.3%	28.3%	19.0%	3.7%	2.7%
<b>Corporate housing</b>	—	—	3.7%	1.0%	1.0%
<b>Private rental and other</b>	0.3%	0.2%	5.0%	5.3%	8.3%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Central Statistical Office

was also reflected in the housing policy: the government encouraged households to invest their own resources in housing in order to ease the fiscal burden, hoping that the volume of housing construction would not drop significantly. Yet new construction decreased by 22% between 1980 and 1986; the rapid decline could not be slowed, and output by 1990 was exactly half the 1980 figure (see Figure 2). The government increased support to the private sector by making households eligible for housing subsidies, raising the credit ceiling, permitting employer loans, and even opening up the possibility of municipal housing subsidies (e.g. by increasing the supply of state-owned land below market price, Hegedüs, 1992).

In the 1980s, the economy was under severe inflationary pressure, and house prices rose by 150% between 1980 and 1989 (see Figure 1). Households became more likely to finance their bank loans from their second economy incomes, which increased the risk of default. Inflation was steep and enduring, interest rates continued to rise, and by the end of the decade the state budget was under heavy pressure. The outstanding stock of housing loans grew rapidly between 1980 and 1989, from 3 to 16% of GDP. Long-term, fixed-rate (1-3%) housing loan holdings caused a huge budgetary outlay on the books of the state owned bank OTP and other savings banks, effectively bankrupting the system.

In January 1989, the government raised the interest rate on bank housing loans from 3 to 18.8 percent. This was still not the market rate, as inflation was already 17% that year. Interest rate increases on loans issued before January 1989 were not allowed by the courts, which meant the technical bankruptcy of state-backed housing lending.

From 1 January 1989, the loans were financed by a newly created “loan for bond” swap, the yield of which was linked to the cost of funds, i.e. indirectly to the interest on deposits, and the difference between the yield and the interest rate was covered by the government budget.

Sagarai and Chiquire (1992) estimated that the present value of the subsidy of the old loans (HUF 274 billion in December 1988) could represent 13% of the 1988 GDP. The subsidy was financed with a 30% tax on interest income earned on the deposits of the banks, amounting

to HUF 7.1 billion and budget appropriation of HUF 43.7 billion in 1990.

To decrease the budget burden, the new government in 1990 levied a “special tax” on persons who borrowed in the 1980s. The policy offered two options to borrowers: either

- (1) half of the loan would be waived and the remaining part would be paid back at market rate; or
- (2) the total outstanding loan would henceforth carry a fixed 15% interest rate. By 1997, 83% of the loans were repaid by the first option, amounting to 6% of the average annual GDP between 1989 and 1996.

Even with this reduced burden subsidies related to these old loans represented a huge share of the housing budget: 49 and 29% of the housing subsidies in 1992 and 1994 respectively (Hegedüs et al., 1996, p. 88).

Families who took out mortgages in the 1980s were therefore beneficiaries of the crisis, as inflation reduced the real value of their repayments (and thus their debt), the burden of which was borne by the state, and through the tax system, on people who did not take out loans. The “settlement” imposed by the state affected different groups of borrowers

differently. Middle-class borrowers with a strong economic position were able to pay off the loan through their own and their family's savings, while the those in a weaker economic position, who were unable to buy a house with a loan in the 1980s, were exposed to the risks of high interest rates.

The economic crisis of the 1990s left one million people unemployed in a country of roughly ten million. Housing costs (especially the utility and energy costs) increased significantly, which led to the accumulation of massive arrears. By the end of the 1990s this became a major social problem. 13.2% of households had electricity arrears; 5.5% had gas arrears, and 21.1% of households had arrears in district heating costs (König, 2006). According to the Central Statistical Office's representative household survey of 2004, 13% of households had some form of housing cost arrears (Farkas et al. 2005, p. 23).

From 1998, OTP bank released information about arrears (See Table 2). From its HUF 289 billion loan portfolio only 31 billion remained, with 74,000 households at risk of defaulting. However, arrears on mortgage loans were the most problematic, as the foreclosure process could lead to evictions. The government started a programme to help the borrowers in financial duress.<sup>1</sup>

**TABLE 2 The defaulted loan portfolio from the stock on 31 December 1997 – loans issued before 1989<sup>2</sup>**

	Loans taken before 1989
<b>Number of loan contracts</b>	251,353
<b>Number of contracts with arrears</b>	74,062
Of which	
In arrears for over one year	50,570
Terminated	23,492
<b>Share of contracts with arrears (%)</b>	29.5
<b>Total volume of loans by 1997 (billion HUF)</b>	31,436
<b>Total volume of the loan with arrears (billion HUF)</b>	12,184
more than one year	7,185
terminated loan	4,999
<b>Share of contracts with arrears (%)</b>	38.8
<b>Average amount of arrears per contract (HUF)</b>	164,649

Source: OTP

<sup>1</sup> The program consisted of two parts, one dealing with loans taken out before 31 December 1988 and the other with loans taken out between 1 January 1989 and 31 December 1993. In the second period, a subsidized loan restructuring was implemented without a

State guarantee. For loans before 1989, the loans were guaranteed by the State. This study deals with the first period.

<sup>2</sup> Quoted by König (2006)

## The two housing finance crises in Hungary - lessons for the housing policy transition

In 2001, the government launched a programme to deal with overdue loans, which reduced the number of old loans, but still left 135,000 debtors with old loans (15-18% of borrowers at the end of 1989). 32,000 of these remained in arrears for more than a year, a significant proportion of which were already in bailiff proceedings (König, 2006). In sum, the housing loan consolidation program after 1990 basically left behind a lower middle class, the majority of whom lost their homes and had to make do with in a worse housing situation.

### 2.3. The foreign currency denominated (FX) housing loan crisis and rescue programmes

The 2008 economic crisis was a major hit on Hungary's economy, largely due to the country's irresponsible fiscal policy during the previous economic boom, in which the housing subsidy scheme and foreign currency loans played a significant part. The share of the foreign currency denominated (FX) loans increased to 76% of all housing loans (including untied, mortgaged consumer loans).<sup>3</sup> As a result of the crisis, and especially the deterioration of the HUF exchange rate, the housing market and housing lending virtually collapsed, with real house prices falling below 2000 levels by 2010, in line with house construction and sales (Székely, 2011). No significant improvement was seen until 2015. The crisis hit housing lending the hardest, with the number of new loan contracts halving. Unemployment and falling household incomes led to a rapid increase in the number of loans in arrears, with the non-performing loan ratio rising from 3.6% in 2008 to 20% in 2014 (HNB, 2018). The emerging credit crisis hit foreign currency borrowers harder, as they had to bear not only the significant increase in interest rates due to the portfolio being classified as higher risk by banks, but also the consequences of the depreciation of the forint.

Housing subsidies were suspended almost instantly as the crisis broke, and the leftist government began to develop programmes to help the growing number of defaulters. However, these programmes were small scale and largely ineffective, as the government significantly underestimated the impact and prolonged nature of the crisis, and the willingness of banks to bear part of the costs of the crisis was minimal. From 2010, the second Fidesz government launched several programmes to consolidate the situation of

families in difficulty. The most significant of these was the early repayment scheme, which allowed for lump-sum repayments of foreign currency loans at a preferential rate between September 2011 and February 2012. Under this programme, mortgage loans worth HUF 984 billion (calculated at the preferential exchange rate of 180 HUF/CHF) were repaid, 70% of which was covered by household savings. The final repayment covered 170,000 contracts, 15-20% of the borrowers. But again, the bulk of the programmes, including the early repayment scheme, provided real help only to higher status groups, who had sufficient resources to enter the scheme at all.

It is interesting to compare this scheme with the 1990 credit crisis management programme. In the 1980s, lending reached

a broader social group, with about twice as many borrowers, but the average loan amount was much smaller (HUF 2.4 million, compared to 6.1 million at 2011 prices). In 2011, 20% of the outstanding loans were repaid (see Table 3).

For lower income or unemployed households, the real solution was a programme administered by the National Asset Management Company (NET), whereby the state, through its asset management company, bought the homes of distressed borrowers, who could then stay in the home as tenants in exchange for a (very) low rent. Under the NET scheme, some 35,000 homes were taken into public ownership.

The lower middle class, which had neither sufficient resources to enter the early

**TABLE 3 The total (aggregate) housing loans before repayment discounts and the amount of repayments in 1991/1990 and 2010/2011 schemes**

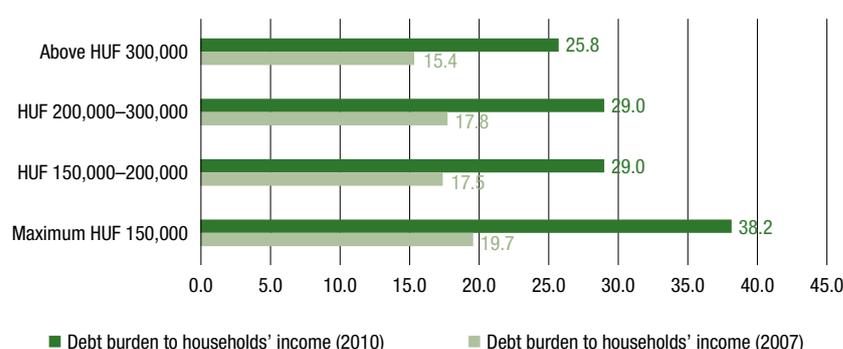
	1990	2010
Total outstanding housing and mortgage loans (in billion HUF, at 2011 value)	3,597	4,863
Number of loans (thousand)	1,500	796
Average loan amount (million HUF)	2.4	6.1

	1991	2011
Total repaid amount (in billion HUF, at 2011 value)	1,692	776
As a % of the GDP	6%	3%
Share of repaid loans	42%	20%

Source: MRI estimates based on Hegedüs et al. (1996) and Hungarian Financial Supervisory Authority (PSZAF) study

**FIGURE 3 Change of the share of debt service to income after the FX crises by income groups**



Source: HNB

<sup>3</sup> Mortgage backed consumer loans were preferred by both the banks and the borrowers, because of their simpler underwriting process. This untied loan could be used for any

purpose, although most of it was in fact used for housing. If housing mortgage loans alone are taken into account, the share of FX loans is 64 percent.

repayment scheme, nor met the strict conditions of the NET programme, did not receive effective assistance, and many of them faced losing their homes. According to the analysis of the Hungarian National Bank, the repayment burden of lower income borrowers almost doubled, from 19.7% to 38.2% percent of their disposable income (see Figure 3). Only 15-20% of this group could enter the NET programme, estimated at around 250,000-300,000 households.

No data are available on the aggregate number of households with mortgage arrears beyond 90 days, but we assume that in 2009, 20-25 percent of those with accumulated mortgage arrears lost their houses, i.e. were forced to move out of their dwelling and into worse housing conditions (either voluntarily or due to eviction). According to 2015 Hungarian Central Statistical Office representative housing survey data, 32% of households faced affordability problems (Hegedüs and Somogyi, 2018).

Meanwhile, the welfare system has also undergone significant changes: the central government has abolished central housing allowance and support for local debt management services. If the debt exceeded the value of the dwelling, the debtors were made long-term insolvent (the Hungarian system did not have a 'right to walk away'). The institution of the private insolvency was only introduced in 2013 for a very limited range of people. The problem was exacerbated by the fact that families in arrears also had other debts (arrears on house purchase loans, personal loans, public utility charges).

### 3. What we learn from the two crises? Two competing housing policy strategies

The emergence and management of the two crises demonstrates that the housing policy strategy prevailing early into the transition did not work. The events of 1989/1990 brought about the establishment of a democratic political system, which removed the political constraints on the introduction of market mechanisms. The introduction of a multi-party political system, radical privatisation, and rapid decentralisation characterised the transition from planned to market based economy. Liberal economic approaches (promoted, among others, by technical assistance agencies) dominated the transition literature (Mykhenko, 2004; Kornai 1998, 2000). They focused on the process of overcoming the economic and

**TABLE 3 Comparing the two basic housing paradigms**

	“Enabling markets” approach	“Housing for all” approach
<b>The challenge</b>	State failures: overregulation, inefficient public solutions	Market failures: volatile housing market, vacant homes and homelessness
<b>Economic and social structure</b>	Stable social structure with a small fraction of low-income people	A fluid income structure with a broad middle class (precariat) in volatile position besides the very poor
<b>Housing policy priorities</b>	Housing is an economic good; policy must ensure efficient market, reduce regulations, separate social programmes from the market	Housing is a human right; policy must support regulations (housing finance, rent control, environmental framework) to integrate market and public solutions (PPP, etc.)
<b>Weak/critical elements</b>	Market failures: perverse incentives, weak institutional background (rule of law, etc.)	Regulations undermine markets; no viable financial/economic incentivization, conflicts between different income groups
<b>Representative Institutions</b>	World Bank, EU (partly), IMF	UN-Habitat, Housing Europe, EU (partly), Feantsa, OECD

institutional constraints that hindered the development of the market economy. The mainstream approach proposed that all aspects of housing policy (legal, financial, etc.) should undergo systematic reform, thus freeing up the housing market from the control of the socialist state. The housing policy equivalent of this concept was the World Bank’s „Housing: Enabling Markets to Work” approach (World Bank, 1993; Renaud, 1995). This approach aimed to identify and describe well-defined legal institutions (property rights, building regulations, flexible planning structure, targeted subsidy schemes etc.) and market institutions (housing finance systems, property management etc.), and introduce targeted social programmes (see, for example, Pichler-Milanovich, 2001; Buckley and Tsenkova, 2003). The ideal housing model was envisioned as a system in which market mechanisms dominate the production, allocation and consumption of housing, with sufficient competition among agents and institutions in the interrelated markets for housing finance, resources and services, while governments provide subsidies that are relatively transparent, progressively targeted and budgeted in sustainable ways.

The competing approach is “Housing for all”, which originates from the social democratic welfare regime, and gained traction after 2008 crisis. The justification for the approach is rooted in market failures (and variants of these, such as the very popular financialisation theory, also assigned among the ills of a poorly regulated market). The argument is that the commodification of housing is largely responsible for the housing crisis; therefore, the housing market should be strictly regulated.

Exclusively blaming market failures raises the question of whether the market logic itself is at failure, or a specific, ill-designed application of it. After the 2008 crisis, followers of the “enabling markets” approach also became more open to the idea of tighter regulation of housing markets.

“Housing for All” is based on the idea that decent housing should be accessible for all sections of society. Of course, there is a debate about the extent to which this should be codified, or whether codification alone is a solution. In my view, the key to both approaches is the nature of the social stratification and structure of society, namely how housing policy deals with the middle

class. Both approaches take for granted that housing for low-income families should be supported. For this reason, the real issue is the position of the middle class in society. If the middle class has a stable position in the labour market, with strong trade unions or political parties protecting the employment and incomes of middle-class families, then effective market solutions will work. However, if the middle class is weak and its position is precarious (the emergence of precariats), then the market needs to be very carefully regulated, and a significant proportion of tax revenues should be used to ensure the stability of the housing market and the affordability of housing.

For both crises in Hungary, the critical point is the financing difficulties of the middle class, which is exposed to market risks. The first crisis was rooted in the fact that housing finance was essentially based on the second economy, which represented an unstable situation in the functioning of the economy as a whole, as after the transition the income earned in the second economy became precarious, and the situation of the workforce deteriorated overall. In the second crisis, the financing of a precarious lower middle class also became intractable. In both cases, the lack of a well-functioning social sector exacerbated the severity of the crisis.

An interesting difference is that in the first case the risk was borne by the state, which forced the borrowing public to share the gains from inflation, but did so by providing very modest support to the low income population. In the second case, the risk was borne by the borrowers, and the state essentially forced the banks to bear part of the losses of the families. However, the loan rescue programme was very unfair, as it gave a favourable deal to the top 20% of earners, but did not really support the broader middle class. Both schemes included an element to help the most deprived families, but this reached only a small proportion of those who needed help (and in the case of the first scheme, with a 10-year delay).

### 4. Epilogue

In 2014, the government decided to give a major boost to the housing market. The Family Housing Subsidy (CSOK) programme, a former form of subsidy, was introduced in a new form. The programme was mainly targeted at new housing construction and families with children. The scheme was generous from the beginning, especially for

families with three or more children (offering up to HUF 10 million, or around EUR 30,000, in non-repayable grants), but was very restrictive because of its strict (upper) middle-class friendly conditions. A VAT allowance on housing construction was also introduced in January 2016. VAT decreased from 27% to 5% up to HUF 5 million per dwelling, although only for a limited period of three years. However, it was extended due to the COVID crisis and the currently ongoing economic crisis. The programmes were aimed at boosting housing construction, but were also an integral part of the government's family policy. This injection of support has also helped to re-launch mortgage lending, despite tighter post-crisis lending rules and low interest rates (in line with general European trends).

However, the impact of the subsidy programmes was largely absorbed by the rise in house prices, most likely due to a reallocation of upper-middle class portfolio choices. Credit growth has not outpaced GDP growth, so the housing loan to GDP ratio remains low. Housing construction did increase, although from a very low baseline. After 2015, Hungarian housing construction data are much weaker than in most of the new EU Member States in the region. House price growth was followed by a rent hike (apart from a temporary slowdown in the COVID lockdowns period), but at a slower pace than house prices. This is also contributed to the increase of private rental housing supply.

The CSOK scheme has not significantly increased the number of child births. Between 2015 and 2019, the conditions of the scheme were amended nine times to relax the conditions and attract more young families with middle and upper-middle incomes with (or planning) children. As part of its family policy programme, the government also introduced a "Baby Loan", which is a consumer loan of HUF 10 million. This is a significant amount of support, which a large share of the families use to invest in housing.

A village version of the CSOK has also been introduced, combining a down-payment grant and a subsidised loan, allowing the purchase of second-hand housing. This has led to a significant increase in demand for housing in some rural areas.

Analyses so far suggest that the housing subsidy schemes have had a strong inflationary impact, while the number of dwellings built has not met the programme's expectations due to rising housing construction costs, and inflation

and rising housing interest rates starting in 2021 are expected to dampen moderate growth in the current year. Housing policy has not been able to rid itself of the bias in favour of private, owner occupied housing, and a significant share of the subsidies has been targeted at the (upper) middle class, ignoring the broader and the lower middle classes, let alone the most disadvantaged groups.

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# Decarbonising tenants

↳ By Simone Abram

## 1. Introduction

The Housing Finance Corporation (THFC) Symposium in July 2022<sup>1</sup> asked who pays when housing goes green but stays social. All the housing associations represented at the symposium were well aware of the urgency of lowering the carbon emissions of their estates, and the multiple benefits of 'going green' in the short and long term. But the question of how to get there posed a number of problems, beyond the headline question of how to finance decarbonisation works. Between the lines, there were some questions lurking that could be characterised as category-crossing. What exactly is it that should go green? Is it enough to improve the insulation quality of dwellings? Is it the energy source that should be decarbonised? How much will tenants and residents need to change their way of living to really create ecologically sustainable housing? That is, is it the tenants who need to be decarbonised as well as their homes?

That might sound like a joke, but like most jokes, it has a serious issue at its core. Who do we really think is responsible for decarbonising housing? Is it the developers, builders, managers, residents? Is it the tenants' behaviour that's the problem, or the managers' decisions? How do housing managers think about tenants? How do housing association managers communicate with their housing managers to account for the preferences, interests and habits of tenants? Are the tenants an object of policy, whose behaviours must be changed to adapt to climate demands, or are the tenants members of a multi-expert community that works together to improve the quality of life for everyone, both within their estate and beyond? How much do you actually know about what motivates tenants and residents, and what it might take to empower them to be participants in an 'infrastructural community'<sup>2</sup>?

## 2. Who remembers the new deal?

Looking back now on the era of urban regeneration that launched in the UK in the 1990s, Single Regeneration Budgets, New Deal for Communities and the like feel like part of a distant era. At the time, it felt like a breakthrough to begin to address the condition of social housing with the involvement of tenants themselves. The start of one major regeneration scheme under SRB in Sheffield in 2000 was marked by a broad stakeholder-conference, where a crowd of young mothers made vociferous demands: they wanted prompt responses to requests for repairs, recycling stations on every corner, clean, safe playgrounds for their children and solar panels on every roof, roughly in that order<sup>3</sup>. Tenants had clear ambitions for low-energy truly social housing estates, and they wanted to be part of the regeneration process.

After the housing clearances of the 1960s and 70s, the lessons about the dangers of moving people around like pawns, breaking up communities and splitting support networks were still fresh enough to be intrinsic to the design of the new regeneration projects. Then London Assembly member Nicky Gavron travelled around the country to champion the role of the tenant in rethinking social housing, and subsequent New Labour schemes insisted that every funded regeneration scheme should have tenant representation on the management board<sup>4</sup>. Despite enthusiastic and often very optimistic rounds of participatory planning, local authorities soon found themselves without the powers needed to bend housebuilders' actions to the needs that had been prioritised, and very many plans fell victim to land-banking and profiteering, with government investment used purely to clear the land – and the tenants – to make way for private investors to build so-called 'mixed developments'. These had

much reduced levels of social housing and, in many places, significant numbers of dwellings were soon sold to private landlords. Only through the protections offered to social housing, though, was this actually built to higher specifications than private housing.

## 3. What have we learned?

That era is now twenty years behind us in the UK, although social-housing regeneration continues apace in other European countries. Some clear lessons have emerged, even so, in the two decades of ups and downs (or, more correctly, downs and ups) of urban regeneration in the UK and elsewhere.

First, it is relatively easy to ask people for their opinions, but it is easier to lose their trust when those opinions are ignored. Tenants who participated in the regeneration scheme in Sheffield that I followed over several years attended so many meetings that they lost count, and began to realise that each meeting seemed to start with the site managers explaining why the tenants' ideals had not been fulfilled. On the other hand, local regeneration managers complained that it was always the same tenants who came along and ended up complaining about dog dirt and broken street lights when the regen-managers wanted to have strategic discussions. Yet it was clear that tenants used the meetings to make petty complaints because there were no other forums for these to be addressed. Working out who to address which complaint to is work – how far should tenants be expected to do this labour rather than landowners, developers or housing managers?

Second, local regeneration managers had few powers and were sometimes aligned with the received prejudices of councillors – those who felt it was prestigious to

<sup>1</sup> THFC Cambridge Symposium 11-13 July 2022

<sup>2</sup> See Charlotte Johnson, Sarah Bell, Aiduan Borrion and Rob Comber, Working with Infrastructural Communities: A Material Participation Approach to Urban Retrofit. *Science, Technology, & Human Values* 2021, Vol. 46(2) 320-345

<sup>3</sup> See <https://www.dhi.ac.uk/books/matshef/rebuilding-recycling/materializing-identities/>

<sup>4</sup> See <https://www.lcplus.com/archive/londons-deputy-mayor-aims-to-increase-public-participation-in-local-government-19-05-2000/>, and a critique by Barnes and Knop 2003: 'Constituting 'the public' in public participation' *Public Administration* 81(2):379-99.

allow a national supermarket chain to take the place of the loyal local grocer who had served the tenants throughout the long building phase and then was unceremoniously evicted by the site managers, for example. Regeneration managers thought the community hall was outdated and should be demolished. Demolition went ahead without any concrete plan for replacement, or even any pathways towards alternative provision. Yet many of the tenants in the estate had been among the generation who had campaigned and raised money early on to build their own community hall with a performance stage and sprung dance-floor. They had held events there over many years and it had become the site of many shared memories. Allowing it to be demolished, despite being in serviceable condition and managed by tenants, was understood by them to be an insult, a betrayal of the self-determination of those very active tenants who had been the 'heart' of the community. It was an object lesson in disempowerment. Regeneration managers might, in principle, have been in favour of ensuring that local community provision was maintained, but in practice they had no powers to ensure that it appeared. The elegant regeneration plan, commissioned by very socially-focused architects, presented all the right priorities. Yet the chapters about local economic renewal and local services were the ones that stayed on the shelf, while the chapters on replacing social housing with private housing became the total focus of the regeneration project<sup>5</sup>.

Third, the process of renovation is long and arduous. Tenants became fatigued by constant petty mistakes and sometimes serious losses. When the site managers moved tenants out of flats above a row of shops occupied by the community forum, thieves immediately moved in and ripped out the copper piping, flooding the premises below, ruining community computers and contributing to the bankruptcy of the community association and the withdrawal of the many social services offered by that association. Even the process of moving tenants between housing was fraught and very many tenants relied on the community association to help them with removals, with packing, with resettling and so on. It was this group who reassured elderly tenants as they moved out of their flats that were to be demolished, that they needn't actually remove any hooks or fix holes in the walls as demanded in the form letter they had

received from the housing management. Such obvious bureaucratic mistakes had profound emotional consequences, particularly for the more fragile or elderly tenants.

Fourth, tenants live in the estate all the time. They know where the squeeze points are, and they often have canny solutions for wicked problems. But tenants are not one group of people. There are differences in expectations, levels of tolerance, politics and habits. Just as there are differences between housing managers. Yet each can too easily begin to stereotype the other, assuming that the 'usual suspects' are making the 'same old complaints'. Where small irritations persist, everyone can get jaded and trust, once again, breaks down.

Trust is a fragile fledgling, it needs continuous nourishment from all sides. Small acts of kindness and consideration are the essential nutrients of trusting relationships. Now, even more than six months ago, than six years ago or more, after a pandemic and a terrifying escalation in the cost of living, compassion and listening are essential. One key ingredient to trust in institutions is predictability – if we know what is coming, we can adjust to it. This is one reason (other than the sheer hardship) that the current energy/economic crisis is hitting so hard. Who can people trust in now, if all of the structures they had assumed would be there for them are suddenly absent? For those who are still there, who are a lifeline, now is as good a time as any to revisit the core ethical principles of social provision.

#### 4. That was then, is this now?

So there were flaws in the urban regeneration practices of the early part of the century – what has that got to do with decarbonisation now? One of the key problems facing the UK at the end of the 1990s was the sheer scale of the housing challenge. Decades of under-funding had left many social housing estates in poor physical condition, and years of recession and de-industrialisation had concentrated hardship in the areas of poorest housing. The question then was similar to the question now: Who should pay to refurbish the national housing estate? Housing quality was an issue then, as it is now, even if now the focus is more particularly on energy efficiency, insulation and removal of damp.

The problems outlined above reflect the decisions that were taken to try to engage private investors in housing regeneration. New Labour had an idea that housing developers could be persuaded to be good citizens, but in reality, once private finance was involved, the imperative was for regeneration to be profitable. That profit had to come either from increasing land values or increasing rent, and, inevitably, it meant that profit was gained at the expense of tenants who either found themselves looking for rehousing in another area, or facing increased rents in refurbished or rebuilt properties, whether in public or private rented housing. Tenants were frank about their perception, Hermione telling me on one occasion that,

*'They're after that little ground like a dog after a bone aren't they? I think what they're going to do is build it up and make them yuppies' flats and then the Londoners come up which is 1 hour travelling away. They buy this flat here, they get good money there because their houses are dear. They come get the cheaper houses and we're out somewhere because they want our blooming ground! They must think we're daft!'*

It may be worth considering an exception that somewhat proves the rule. The Environment Trust non-profit organisation worked through the 1980s and 90s and into the early 2000s to promote low-energy social housing as a public good. Recognising that energy is a poverty issue, they sought to upgrade public housing in order to reduce the cost of living for tenants rather than to increase the profitability of the housing. They were largely successful, primarily by recognising what Ebenezer Howard argued a century earlier: the cost of housing is high because the value of land for housing is greater than land for agriculture or industry. If you can take land values out of the equation, then funding social housing suddenly looks much more achievable. Although the trust collapsed in the early 2000s, they had by then built sought-after, low-energy social housing, securing protection for tenants against increasing energy costs.

The challenge, then, is in the basic quality of property markets that direct land value to owners rather than occupiers. This is a problem of finance, well known in the sector, so why raise it here? Because it is important to keep the focus on the real nub of the

<sup>5</sup> The project was guided by a development brief (aka Masterplan), a document the city council liked to pretend did not exist – the only evidence is a dusty paper copy I extracted from them under duress in 2008.

problem, rather than on the behaviours or habits of tenants themselves.

So, what does it mean to include tenants in decarbonization?

## 5. Practical solutions

There are various practical lessons that can be learned from research into transitions and renovations. We know that *imposing* any new system on people is the worst way to introduce changes. Research from the UK's urban regeneration years and from housing regeneration across Europe<sup>6</sup> repeatedly shows that working with local communities is the most important element in successful housing management, yet is very rarely done to a satisfactory level. Often major housing upgrades are prompted by apocalyptic discourses, descriptions of housing conditions that emphasise problems in order to prompt funding opportunities<sup>7</sup>. While this might be a good strategy for accessing finance, it can have serious deleterious effects on attitudes to estates and tenants. This matters, since working with tenants demands that they are treated with respect, and not seen as either victims or agents of poor housing quality.

There is a balance to be had, though, between enabling people to make decisions that affect them, and expecting people to do the work of scrutiny themselves. For example, yes, I want to choose my own electricity supplier, but I don't want to have to spend hours every week evaluating different suppliers and their rates to find the best option. Marketisation is not a good solution for customers on that account. But where choices are to be made that affect me, I want to have a say in them – that is, after all, the very basis of a democratic society. It is one that we must ensure is respected in even the most mundane processes of everyday life. It is often easier to see its absence than its presence. For example, we have numerous examples of energy retrofits where installers have commissioned equipment then left tenants to struggle to work out how to use it. Unfortunate coincidences can look like connections; a decade ago, a Manchester housing association managed to secure funding to install solar panels on all of its terraced houses but not

the funding to run an information campaign. Just the same week that the new panels were commissioned, electricity prices went up and tenants found themselves paying more on their energy bills. Many assumed that it was the solar panels that had made their prices go up, and, therefore, complained that the money would have been better spent renewing their kitchens. When information is absent, people tend to fill the void with logical conclusions or conspiracy theories.

There is also work to be done to escape established prejudices. Anyone who lived with 1970s style district heating may well be sceptical about re-introducing it, even under its new name of 'heat networks', for example. Technological developments are coming thick and fast at the moment, and UK national energy policy has been inconsistent, with unrealistic objectives and mis-managed initiatives. Each failure increases the challenge for the next attempt to decarbonise housing. There are hugely promising infrastructure systems developing now, such as using the heat from water in abandoned mines to supply heat networks<sup>8</sup>; there are demonstrators being built to combine heat, power and fuel using hydrogen engines<sup>9</sup>; and solar thermos tanks have been shown to have the capacity to collect heat during the summer to heat buildings through the winter<sup>10</sup>. All of these exciting possibilities will rely on heat networks, so for buildings that are already system-heated such as tower blocks or apartment buildings, the transition could be quite smooth. Retrofitting heat networks into housing that has individual central-heating systems is clearly a much greater challenge, one in which tenants would have to be central to planning from the start. There are successful examples of collective action. Several streets of part private-owned terraced housing in Craghead in County Durham have been upgraded with solar panels and external insulation, and it is instructive to note that this has been achieved through the persistent devotion of one low-carbon economy officer from the local authority, working over several years to engage with each and every resident to persuade them of the project's value to them<sup>11</sup>.

Such schemes have to work, if community support is to endure, but all new installations

have snags, making technical support beyond commissioning a key element in building confidence in new schemes. Johnson's work on 'infrastructural communities'<sup>12</sup> shows how starting with residents' interests and values liberates a power to change things effectively and permanently.

This more inclusive and tenant-centred approach requires that tech support has to go well beyond the installation of equipment and, indeed, beyond the technical. When things work in unexpected ways, if they disrupt familiar habits, then support has to be ongoing until people start to feel comfortable with new practices and confident in the technology. Many people are terrified of anything that goes by the name of 'technology', even if they deal competently with high tech machines all the time. Just because you know how to programme a washing machine doesn't necessarily mean you will be comfortable with a smart meter. You might be expert at programming your tv but feel hopelessly out of your depth finding information online. To the native speaker, the specialist language used to write instructions might be unremarkable, but to a non-native speaker, they can be incomprehensible. There are good reasons why IKEA use the language of images, and there are also good reasons why many people find them impossible to follow. We should probably expect misunderstandings to be the norm rather than the exception in any communications. If we did, then we might be more ready to provide the ongoing reassurance and support that is needed to create confidence and empower users of technologies.

At the same time, we can also recognise that there is pride in appearing to cope, in managing by oneself, and there is a fine line between offering help and being patronising or being thought to be interfering. A colleague researching the low participation rates in an early incarnation of the Green Deal found that householders did not want to be seen to be getting things for free. Receiving 'charity' would suggest that they were poor, and they did not want to be publicly humiliated in that way. Perhaps now that such a significant proportion of the UK population is reliant on food banks, that attitude might have changed, but it is so deep-seated that we should expect it to re-emerge. All of us want to be able to

<sup>6</sup> See, eg., Paul Watt and Peer Smets (2017) *Social Housing and Urban Renewal: a cross-national perspective*. Emerald Publishing.

<sup>7</sup> See 'Lutter pour la Cité: Habitant-es face à la démolition urbaine'. Editions de la Dernière Lettre 2022.

<sup>8</sup> See <https://gems.ac.uk>

<sup>9</sup> See <https://www.durham.ac.uk/research/institutes-and-centres/durham-energy-institute/about-us/news/new-ichp-project/>

<sup>10</sup> See <https://www.drammen.kommune.no/om-kommunen/aktuelt-arkiv/2020/unikt-prosjekt-med-sesonglagring-av-solenergi/> and <https://www.pv-magazine.com/2020/05/22/borehole-thermal-energy-storage-for-solar/>

<sup>11</sup> See <https://buildingenergyefficiency.wordpress.com/good-practices/craghead-uk-pv-and-private-sector-housing-renewal/>

<sup>12</sup> See footnote 2

pay our own way, and most of us know there is no such thing as a free lunch.

That research also revealed the very profound catches in the offer of a free deal, too. Accepting home renovations means accepting work-people coming into one's house, causing disruption, requiring supervision and, probably, a degree of hospitality (even if that means just a cup of tea). Many of the residents involved in the research mentioned above were very reluctant to have workers they didn't know in their homes. They could not be sure that these workers would be reputable and they did not feel secure with strangers in the house. The value of using in-house maintenance staff, in particular of using local workforces comes into its own here. If you know the maintenance person, you are more likely to know whether it is safe to have them in your house. Will they make a mess and leave things half done? Will they Hoover up when they have finished? Will your house be safe if you have to go out and leave them to finish the work? Such apparently minor issues can topple even major projects.

On the other hand, tenant-led renovation projects have repeatedly proved themselves effective and enduring. Where tenants are involved in the prioritisation, design and planning of interventions, they are more likely to be effective. And where tenants are also involved in installation, whether as workers or facilitators, outcomes tend to be more convincing.

### 6. Is listening enough?

So, what does it mean to work with tenants and hear their voice? Is it enough to ask questions and conduct a survey? Research suggests that people don't necessarily answer surveys in ways that reflect their actual decisions or actions. When was the last time you felt satisfied by responding to a customer-satisfaction survey? Yolande Strengers has written about the dangers of designing systems for what she calls 'Resource Man' – a typical male individual, when most services are used by other humans and non-humans<sup>13</sup>. In fact, it is more

often women doing the work of managing domestic energy use.<sup>14</sup>

If we ask questions with 'typical tenant' in mind, we'll get answers about that tenant and miss all of the others who live in social housing. Surveys can be useful for measuring scale – such as to see how many people share a view or opinion put forward by someone in a tenants' meeting, but they are not a useful tool for discovering new information.

Listening carefully, rather than asking questions can also reveal significant factors. Strengers and colleagues<sup>15</sup> asked Australian homeowners how they used energy services in their homes, and found many people who left lights, heaters or air-conditioning on when they were out. Although they were out of the house, their pets were at home, and had a significant impact on energy use. That work chimes with closer analysis of building tech research, where almost all building efficiency measures are tested on empty houses, and often model-houses rather than real-life inhabited spaces. That means that all of those tests are unreliable – look closely at the limitations specified for building design tests, and if you are lucky you will find a set of assumptions made in designing the test. Nearly always these mean the tests represent something far from normal practice, a distance that might be summed up in a quantitative value for 'uncertainty', for example, but one that will lead real-life outcomes to vary significantly from the test results. Unfortunately, there are often cases where this difference is blamed on tenants being in some way unruly. We recently saw the awful outcomes caused by tenants being blamed for the mould in their flats<sup>16</sup> – an extreme example of tenants being belittled, but a sobering one and a lesson for all.

Properly rewarding participation is time-consuming for everyone involved, but it is absolutely essential. It is lack of engagement that leads to disaffection, it is lack of understanding that leads to conflict and to broken systems, as much as broken relationships.

Let's put this in simple terms: the more people in a community who feel shared

responsibility for the upkeep of the playground (just for example), the more likely it is that any damage will be reported, repaired, and a safe environment maintained. If everyone thinks it's someone else's responsibility, then breakages are more likely to endure. Where community groups take charge of gardens and public spaces, they tend to be better cared for. For example, after involving schoolkids in an art project to design of 'snow-gates' in Sheffield, they remained completely unvandalized, even though other sites were frequently graffitied. It is more common for organisations to work with children and schools – planting bulbs, or designing artwork, and the outcomes of this kind of work are often very positive in terms of increased self-esteem among the children and lowered damage to the installations. But this principle is not only applicable to children, even if they are relatively easier to organise by dint of already being at school (largely). But tenants' organisations can also be effective, if they can take responsibility and have access to the resources they need to deliver.

To be involved in decisions that affect your life means more than delivering your views. It means understanding the ways that decision-points have been reached, how agendas have been set, what the limitations are, and how other people's views or conditions might affect future action. That also requires quite a commitment in emotional energy and the sheer time it takes to learn what's going on<sup>17</sup>. Housing managers are paid to 'manage', but research shows that working with people rather than trying to manage them gives better outcomes. That means ensuring there are social spaces where tenants can meet and where tenants' meetings can be held. It should be a sign of good management if managers are invited to a tenants' meeting to discuss whatever is on their minds. Tenants are a resource, they have expert knowledge about the working practices of their estate, and expert knowledge about how to work together, as well as a fund of experience of what works – and what doesn't. That resource will become increasingly crucial in the transition to decarbonised housing, wherever the funding comes from.

<sup>13</sup> Strengers Y (2013) *Smart Energy Technologies in Everyday Life: Smart Utopia?* London: Palgrave Macmillan.

<sup>14</sup> See Charlotte Johnson 2020. *Is Demand Side Response a Woman's Work? Domestic labour and electricity shifting in low-income homes in the UK.* *Energy Research and Social Science* 68: 101558.

<sup>15</sup> Yolande Strengers, Larissa Nicholls and Cecily Maller (2014) 'Curious energy consumers: Humans and nonhumans in assemblages of household practice.' *Journal of Consumer Culture* 0(0) 1–20. DOI 10.1177/1469540514536194

<sup>16</sup> See Ella Jessel 2022. *Inside Housing* 21.11.22. <https://www.insidehousing.co.uk/news/news/rochdale-housing-chief-sacked-after-awaab-ishaks-death-from-mould-exposure-79172>

<sup>17</sup> See Abram, S. 2014. 'The Time it Takes: Temporalities of planning'. *Journal of the Royal Anthropological Institute* 20(S1): 129-147

# Ukraine's housing recovery forum – rebuilding a place to call home

↳ By Julie Lawson, Oleksandr Anisimov and Edwin Buitelaar

## 1. Introduction

Why are we talking about recovery while the war is ongoing? “Recovery requires long-term visioning and the need to guide investment in a planned and coordinated way. With that, one cannot start soon enough”, says Professor Edwin Buitelaar, researcher on urban development at the National Environmental Assessment Agency (PBL) and one of the coordinators of a recent symposium focusing on the recovery of Ukraine's homes and neighbourhoods. He stressed that the challenge of rebuilding better, also requires building the right institutions, governance structures, and capacities to ensure that this happens. One of the key conclusions of the event concerned the need for a clear legislative basis for social and affordable housing coupled with appropriate circuits of investment, to be integrated in spatial plans to ensure the development of adequate, affordable and inclusive homes and neighbourhoods for all Ukrainians. Political commitment, technical assistance and knowledge exchange plays an important role in this process.



The tightly organised 'Ukraine's housing recovery forum' hosted by the PBL Netherlands Environmental Assessment Agency on the 15<sup>th</sup> of February in the Hague, was one of the first major international events to focus on the rebuilding of homes and neighbourhoods. It was organised together with the Ukraine Netherlands Urban Network (UNUN), the New Housing Policy project and RMIT University. More than 400 participants shared their knowledge for action, towards

reshaping vital institutions and key circuits of investment to build back better homes and neighbourhoods. This article reports on the important messages from this event, soon to be elaborated in a joint PBL report.



Opening the event was Oleksandra Tkachenko of UNUN, who stressed that pre-war history matters, and the results of reconstruction will depend on how we continue to reform pre-existing processes. Joining her on the platform were Ukrainian national and local government senior officials, policy research team New Housing Policy and civil society think tank CEDOS, as well as the European Commission, housing and urban policy experts from Housing Europe, the Netherlands, Finland and Austria. The event combined historical perspectives, with contemporary technical experience and political insight. Key international financial institutions, the IMF and EIB, strengthened the call for investment in housing recovery efforts.

## 2. European Commission's involvement in Ukraine's recovery



Emphasising the Commission's continuing commitment, Krzysztof Gierulski, reminded participants that Ukraine's housing consumes up to three times more energy than average homes in Europe.

While many reforms have progressed through EU and Ukraine co-operation, such as legislative reform, collaboration will necessarily increase. The EU will continue to help Ukraine with arranging housing for internally displaced people, and for the renovation of multi-apartment buildings, for example through a programme of quick repairs of residential buildings, but more will also be done. Experienced policy advisor Gierulski, now part of the EC's new Ukraine Service, contends that even though housing is not formally part of the EU's mandate, it is an important element of social security and a significant part of the economy's energy consumption. Improving housing quality is therefore a matter for European concern, and indeed at the heart of the Green Deal. The Energy Efficiency Fund, established to address the need for investment in renovation can be adapted and expanded to accelerate Ukraine's energy efficient housing recovery.

Informed by daily practice in the face of war, Lviv's director of Urban Development, Taras Kubay brought the audience back to ground level. He reminded participants of the impact the Russian war has had on each region. While some damaged areas were undergoing restoration, others are still unreachable. As a local official, he is aware of national recovery plans and regulatory efforts to improve the quality of housing construction and pointed out reforms to the land inventory and urban planning system that could make more effective use of community resources, while also addressing ecological concerns. The city planner spoke of new projects expanding the hospital to serve war wounded, which also provide social housing for their recovery. The architectural design was selected through competition and financed internationally. In the long run, a long-term system for funding social housing will need to be established, beyond this singular project. He was hopeful that a combination of efforts involving the government of Ukraine, local self-government,

the business community, international partners and the Ukrainian people, would ensure the successful reconstruction.

### 3. Informing housing and urban policy challenges



Researcher Galyna Sukhomud and co-author of the policy review on Ukrainian housing policy (Sukhomud and Shnaider, 2023), urged participants to concentrate on the housing issue now, and not wait until the end of the

war. It is important to reflect that mass privatisation of the 1990s generated overinflated expectations of the government of today. While giveaways of homes cannot be repeated, realising the right to adequate housing remains a constitutional obligation as well as human right. Governments should use all the policy levers they have at hand to realise this. She referred to evidence from the IOM of almost 6 million people having been internally displaced. Further evidence, verified by the World Bank and KSE shows that the largest share of war damage affects people's homes and poses the greatest burden. There is a pressing need to rehouse whole communities. Yet, being a 'super-ownership' country, Ukraine offers few pathways other than taking on a mortgage, which for many is unobtainable or too risky. The rental market is unable to respond effectively. It is not only overstretched, there is profiteering in some cases, due to the lack of regulation. Social housing as a concept is narrowly perceived, and is in vastly inadequate supply for the purpose at hand. A more comprehensive and larger scale approach is needed that offers solutions not only for the displaced but also those for whom ownership is no longer ideal. Sukhomud recommends building a more effective legal framework so that affordable rental housing can be developed in areas where it is needed, and so that patient finance can invest in better housing options for the future.

Experienced housing developer Konrad Clos and his team from the International Organisation of Migration's Affordable Housing Program, learnt a lot from their pilot of municipal housing companies aimed at housing internally displaced people since the start of the invasion in two eastern regions of Ukraine. Their experience is useful for

informing longer term housing solutions for a wider range of households, such as teachers and nurses, as well as 'vulnerable groups' such as the elderly and injured veterans. Clos argues that stronger shoulders are always needed to ensure inclusive and mixed neighbourhoods. He recalls that before 2021, municipalities were reluctant to work with international organisations. Repurposing buildings or land for housing needs was very difficult and not at all straightforward. The legislation enabling municipalities to rent communal property at affordable levels was unclear and inadequate. There are also no modalities allowing rent to ownership, as in other European countries.

The spirit of reform through Ukraine's recovery plans presents an opportunity to support and establish neighbourhood-based circuits of reinvestment, where areas are more locally managed by municipalities or municipal enterprises, with low overheads and accountable to communities. Neighbourhood improvements could also be supported by municipal housing companies that dedicate part of their rental income towards social infrastructure and area improvements. The IOM recommends clearer communication of what municipalities can do, perhaps in the form of a manual, including how partners can also work with municipalities to establish more community-based homes and neighbourhoods. There is a need for further revision of the housing code to streamline and clarify roles and make space for social housing and affordable housing. This would help inform and assure all stakeholders of the environmental and social management guidelines and how to implement them. Concern was expressed for the integration of displaced people from the eastern parts of Ukraine to the west. While municipalities are eager to welcome new households, especially those bringing valuable skills, vulnerable communities also need protection and support to ensure no one is left behind.

A recovery plan can embody important political, cultural and economic values of a 'good life', for example incorporating social solidarity, environmental sustainability, and reducing poverty, said RMIT's Julie Lawson and lead author of #Housing2030. Such a vision can motivate use of key policy instruments, such as municipal land policy, conditional capital grants and very long-term loans, and support a role for mission focused housing developers. Such tools were applied in post-war Europe, with success, for example accelerating housing recovery efforts in Vienna and Rotterdam.



Lawson recounted the role of the UN Economic Commission for Europe, which assessed Europe's post-war housing needs, advised governments on suitable financing arrangements, and recommended non-profit forms of promotion. Across Europe, 12 percent of ERP funds were dedicated towards different forms of low-cost housing, especially in the Netherlands, Austria and France. European Reconstruction Program funds (Marshall) were used to finance Dutch housing associations, especially in Rotterdam, where they continue to provide over 50 percent of the dwelling stock. ERP funds were also invested in key infrastructure, rehabilitating the economy through Rotterdam's new container port, expansion of Delft Technical Hogeschool (now TU Delft), and a technical advice centre Bouwcentrum, promoting innovation in planning, design and construction. In Austria, pre-existing housing legislation and national funds were adapted and expanded to meet post-war needs. Separate funds repaired private buildings and invested in new municipal and non-profit, via housing companies and cooperatives. Finland combined municipal land banking with national housing funds to create new communities drawing on garden city ideals, and offer affordable home ownership and later a range of housing types in mixed communities.

Ukraine currently lacks an interface for the national agency to work with municipalities to accelerate a coherent and sustainable recovery for all with affordable housing at the core. There is much potential for this and Ukraine has drafted its own Recovery Plan, presented in Lugano, which includes establishing a new concept of social housing based on non-profit and municipal companies. Lawson's presentation outlined key roles to build stakeholder capacity for this role, including reform of affordable housing law, revision to national housing funds, integrated municipal land policy and resident

engagement and empowerment to build back better and fulfil the European Charter.

### 4. Hopes for the future – housing in the recovery plan



Ukraine's Deputy Minister for Recovery, Oleksandra Azarkhina, is developing a team to build digital tools that maximise transparency in the restoration process, as part of

building back better, and believes that the state shall aid the market to avoid any possibilities of social ghettos. She also appreciates that municipalities are the key, but require rules provided by the state, in order to fulfil their role.

She was enthusiastic about the promise of digital application DIYA used by people who have damaged or destroyed homes. This allows for all data on war related damage to be registered in one central application process making it easier to assess and authorise vouchers' to be used for the purchase of raw materials and construction services. Only owners proving their legal title will be supported. A draft law aims to explain this digital procedure for compensation: virtual certificates, connected to applications, can be used in three ways: to buy a dwelling on the market that is already constructed; to invest in any kind of the new construction; and also buy part of a housing investment. The deputy minister also considered it important to make sure that the money did not go to the person affected, but to those selling materials, services or the property, and sees this approach as one way to prevent corruption, risks and inflated prices. Minister Kubrakov's team will be responsible for calculating basic compensation rates, using a price per square metre, at a rate equal to that of before the full-scale invasion. The digital tool offers a transparent tool to make sure that the people will have a choice and that this offers business opportunities.

Funding this effort will draw on the \$550 million funded from confiscated Russian assets. This will demonstrate to the world community that this digital tool is efficient. When it is working well, she will invite other international partners holding Russian assets to help Ukrainians to receive their compensation,

even before the end of the war, and before the whole reparation process started.

Azarkhina recognises that Vouchers will not answer the big question concerning destroyed cities and villages, but hopes to answer this soon, working first with affected people and addressing their basic needs.

### 5. Europe has the tools for recovery in its hands



To address the major concerns of neighbourhoods, villages and whole cities, suffering from extensive damage, the program then turned to European best practices in affordable housing

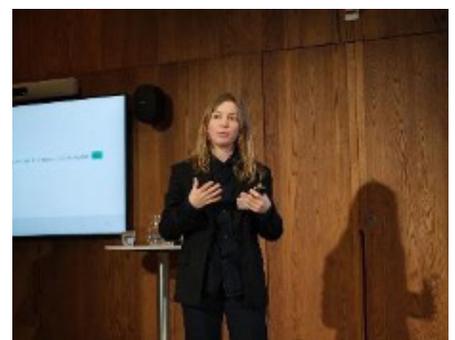
promotion as well as integrated urban planning. The City of Vienna is the largest manager of municipal housing complexes in Europe, managing 220,000 apartments in 1800 complexes. There are close to 190 cooperatives and housing associations across the country and almost half the Vienna's population resides in some form of this housing. Michaela Kauer and Veronika Iwanowski from the City of Vienna, argued that there are no social ghettos or stigmatised areas in the city due to the strong market presence of mission-focused housing providers, and this is one reason why the OECD says the Austrian model is exemplary for other housing systems. Of particular interest is the Vienna Housing Promotion and Housing Rehabilitation Act, which regulates the subsidisation of newly constructed housing, as well as the renovation of older houses. It determines the type and extent of support that is granted to housing developers by, for example, low-interest loans, and it regulates the benefits that are disbursed to tenants. Subsidies for affordable housing are financed from federal taxes through the general income tax system. this creates a reliable basis for planning complex housing programs. This ensures stability and would be impossible under strictly market dependent policies.

Funds for housing promotion are regulated by a federal law that dedicates 0.5% of the gross pay of employers and the gross income of employees. This revenue funds regional housing programs. Vienna receives around €250 million per year to use for

housing construction purposes. It almost doubles these funds with its own resources to provide grants and favourable loans for limited profit providers on the basis of cost-based rents. Repayments from these loans are revolved in a dedicated funding system for expanding new supply. Vienna's direct approach to supply, means that it builds up a strong long-term portfolio of affordable housing across the entire city, and this not only reduces demand for rent assistance it also improves housing quality and reduces social inequality. Vienna's subsidised housing is broadly allocated, including middle-income earners. This not only avoids social and economic segregation but also broadens political support and social inclusion.

Veronika Iwanowski also reported that the City has a number of tools it uses to ensure housing needs are met. It has its own Land Provision and Urban Renewal Company, which currently owns 3.1 million square metres. The company leases land to developers on the basis of long-term contracts. It also uses its authority over strategic planning and land use zoning to introduce a subsidised housing category that requires some areas to allocate two thirds of usable space for subsidised housing.

With a very stable legal and funding framework, both on the national and on the local level, municipalities are empowered to promote their own housing policies, such as Vienna. Kauer said "we are happy to have boring financial financing models rather than fast, volatile, profit oriented financing models in the housing sectors, because we think that this is better for the people." This also allows for strong tenants unions and tenant protection, which forms an integral part of good governance of the housing system.



Social researcher Anastasia Bobrova, from the social policy think tank CEDOS stressed the importance of focusing on new approaches and solutions to overcome a fragmented and incoherent set of laws and institutions which had led to an unproductive affordable housing system. "We need a strong institution

capable of developing a coherent strategy for housing policy.” This is also a pre-condition of EIB financing for affordable housing projects. “It is vital to bring the Ministry of Recovery back into discussion about social housing and that social housing will become a part of this coherent national recovery strategy.” she said.

Bobrova contends that social housing in Ukraine is currently organised very differently from other European countries and consequently is a very small and marginalised sector, unable to respond to the emergency at hand or the longer term needs of Ukraine. The role of rental housing is increasing rapidly, due to displacement, destruction and also lack of affordable alternatives, especially for those on low or currently no incomes. Despite the need for decent affordable options, “the major governmental programs that we have right now, mortgage schemes or concessional loans programs, are not able to cater for these different needs of different social groups that we now have in Ukraine. People find themselves in the situation when they cannot afford to take out a loan. They can also not afford to be homeowners in the future to repair, to maintain their buildings.”

Bobrova's research concludes that there is “a need for secure municipal rental housing, this need is very high and this need continues to grow.” She stressed the importance of progressing legal reforms. CEDOS participated in the National Recovery Plan project, with the Government and non-governmental organisations. “Our organisation was also part of this task force, working on the National Recovery Plan. And this document sets a task to create this bill for non-profit housing provision.” says Bobrova. This document is now part of the thematic materials for the Ukraine Recovery Conference, which met in Lugano and will meet in London this June.

The social policy expert called for national institutions to work on social housing as well as a well-functioning rental system. A unified and expanded national social housing fund could prioritise local needs and drive supply more effectively. Echoing Sukhomud, she also stressed that more research is required to understand the needs of the households and to build policy solutions based on this. “It goes without saying we still need to learn a lot about the difficulties that households encounter in their past phase of housing pathways in Ukraine.”

### 6. Creating liveable neighbourhoods

In the next section of the recovery forum, the scope was broadened from securing (affordable) homes to creating liveable neighbourhoods. “It is about building places, building neighbourhoods, with schools, public spaces, amenities, access to jobs, and so on. Then we are entering the domain of urban design and spatial planning”, as Professor Edwin Buitelaar said in his introduction of the speakers in this part of the program.



The first speaker to elaborate on this was Francesco Veenstra, Chief Government Architect, of the Netherlands (CRA), who focused on the importance of the design and the creation of a public domain for people to meet and to reconnect to their families and friends, to their neighbourhoods and cities and to their cultural backgrounds. Spaces where people can feel safe again and spaces that reflect a prosperous future.” He argued that for safe housing we need to achieve a balance between private and collective spaces, where quality of the living environment is non-negotiable. “It was the first lady of Ukraine who raised the need for involvement of the architects and builders to create spaces around people, creating obstacle-free neighbourhoods for people to return to and to pick up their lives, and building their societies.” It is this call to action that Veenstra believes should be picked up by the International Society of Architects, Planners and Landscape architects, and where CRA as a Dutch national institute should contribute.

Linking different elements and land uses is not just a matter of urban design, it requires institutional arrangements to do so. Jarmo Linden, head of the Finnish Housing Finance and Development Agency (ARA), introduced the audience to a system that was introduced in Finland and, arguably, to great effect. Linden put it like this: “it doesn't help if the government is planning to do something,

if there is no cooperation with the municipalities. So we have developed this type of agreement procedure with the biggest urban areas, which covers over half of the population. The agreements concern land use, housing and transport.” ARA does not only promote housing, but gives municipalities infrastructure grants. Municipalities promise to give land for social housing and government promises to support housing production and co-finance the transport system.



Reconstruction takes place in space. And Oleksandr Anisimov from New Housing Policy Ukraine asked the question whether Ukrainian spatial planning is actually ready to recover Ukrainian cities.

As of today, in new development projects Ukraine does not stimulate a social mix. Moreover, “we don't have proper public transportation. We don't have proper climate adaptation tools. The question therefore is whether we will follow the same path into recovery.”

To prepare a positive answer, it is necessary, in Anisimov's opinion, to tackle three key aspects related to spatial planning (law) and urban development.

First, municipalities, even though they are given responsibility for local development, are not able to enforce housing policies or housing aims through their planning policies. They are not allowed to do that by law. In a sense, Ukraine would have to revamp the existing legislation according to new principles and the ways to shape social housing in the country.

Second, there is a need to develop planning and development instruments for Ukraine or to adapt those that exist elsewhere that will help the municipalities to design and redevelop neighbourhoods and those micro-districts built in Soviet times. There has to be the shift of ownership structure that follows an effective process and project management that has been referred to already in this article. Anisimov also focuses our attention to the need for a system that allows municipalities

to bring investments from donors and those mentioned public interests for redevelopment together. He contends, there are some good initiatives on the local level, but those need to be upscaled.

Third, a national challenge is to align and streamline strategic planning for recovery. So far, the recovery has been very chaotic. And one of the reasons is that the national government has not yet managed to find a suitable hierarchy and a suitable logic of strategic plans to help municipalities to recover. Ukraine is also in need of municipal capacity to deliver those ambitious goals it is aiming for, as the previous experience showed that even prior to the war hromadas (municipalities) have hardly managed to develop necessary strategies and plans. Anisimov called the audience and partners to look for every opportunity to assist municipalities on how they can improve their policy, management practices and build new long-term commitments around housing projects.

### 7. Invest in institutions first to ensure good housing and urban outcomes

Affordable inclusive social housing is an important part of the European urban fabric, which played a vital role in the post war era, and remains key to recovery and reform efforts today. Taking a pan European view, Sorcha Edwards, Secretary General, Housing Europe stressed the importance of united political and investor support for establishing a sound affordable housing system in Ukraine, building on the aspirations of its Recovery Plan. To do so can draw on examples from Housing Europe's members, which include 43,000 cooperatives, municipal housing companies, limited profit housing developers across the whole region. They are not only the established experts in affordable inclusive housing but also pushing forward on the energy efficiency agenda, the Green Deal and New European Bauhaus.



Edwards argues that a really smart housing policy strategically invests capital in building and homes that are needed. Profit driven models have other priorities and poorly regulated and extractive approaches have done more harm than good in European cities, generating short term and insecure options. Clever housing policy promotes social progress and well-being for individual households and society as a whole.

Responsible housing providers from Housing Europe stand ready to share their expertise now, in Ukraine's moment of need.



Experienced public investment banker, Gzregorz Gajda, knows Ukraine very well having lived there for almost a decade and been part of housing reforms. He is now a senior urban investment specialist with the European Investment Bank, which has invested 1 to 3 billion euro in affordable housing projects across the European Union each year. The EIB finances examples of affordable housing that were illustrated in this conference. This ensures that long term investment occurs in affordable housing meeting different needs, across cities and not in isolated 'ghettos' of rich and poor areas. All neighbourhoods should be good ones.

He argues that there is a whole spectrum of different ways housing can be provided to people, and a continuum of options can serve differing needs and aspirations. The EIB concentrates its efforts on social and affordable housing, that is non-profit and needs based, rather than commercial rental or homeownership. Housing should be delivered as part of a national strategy, implemented by appropriate institutions, which offer affordable and also inclusive housing. "And this is actually the European social housing magic".

Gajda says "So we will build back better, not only with better technologies, but predominantly we would like to build back better with better institutional setup, with better organisation, making sure that it will

contribute to creation of those cities that will follow the example of the idea of 15 minute city.<sup>1</sup> Housing should be a very important element of that".



Drawing on European best practices. Together with Ukrainian and European partners, the EIB can help create an affordable housing model that will actually deliver those goals.

The World Bank, in their rapid damage assessment last June, estimated that 40 percent of the damage was to housing, and that reconstruction of Ukraine's housing would cost more than \$69 billion (of the \$349 billion mid 2022). Vladyslav Rashkovan, IMF argues that "there is simply no single balance sheet in the world which can single-handedly finance such huge bills for the reconstruction of Ukraine and specifically of housing", so "we need to find a good answer on how this will be financed." He said that NGOs who are working on this write more about it. "It's not only about digital. It's not only about green. There are much more principles inside. So, this [event] is the first, call for action with the NGOs involved."

Rashkovan argues that housing reconstruction is not only about rebuilding of housing or infrastructure, it's a chance for modernising Ukrainian cities.

In his view, "there should be partnerships which will go beyond the regular PPP. I'm encouraging my World Bank colleagues and EIB to start building those partnerships together with the private sector and with governments." He considers the "rebuilding of the cities and communities of the cities will be a path towards Europe."

### 8. Political commitment

Political agreement and commitment will be vital to ensure progress is made. Jennes de Mol, Dutch ambassador to Ukraine who had been actively listening to the event said "So it means long term commitment and whatever

<sup>1</sup> This concept concerns the planning of cities that prioritise neighbourhood wellbeing and enable people to live, work and have access to all the services they need within

a 15-minute walk or bike ride, rather than be isolated in mono-functional areas and dependent on car travel.

comes, we will be with Ukraine shoulder to shoulder for a long time.” He said a leading principle of development is Euro-Atlantic integration. “So the Green Deal, for example, is definitely an instrument to guide policy making in Ukraine.”



He was impressed by both the resilience, preparedness, and strength of Ukraine. Part of this strength was the NGOs. He called on the international community not only to invest in NGOs but also to do their homework, invest in cultural awareness. “So, look for partners, go and partner, look for knowledge about where you are active. I very much like the presentations by Galyna Sukhomud and Oleksandr Anisomov because they’re based on what is actually going on.”

The final word went to the Ukrainian ambassador to the Netherlands, Maksym Kononenko, who thanked the speakers for their progressive ideas on how to recover Ukraine’s housing sector.



Recovery of people's homes and their neighbourhoods is sorely necessary, as according to military experts over 5000 missiles have been launched on the territory of Ukraine, and most of the targets, more than 93%, have affected civilian infrastructure. More than 170,000 units of the residential area have been either damaged or destroyed because of military aggression, leaving thousands of Ukrainians without homes.

The Ukraine Ambassador was also deeply convinced that after every storm, there is a silver lining and the presentations and engagement from the attendees offered hope for the future. He believes the reconstruction of Ukraine will become “the largest reconstruction project since World War Two.” Like then it will provide new impetus to the European economy”.

Ukraine has now established a state agency for restoration and infrastructure development of Ukraine. The Ambassador understands that his government has a lot of homework to do. The Ukrainian government is conveying ideas, searching for solutions and opportunities in building a new and better future for Ukraine, for the Netherlands and for the whole of Europe. Ambassador Kononenko encouraged partners not to wait until the end of the war but join the process of discussion that will determine how the housing recovery can be done.

### 9. Follow up

The full audio of the event and related slide presentations are available online. A more detailed technical report is being drafted by PBL, New Housing Policy and RMIT building on this input, in English and Ukrainian, to be launched in Ukraine and internationally. It is hoped this will inform all stakeholders, including the European Commission and international development banks in providing strategic technical assistance and investing in Ukraine’s housing recovery.

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# Round Table on Security Rights over Immovable Property (Part 1) – Objectives and Working Methods

↳ By Dr Otmar Stöcker / Prof. Dr Dres. h.c. Rolf Stürner

Since 2005, the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken, vdp) has invited academics and practitioners in mortgage and land register law from over 30 countries to Berlin twice a year to discuss legal developments. The following article<sup>1</sup> explains the objectives and working methods of this comparative law project, whose database is progressively being made available to the public.

In an additional contribution (Part 2),<sup>2</sup> the authors present the similarities and differences of security rights over immovable property with regard to their accessoriness.

## 1. The need for information on comparative law

In 1989, the vdp<sup>3</sup> began to examine the legal framework for real estate financing in individual European legal systems. For this purpose, expert committees developed questionnaires dealing with the topics of mortgage and land register law, as well as with the fate of security rights over immovable property in compulsory enforcement and insolvency proceedings. In each case, the work related to one legal system and contained only occasional references to comparative law. Since the mid-1990s, there has been a strong increase in the need for multi-country or even

pan-European presentations on the law of immovable security. The reasons for this lie primarily in the growing cross-border mortgage business in Europe: This means that an increasing number of people have to deal with the associated legal questions and that the need for swift familiarisation with another legal system increases, which is easier with comparative presentations and overviews. In addition, the inclusion of foreign legal systems<sup>4</sup> in the credit process (and especially risk management) inevitably means that assessment procedures have to be developed in the individual credit institutions in order to evaluate the different rules.

Such procedures for the evaluation of legal structures first require a detailed presentation of the various legal systems according to a uniform basic model. Developing this presents a great challenge. On the one hand, the questions asked have to be so general that they make sense for all the legal systems included. On the other hand, the degree of detailed analysis has to be as fine-grained as possible in order to effectively capture the strengths and weaknesses of the individual legal systems – and this taking as precise as possible consideration of the frameworks of individual business models or types of business. For example, different legal issues come

into play in private housing finance than do in commercial real estate loans.

The need for studies on mortgage law also became clear in the 1990s due to the fact that in many countries (particularly in Central and Eastern Europe) the civil law systems as a whole were being put to the test and undergoing far-reaching modernisation;<sup>5</sup> security rights over immovable property very soon played an important role in this, and the academics and practitioners involved in this field were highly interested in the cross-national exchange of opinions and experience. Laws of immovable security were amended and supplemented in several Western European countries as well (e.g., by the expansion of the scope of application of the *hipoteca de máximo* in Spain (2007),<sup>6</sup> the introduction of the *hypothèque pour toutes sommes* in Belgium (1996), the *hypothèque rechargeable* (2006 and 2014)<sup>7</sup> and the *fiducie-sûreté*<sup>8</sup> in France – all changes in the direction of increased flexibility precisely in the three countries<sup>9</sup> whose security rights over immovable property had been the least flexible.<sup>10</sup>

Comparative presentations on the law of immovable security in Europe are rare. Some detailed works aim to deal with deliberations on a Eurohypothec – and present a few mortgage law systems for this purpose.<sup>11</sup> Other

<sup>1</sup> This article is the English translation of the publication: Stöcker/Stürner, *Runder Tisch Grundpfandrechte (Teil 1) – Zielsetzung und Arbeitsweise*, EuZW 3/2023, pp. 107 et seq.

<sup>2</sup> To be published in the summer 2023 issue of *Housing Finance International*.

<sup>3</sup> At the time, the vdp was named the Association of German Mortgage Banks (Verband deutscher Hypothekenbank-en, VdH).

<sup>4</sup> See Luckow/Stöcker, *Pfandbriefrechtlicher Insolvenzschutz und britische Deckungswerte*, EuZW 2021, pp. 1072 et seq.; 2022, pp. 13 et seq.; for the English translation thereof, see Luckow/Stöcker, *Insolvency protection according to Pfandbrief law, and how it relates to UK cover assets*, in *Housing Finance International* 2022/1, 45 – 52.

<sup>5</sup> For more on this development in property law, see Stürner, *Das deutsche Immobiliarsachenrecht und die Funktion des deutschen Notariats im Spiegel der Rechtsvergleichung*, DNotZ 2017, pp. 904 et seq.,

<sup>6</sup> See Simón Moreno, *La optimización de la hipoteca española*, 2011.

<sup>7</sup> See Fervers, *Hypothèque rechargeable und Grundschuld*, 2013.

<sup>8</sup> See Fix, *Die fiducie sûreté*, 2014; on the further development in France, see Stürner, aaO DNotZ 2017, pp. 931 et seq.

<sup>9</sup> For parallel developments in Central and Eastern Europe, see Center of Legal Competence Wien/Drewicz-Tulodziecka (Editors), *Immobilien, Grundeigentum und Sicherheiten in Polen*,

2009; Stessl, *Real Property Rights in the Slovak Republic*, 2008; Illa, *Grundeigentum und Sicherheiten in Ungarn*, 2<sup>nd</sup> edition 2010; Sacalschi, *Grundeigentum und Sicherheiten in Rumänien*, 2<sup>nd</sup> Edition 2011; Center of Legal Competence/ Stoimenov/Ivanov, *Grundeigentum und Sicherheiten in Bulgarien*, 2008; Ebner, *Grundeigentum und Sicherheiten in Tschechien*, 2<sup>nd</sup> edition 2010.

<sup>10</sup> For more on the general tendency towards non-accessoriness, see Stürner, *Das Grundpfandrecht zwischen Akzessorietät und Abstraktheit und die europäische Zukunft*, Festschrift für Rolf Serick, 1992, pp. 377 et seq.

<sup>11</sup> See in particular Rupp, *Grundpfandrechte zwischen Flexibilität und Schutz. Ein kontinentaleuropäischer Rechtsvergleich und neue Gedanken zu einer "Eurohypothek"*, 2016; Kiesgen, *Ein Binnenmarkt für den Hypothekarkredit – Der Vorschlag zur Einführung einer Eurohypothek unter besonderer Berücksichtigung des Sicherungsvertrages*, 2004 – with a presentation of German, French, and Italian mortgage law; Kircher, *Grundpfandrechte in Europa – Überlegungen zur Harmonisierung der Grundpfandrechte unter besonderer Berücksichtigung der deutschen, französisch- und englischen Rechtsordnung*, 2004; Stöcker, *Die Eurohypothek – Zur Bedeutung eines einheitlichen nicht-akzessorischen Grundpfandrechts für den Aufbau eines „Europäischen Binnenmarktes für den Hypothekarkredit“ mit einer Darstellung der Verwendung der Grundschuld durch die deutsche Hypothekarkreditpraxis so-wie des französischen, spanischen und schweizerischen Hypothekenrechts*, 1992.

works only deal with individual countries<sup>12</sup> or give an overall presentation of property law in the form of country reports.<sup>13</sup>

As such, the vdp was quick to initiate and support academic exchange and the transfer of practice-oriented expertise at an early stage. Prompted by numerous requests, it has been involved in the modernisation of mortgage and land register law in many countries since 1993. The proposal it initiated for a non-accessory security right over immovable property for Central Europe<sup>14</sup> laid the foundation for not only a series of legislative works on security rights over immovable property in Central Europe, but also for the concretisation of efforts towards a Eurohypotheck,<sup>15</sup> the most important building block of which is the Basic Guidelines for a Eurohypotheck.<sup>16</sup>

### 2. Round Table on Security Rights over Immovable Property<sup>17</sup>

The vdp has set itself the goal of contributing to the transparency of the law of immovable security in Europe not only in the form of country-specific publications, but also in the development of cross-national charts that allow quick access to differentiated information and legal facts.

For this purpose, the Round Table: Flexibility of Security Rights over Immovable Property in Europe (Runder Tisch: Flexibilität der Grundpfandrechte in Europa)<sup>18</sup> was

established in 2005, in which academics and practitioners in security rights over immovable property from more than 30 countries now participate. The results of these comparative law discussions were first made available to the public in the vdp's publication series between 2006 and 2010.<sup>19</sup>

#### 2.1. Development and working methods<sup>20</sup>

In the beginning, recognised academics and practitioners from several countries – on the basis of the issues examined in the Basic Guidelines for a Eurohypotheck (see Section I. above) – discussed the doctrinal foundations as well as the practicability of their national security rights over immovable property and wrote detailed country reports on these. The results of these workshops were then published.<sup>21</sup>

The discussions were continued with the inclusion of additional countries, and the results of these discussions were also published.<sup>22</sup> Again – on the basis of the list of issues used from *Flexibilität der Grundpfandrechte in Europa*, Band I – fundamental topics were covered (such as the form and scope of accessoriness or non-accessoriness and the protection of the owner) as well as issues relevant to practice (e.g., to what extent modern forms of credit can be secured by the respective security rights over immovable property and how security rights over immovable property can be adapted to the constant changes in economic circumstances). Later,

separate chapters on enforcement law and insolvency law were added.<sup>23</sup>

Even then, it became apparent that in many countries with an accessory design of security rights over immovable property it is mainly maximum amount mortgages that are used, some of which have a very high degree of flexibility, but only as long as the owner and creditor do not change. Furthermore, the comparative law study was expanded to include the constructive connection between the loan agreement and the creation of the security rights over immovable property, issues regarding the distribution of the burden of proof, bona fide purchasing, and the use of abstract acknowledgements of different kinds of parallel debts.

The legal systems covered were not selected according to academic criteria or legal policy objectives (e.g., with the intention of covering the legal systems of all EU member states). Rather, the contents of the charts are the result of an academic and practice-based exchange that has developed over many years, organised by the vdp within the framework of research, and the associated development of a network of contacts with academics and practitioners from many countries.

The Round Table members should not only be well-versed in their respective national security rights over immovable property, but should also have dealt intensively with at least one and usually several other legal systems, so that they have a deep understanding of comparative law and thus cross-border

<sup>12</sup> For example, Jaschinska, *Polnische und deutsche Grundpfandrechte*, 2004; Hofmann, *Mortgage and Charge. Gestaltungsmöglichkeiten im englischen Kreditsicherungsrecht*, 2002; Rink, *Die Sicherheit von Grundpfandrechten in Deutschland und England*, 2006; Schulz-Trieglaff, *Grundschuld und Floating Charge*, 1997; Steven, *Immobilienversicherungen im englischen und deutschen Recht*, 2002; Jungmann, *Grundpfandgläubiger und Unternehmensinsolvenz* (Deutschland – England – Schottland), 2004; Städtler, *Grundpfandrechte in der Insolvenz*, 1998; Stürner/Kern, *Grundsatzfragen des US-Hypothekenrechts, Festschrift Schlechtriem*, 2003, pp. 924 et seq. (USA); Böning, *Grundpfandrechte in Deutschland und den USA*, 2011.

<sup>13</sup> For example, Frank/Wachter, *Handbuch Immobilienrecht in Europa*, 2<sup>nd</sup> edition 2015; von Bar, *Gemeineuropäisches Sachenrecht. Band I: Grundlagen, Gegenstände sachenrechtlicher Rechtsschutzes, Arten und Erscheinungsformen*, Verlag Beck 2015; Band II: *Besitz, Erwerb und Schutz subjektiver Sachenrechte*, Beck 2019; von Bar (Ed.), *Sachenrecht in Europa*, Band 1: *Dänemark, England, Finnland, Schottland, Schweden*, Universitätsverlag Rasch 2000; Band 2: *Polen*, 1999; Band 3: *Griechenland*, 1999; Band 4: *Systematische Einführungen und Gesetzestexte*, 1999; Sparkes, *European Land Law*, 2007; Baur/Stürner, *Sachenrecht*, 18<sup>th</sup> edition 2009, § 64 sub B, marginal no. 7 et seq. (France, Italy, Spain, United States, Switzerland, etc.).

<sup>14</sup> Wolfsteiner/Stöcker, *Nicht-akzessorisches Grundpfand für Mitteleuropa*, ZBB 1998, pp. 264–270, and DNotZ 1999, pp. 451 – 467.

<sup>15</sup> For more detail on the various proposals, see Stöcker, *Die grundpfandrechtl. Sicherung grenzüberschreitender Immobilienfinanzierungen, Die Eurohypotheck – ein Sicherungsinstrument mit Realisierungschancen*, WM 2006, pp. 1941 et seq. (p. 1945 et seq.); Baur/Stürner, *Sachenrecht*, 18<sup>th</sup> edition 2009, § 64, marginal nos. 76 et seq.

<sup>16</sup> Drewicz-Tulodziecka/Polish Mortgage Credit Foundation, *Basic Guidelines for a Euro-hypotheck, Outcome of the Eurohypotheck workshop November 2004/April 2005*, Warsaw 2005

<sup>17</sup> For more on the Round Table on Security Rights over Immovable Property in general, see Las-sen/Luckow/Thurner, *Grundpfandrechte 2016 in Europa und darüber hinaus – Eine*

*Standortbestimmung zum XX. Workshop des Runden Tisches Grundpfandrechte*, Berlin 2016 (vdp publication series, Volume 54).

<sup>18</sup> The name of the Round Table working group has undergone a number of iterations since its founding, and is now known as the Round Table on Security Rights over Immovable Property (Runder Tisch Grundpfandrechte).

<sup>19</sup> Stöcker (Ed.), *Flexibilität der Grundpfandrechte in Europa, Band I*, Berlin 2006 (vdp publication series, Volume 23); Stöcker (Ed.), *Flexibilität der Grundpfandrechte in Europa, Band II*, Berlin 2007 (vdp publication series, Volume 32); Stöcker/Stürner, *Flexibilität, Sicherheit und Effizienz der Grundpfandrechte in Europa, Band III*, Berlin 2008 (vdp publication series, Volume 37); Stöcker/Stürner, *Flexibilität, Sicherheit und Effizienz der Grundpfandrechte in Europa, Band III*, 2<sup>nd</sup> revised and extended edition, Berlin 2010 (vdp publication series, Volume 43). English-language translations: Stöcker/Stürner, *Flexibility, Security and Efficiency of Security Rights over Real Property in Europe, Volume III*, Berlin 2009 (vdp publication series, Volume 39). Stöcker/Stürner, *Flexibility, Security and Efficiency of Security Rights over Real Property in Europe, Volume III*, 2<sup>nd</sup> revised and extended edition, Berlin 2010 (vdp publication series, Volume 44). During this phase and afterwards, several members of the Round Table on Security Rights over Immovable Property reported on the project in their countries and incorporated the results into their academic work.

<sup>20</sup> For more details, see Luckow, *20 Workshops des Runden Tisches Grundpfandrechte*, pp. 9 et seq., as well as Las-sen/Luckow, *Entwicklung des Runden Tisches Grundpfandrechte*, pp. 19 et seq., in: Lassen/Luckow/Thurner, *Grundpfandrechte 2016 in Europa und darüber hinaus – Eine Standortbestimmung zum XX. Workshop des Runden Tisches Grundpfandrechte*, Berlin 2016 (vdp publication series, Volume 54).

<sup>21</sup> Stöcker (Ed.), *Flexibilität der Grundpfandrechte in Europa, Band I*, Berlin 2006 (vdp publication series, Volume 23).

<sup>22</sup> Stöcker (Ed.), *Flexibilität der Grundpfandrechte in Europa, Band II*, Berlin 2007 (vdp publication series, Volume 32).

<sup>23</sup> Stöcker/Stürner, *Flexibilität, Sicherheit und Effizienz der Grundpfandrechte in Europa, Band III*, Berlin 2008 (vdp publication series, Volume 37).

issues. The original core of the group consisted of members who are or were actively involved and playing a leading role in the development of law in their countries and who contribute or have contributed to the deliberations on a Eurohypothec – at least in the sense of a benchmark for determining the position of their own national security rights over immovable property. In addition to good knowledge of the German language, a fairly high level of time commitment is required, which not every individual under consideration was able or willing to make. The team is made up of professors, notaries, lawyers, and bank lawyers, and thus combines the main interests of academia and practice.

The working language at the workshops is German, based on the original preferences of the participants. In practice, the German language is also better suited than English for dealing with the subject of security rights over immovable property. In most continental European legal systems direct German translations of technical terms related to real estate law can be found; this is terminologically more difficult in English, as it often depends on whether one is talking about England/Wales, Scotland, Ireland, or the United States.<sup>24</sup> An example of this is the German term “Grundpfandrecht”, for which the Round Table developed the formulation “security right over immovable property”<sup>25</sup> in order to cover all the English-language legal systems involved. It is thus very arduous to translate the individual questions and answers into English, and it sometimes becomes apparent that a readjustment of the German wording is also necessary in order to accurately describe the content under discussion in both languages.

In order to keep the answers in the database up to date, the members of the Round Table have to follow the development of their legal system. This gave rise to the idea of producing reports every six months.<sup>26</sup> This has resulted in a significant improvement to its usability, especially for banks as a basis for the ongoing

monitoring of the quality of their security rights and risk management.

## 2.2. Topics

The database of the Round Table on Security Rights over Immovable Property contains a wealth of topics:

Following some basic remarks on the types of security rights over immovable property (I.), central questions relating to the register systems are addressed, as they involve the public disclosure requirements for security rights over immovable property (II.). This is followed by an exploration of the effects of accessoriness (III.) that is as nuanced as possible so as to counteract the black-and-white division into accessory and non-accessory security rights over immovable property that is regularly encountered and that often leads to misconceptions, particularly with regard to the protection of the owner. Security rights over immovable property serve to secure payment claims and have to prove their value when the debtor is no longer able to pay. Therefore, the “legal security content” of a security right over immovable property in the context of enforcement proceedings (IV.) and insolvency or reorganisation proceedings (V.) is of paramount importance for the practice of the credit business. This is reflected in the large number of charts dealing with these issues. The practically important but theoretically oriented questions of the above-mentioned topics are supplemented by a chapter dealing with the utilisation in practice of security rights over immovable property (VI.) in some important groups of cases.

In the course of the work, special topics were covered in further chapters: Questions on security rights over immovable property in the context of the financing of equipment for the production of renewable energy (VII.), the use of property companies/SPVs for commercially used properties (VIII.), as well as building rights (IX.), and qualified common ownership (X.) as objects of a security right over immovable property.

A particularly exciting topic in terms of legal policy is the security of transaction with immovable property (XI.), which in the majority of countries is guaranteed in a special way by the compulsory or regular involvement specially trained and qualified professionals or state institutions in property-related transactions, while in other countries a compensatory arrangement is required in order to avoid gaps in legal security as far as possible (if one is not willing to accept them for overriding reasons, such as cost savings or the simplicity and speed of the transaction).<sup>27</sup>

Although the Round Table is focused on the law of immovable security, consumer protection in real estate loans is of such central importance that some regulations are considered from a comparative law perspective (XII.).

An additional chapter collects current political topics that are connected with security rights over immovable property. If it becomes apparent that the topic is of Europe-wide and lasting significance, it is assigned to one of the specialised chapters. Information was exchanged in this chapter on special national regulations that were introduced because of the Covid-19 pandemic and which have mostly expired since.

## 2.3. Charts

An important focus of the workshops is the creation and ongoing development of detailed charts in the form of maps, with countries marked in different colours depending on the answer to the question under consideration in order to vividly illustrate the diversity of security rights over immovable property.

The problem with any kind of overview is that it has to simplify in order to provide a more efficient perspective than a collection of detailed information. However, every simplification results in standardisation of varying degrees and thus slightly distorts the details, which is difficult to reconcile with an academic claim to the quality of the work

<sup>24</sup> Examples are provided in Luckow, *20 Workshops des Runden Tisches Grundpfandrechte*, p. 13, footnote. 27, as well as in: Lassen/Luckow/Thurner, *Grundpfandrechte 2016 in Europa und darüber hinaus – Eine Standortbestimmung zum XX. Workshop des Runden Tisches Grundpfandrechte*, Berlin 2016 (vdp publication series, Volume 54).

<sup>25</sup> Initially, the term “real property” was agreed upon, but this corresponds mainly with the terminology used in the United States, and was replaced by terminology independent of individual legal cultures.

<sup>26</sup> Lassen/Luckow, *Entwicklung des Runden Tisches Grundpfandrechte*, pp. 25 et seq., as well as Seeber, *Der Runde Tisch Grundpfandrechte und seine Bedeutung für die Praxis – Herausforderung Rechtsmonitoring*, pp. 33 et seq., in: Lassen/Luckow/Thurner, *Grundpfandrechte 2016 in Europa und darüber hinaus – Eine Standortbestimmung zum XX. Workshop des Runden Tisches Grundpfandrechte*, Berlin 2016 (vdp publication series, Volume 54).

<sup>27</sup> See in particular André-Pierre Resch, *Sicherungsinstrumente beim Grundstückserwerb*, 2016; Murray/Stürmer, *The Civil Law Notary – Neutral Lawyer for the Situation. A Comparative Study on Preventative Justice in Modern Societies*, 2010 (comparative law for Germany, England, France, Sweden, Estonia and the United States); Murray/Stürmer, *German Notaries in Real Estate and Corporate Law Matters*, 2020 (with a detailed comparative analysis of the German and U.S. legal systems in terms of legal certainty, costs for the parties involved, speed, simplicity and comprehensibility, transparency, the quality of legal advice, and the public interest). The latter publication also contains a critical examination of the World Bank’s Doing Business reports, which was presented by the authors at a World Bank event as part of the Law, Justice and Development Week in November 2018 (pp. 135 et seq., pp. 162 et seq., pp. 169 et seq., pp. 181 et seq.). The Doing Business reports were promoted by the World Bank and had a strong influence on the reports and recommendations of the OECD and economic institutes, as well as on discussions held in Europe. These have been discontinued in their previous form following the revelation of deficiencies and inconsistencies, as well as forms dishonest influence in certain cases.

itself. This is true for comprehensive tabular overviews – and even more so for charts, where the information that can be included is even more limited.

Nevertheless, after in-depth discussion in the workshops, this form of presentation was chosen in order to allow users to quickly grasp the concepts and to increase clarity through visualisation in view of the abundance of distinctions. Academics, too, have to recognise that it is sometimes preferable to be able to present information that is not entirely precise to the target audience than to run that risk that the central message is not conveyed at all. It is important that a balanced selection of topics and questions makes the potential “error rate” in the details transparent for experts, so that further work can present the desired differentiation in special works.

In order to deal with the extremely complex task, it is first necessary to identify the central questions for the assessment of security rights over immovable property and to formulate them in such a way that they make sense for each legal system covered here. Furthermore, the questions have to be posed in such a way that an accurate answer, at least in principle, can be given for each legal system, even if exceptions and deviations should occur in detail.

The whole task is made particularly challenging by the fact that, in principle, only one answer per country can be given in order to fit in with the map colour schematic. If more than one answer is applicable, the wording of the questions and answers have to be adjusted until, in principle, only one answer fits per country. With each jurisdiction that is added to the project, this means adapting often no fewer question and answer variables – and this in German and English. The implementation of two workshops per year, each lasting two full days in Berlin, shows that the effort required to achieve a high level of quality is not small.

### **2.4. From PowerPoint to an IT system**

The aim of the charts in the form of maps is to ensure that those legal systems that give the same answers appear on the map with the same colour. During the initial years of the project, PowerPoint slides were used for this purpose, however, as the number of questions and legal systems increased, this proved to be too difficult. In addition, the Round Table members had to wait a long time for the overall result.

As it was not possible to procure a ready-made program that could meet all the requirements of this project, a separate IT application was developed. This allows the individual members of the Round Table on Security Rights over Immovable Property to enter their responses via secure Internet access, whereupon they can immediately see the result of the country comparison on the coloured map. Later, a comments field was added so that the responses can be explained or exceptions and special cases noted.

The IT system has also made it possible to access the database directly during presentations and discussions, allowing its content to be included. This has been used not only at conferences, but also during legal policy discussions on the modernisation of mortgage and land register law in individual countries. Legal information compiled by the Round Table on Security Rights over Immovable Property has also been made available to European institutions through the granting of read access to the database.

### **3. Publication of the database**

Until recently, the findings of the Round Table on Security Rights over Immovable Property were not readily accessible to interested members of the public, and thus not widely known. This was mainly due to the fact that access to the expert database was limited to registered users and the data-base’s website was primarily designed to facilitate cooperation between the members of the Round Table.

In the past – as previously mentioned – the contents of the database were published in the vdp publication series with detailed explanations in German and English. The printed format, however, has the disadvantage that it becomes out-of-date over time and the costs associated with print publication can be very high, especially as an effective overview can only be achieved with the use of coloured maps, which even today greatly increases the production costs of printing.

As such, the Round Table on Security Rights over Immovable Property started looking into how to increase the visibility of its work and thus make its valuable findings better known and accessible to the public.

In addition, there is the recurring question of how the charts can be used as a source for academic publications by Round Table members. This becomes even clearer when external authors, also of standard works on

mortgage and land register law, want to use and disseminate the findings of the Round Table in their publications. The restriction of access to the results also presents an obstacle to using the findings for legal policy work. If only because of normal staff turnover in administration, politics, and academia, it is almost impossible to grant individual read access to all interested members of these target groups.

Accordingly, the Round Table decided in autumn 2021 to open access to the online database of the Round Table on Security Rights over Immovable Property to the general public. For reasons of IT security alone, it was ruled out of the question to give the public direct access to the database into which the members of the Round Table enter their responses and comments. Instead, a parallel read-only database with the same content that had previously been set up for external users was used; from this, another parallel database was created that the public can access via the Internet. The Round Table decides from when on which questions with answers for which countries in chart form (as well as country comments) will be copied into this publicly accessible database. The data-base is updated several times a year.

From November 2021 to April 2022, the Round Table reviewed all the questions in the first six chapters to see if they were sufficiently comprehensible to external parties. Each chapter and individual question was accompanied by an explanation to illustrate the meaning of the question and its connection with other questions. In its mid-May 2022 workshop, the Round Table on Security Rights over Immovable Property made a decision on which questions should be transferred to this new public database as a first step. After this work was completed, the new database was set up, the content of the new website was developed, and the data migration was carried out. Since August 2022, the database has been publicly accessible at [www.vdpgrundpfandrechte.de](http://www.vdpgrundpfandrechte.de) and, since 2023, at [www.vdpmortgage.com](http://www.vdpmortgage.com) as well. The public launch of the website was announced in September 2022 following another review phase.

In upcoming workshops of the Round Table on Security Rights over Immovable Property, further questions and chapters are to be examined with respect to their suitability for transfer to the public database, and then released if appropriate. The decision to allow external users to download the country charts (free of charge) was also important for external use; this is the only way the charts can be used in publications.

#### 4. Round Table and evaluation system

An additional focus of the work of the Round Table on Security Rights over Immovable Property is the elaboration and further development of an appropriate evaluation system for the individual national designs of the legal frameworks of security rights over immovable property. This is intended to provide initial orientation as to how the “legal value” of security rights over immovable property can be “measured” in a comparative legal manner on a general, institution-specific, or differentiated basis according to the type of business. However, it does not lay claim to being a fully developed econometric country comparison.

As early as 2009, an evaluation system was developed, the results of which were published in book form on the basis of previously published works in German<sup>28</sup> and English.<sup>29</sup> No decision has yet been taken whether to publish these results in the public database, as the focus of the work so far has been on the presentation of comparative property law. In addition, the weighting indicators, which are an elementary component of the evaluation system,<sup>30</sup> are developed in a separate process, namely only when the relevant question and its answers have proven to be stable in their country-by-country entries; this often requires several workshops and thus several years. Nevertheless, it seems appropriate to briefly outline the systematics of the evaluation at its current stage of development in this article.

##### 4.1. Basic structural elements of the evaluation system for security rights over immovable property

The individual chapters of the evaluation analysis, structured according to the previously described context<sup>31</sup>, contain many questions on a large number (over 30) of legal systems, predominantly in European countries, but also including New York for the

United States, Turkey, and Japan – important examples of Germany’s economic partners outside Europe. In order to make a succinct comparative law statement in the sense of an evaluation, it seems reasonable to calculate a single figure for each country at the conclusion of the evaluation process. For this purpose, it is necessary to determine the weight of the individual questions and answer in relation to each other with regard to an overall evaluation. This weighting depends on the perspective from which the questions and answers are viewed. In the current state of development of the evaluation system, the following points of view are differentiated:

- the interests of the bank as the most important creditor from an economic perspective (good usability of the collateral, flexibility of the collateral, and breadth of usability);
- the interests of the owner (flexible and cost-effective usability, sufficient protection against unjustified seizure, foreclosure, and sale by the bank); and
- legislative preferences (balance in the interest of peace under the law and justice, public interest in a functioning credit industry and international competitiveness).

This differentiated perspective relates to the weight of the questions and answers in relation to each other, without the content of individual answers playing a role.<sup>32</sup> In an additional step, the same differentiated perspective is used to weight the content of the specific answers provided.<sup>33</sup> It can be seen from these examples that a difficult balancing act always has to be performed, because the evaluation of the interests and balance always takes several points of view into account. Questions or answers that are judged to be relatively unimportant from the point of view of the actor concerned can be weighted with low scores or even “zero” in very clear cases. In the end, the figures resulting from the described double weighting can be added up per country to obtain the evaluation figure – and this can then be compared with the evaluation figures of the other countries.

##### 4.2. Flexible sectoral evaluation as an important tool

Of course, an evaluation system set up in this way allows not only for an overall evaluation (which can only provide very limited and general information for most users), but rather also allows for sectoral evaluations, which limit the evaluation or assessment to the perspective of the respective actor, a specific legal system, a certain special conflict, or a particular field of business. The afore-mentioned forms of sectoral evaluation can also be broadly combined. For example, banks will often only be interested in an evaluation of the usability or utilisation efficiency of the legal system of one or more countries when they are preparing a loan. An evaluation may also only be sought for certain specific situations (e.g., in the event of compulsory enforcement or the insolvency of the debtor of the loan and/or owner of the property). Certain business areas, such as the collateralisation of renewable energy plants, the collateralisation of building rights or residential property, as well as collateralisation through the use of property companies in the financing of commercial projects, are also available for separate evaluation on demand for documentation purposes.<sup>34</sup>

The bank-oriented nature of the evaluation system is reflected in the particularly detailed query and evaluation of practically all key aspects of bank financing, which is clearly reflected in an overall assessment. However, it is of course also possible to make use of the evaluation from the owner’s and/or consumer’s point of view in isolation. This is especially relevant for consumer protection institutions but also for the banks themselves, because needless to say the question always arises whether sufficient consideration of these interests should not also be a concern of sustainable banking business practices. For the legislators of the countries involved, the comparative evaluation is a valuable resource in the service of maintaining legislative balance.

<sup>28</sup> Stöcker/Stürner, *Flexibilität, Sicherheit und Effizienz der Grundpfandrechte in Europa, Band III*, 2<sup>nd</sup> revised and extended edition, Berlin 2010 (vdp publication series, Volume 43).

<sup>29</sup> Stöcker/Stürner, *Flexibilität, Sicherheit und Effizienz der Security Rights over Real Property in Europe, Volume III*, 2<sup>nd</sup> revised and extended edition, Berlin 2010 (vdp publication series, Volume 44).

<sup>30</sup> For more on the structure and development of the weighting indicators, see Luckow, *Das System zur Bewertung der Antworten und Länderinformationen beim Runden Tisch Grundpfandrechte*, pp. 41 et seq., in: Lassen/Luckow/Thurner, *Grundpfandrechte 2016 in Europa und darüber hinaus – Eine Standortbestimmung zum XX. Workshop des Runden Tisches Grundpfandrechte*, Berlin 2016 (vdp publication series, Volume 54). For earlier work, see Luckow, *Der Runde Tisch des Verbandes deutscher Pfandbriefbanken „Grundpfandrechte“, seine Arbeitsmethoden und Ergebnisse – Bericht aus der Praxis*, in: von Bar/Wudarski, *Deutschland und Polen in der euro-päischen Rechtsgemeinschaft*, Munich, 2012, pp. 379 et seq. (pp. 386 et seq.).

<sup>31</sup> See the topics listed above in II. 2.2.

<sup>32</sup> For example, low weighting of the number of different types of security rights over immovable property, higher weighting of the existence of total security rights over immovable property encumbering several properties at the same time.

<sup>33</sup> For example, in the case of the question whether the absence of a secured claim can be held against the bona fide purchaser of the security right over immovable property by the owner: The answer “yes” would result in a lower score from the point of view of the bank, a maximum score from the point of view of the owner, a favourable score from the point of the legislator, who can or should also take into account the interest in secure transferability in the interest of easier refinancing between banks.

<sup>34</sup> The Round Table on Security Rights over Immovable Property has developed evaluation weightings only for Chapters I – VI.

**4.3. Experience to date and the limits of rights-based evaluation**

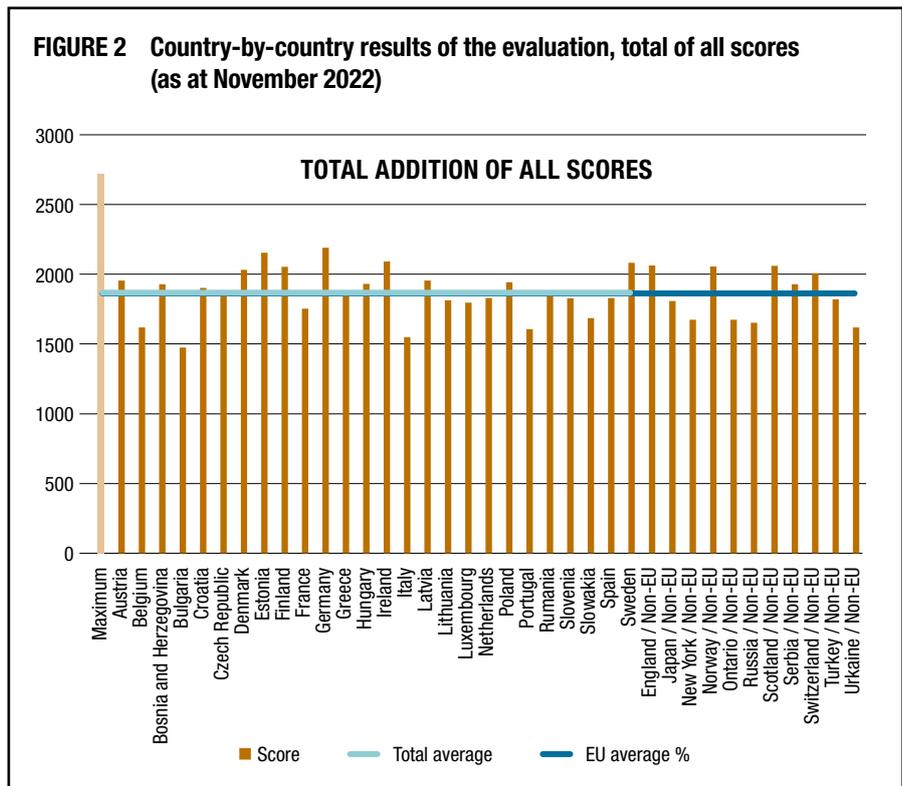
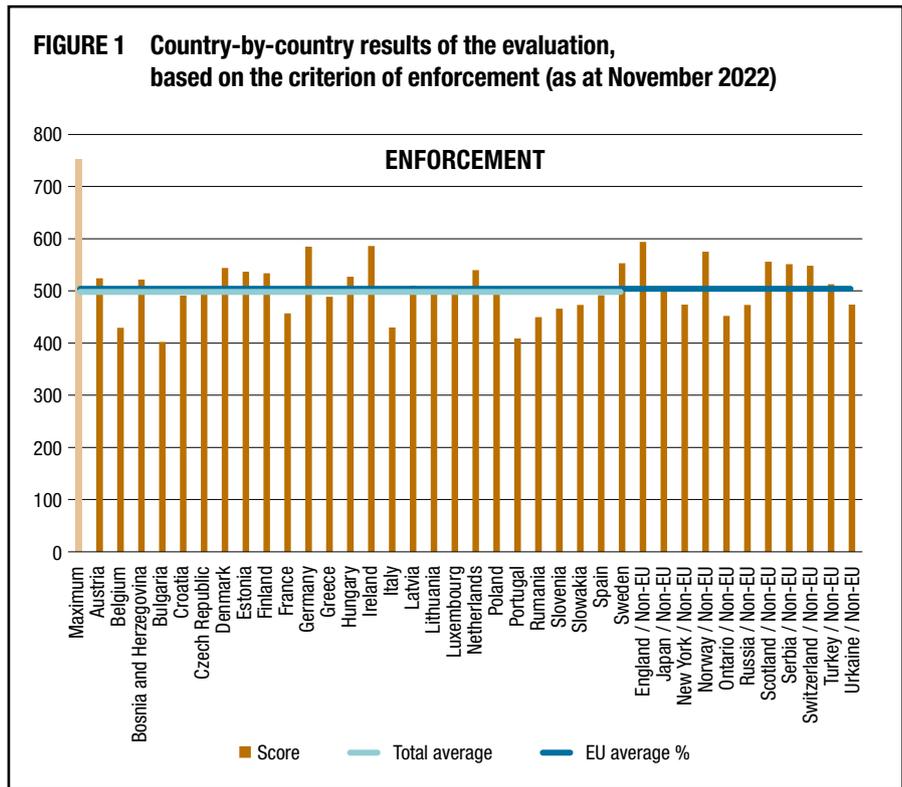
vdpExpertise, a subsidiary of the vdp, has taken over the technical implementation of these evaluations. For vdpExpertise, the results of the Round Table have proven to be very usable for supporting banks in loss given default calculations,<sup>35</sup> because the evaluation system developed offers a high degree of transparency and is regularly updated. In addition, an expansion to include additional countries was possible at the suggestion of the Round Table; such an expansion has been carried out several times, although this has now reached certain limits in the interest of manageability and good quality. The results of the evaluation, with its rather prognostic character, harmonise well with the empirical assessments collected by vdpExpertise.

Procedures for quantifying quality are very common today in many areas for establishing rankings. If they are carried out as carefully as possible and with diversified weightings, reasonably useful statements are possible. However, such results should not be considered absolute, as the quantification of quality has too many fundamental weaknesses. Above all, when making decisions about financing, it is inadvisable to adopt a schematic approach without pragmatic consideration of the specifics of the individual case.

The described evaluation system weights the advantages and disadvantages that a functional legal system entails for the individual actors. Consequently, it excludes risks that may result from failure of the legal structure, such as risks from political instability or susceptibility to corruption. In individual cases, they require an additional special weighting based on extra-legal factors. This also corresponds to the procedure practiced by vdpExpertise.

**5. Part 1 conclusion**

The law of immovable security is still largely national in character and is therefore extremely multi-faceted within the bounds of Europe alone. There are no comparative law presentations including as many legal systems as possible that are sufficiently detailed for practice while at the same time transparent and clear as well as meeting the minimum requirements for up-to-datedness



in analys-ing the legal situation in question. The vdp would like to contribute to reducing these deficits with the Round Table on Security Rights over Immovable Property

project. Following several publications on this project in book form, important parts of it have now been made available to the public in the form of a database.

<sup>35</sup> See Lassen/Luckow, *Entwicklung des Runden Tisches Grundpfandrechte*, in: Lassen/Luckow/Thurner, *Grundpfand-rechte* 2016, pp. 24 et seq.





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