THE HOUSING CHALLENGE IN EMERGING ASIA
Options and Solutions

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Extraordinary economic growth in Asia has lifted millions out of poverty. Yet, as more and more people crowd into cities, good, affordable housing has become more and more elusive. As slums expand, health and education suffer, too. What can policymakers do? *The Housing Challenge in Emerging Asia: Options and Solutions* has some answers. The Asian Development Bank Institute (ADBI) collaborated with experts from all over the world to generate new ideas on how to best address the housing challenge. ADBI’s first book on housing, it examines the experience of developing countries (Japan, the Republic of Korea, Singapore, Switzerland, the United Kingdom, and the United States) and shows what lessons might guide emerging countries such as the People’s Republic of China and India.
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Housing Solutions

1. **Remove supply-side constraints to encourage housing markets**
Governments face a choice between demand- and supply-side policies. In the 1950s to the 1970s, supply-side policies were more common. For example, several fast-growing countries such as Japan supplied residential land and public rental housing on a large scale. Starting in the 1990s, many countries switched to demand-side policies, with the supply side left to the private sector. However, this policy change was successful only when supply-side constraints were removed. Limited new land for construction or uncertain property rights can hamper supply. For example, zoning regulations severely restrict London’s expansion, driving up housing prices. Governments must also ensure healthy competition among construction companies and among input suppliers.

2. **Give more people access to housing finance**
In Asia, large parts of the population still have no or limited access to financial services. Households that do have access to banking services often lack the knowledge to adequately plan for their housing finance. Promoting financial inclusion and education is essential for housing finance. Many commercial banks see housing finance as a risk because they often find it difficult to establish creditworthiness and to foreclose on property. Governments should work with both sides: ease people’s access to finance and provide an environment that will make commercial banks eager to loan to would-be homeowners.

3. **Lower housing financing costs and avoid over-borrowing or crowding out the private sector**
Governments should develop policies that bring down mortgage interest rates without distorting private market activities or competing with commercial banks. Instead, governments should help commercial banks grant mortgages at lower rates while ensuring that these measures don’t result in a housing price hike or in over-borrowing by households. One way to avoid over-borrowing is to require banks to disclose all financial risks when signing large mortgages (consumer protection) and set prudential debt-to-income ratios.

4. **Mitigate risks of mortgage defaults due to interest rate volatility**
Governments should offer fixed-interest-rate mortgages through commercial banks to mitigate the risk of defaults. Households often sign mortgages with flexible interest rates, which are linked to benchmark interest rates such as the London Interbank Offered Rate (LIBOR). If interest rates spike, households face
substantially higher loan payments. In contrast, fixed-interest-rate mortgages make housing finance more predictable and affordable. They also limit the risk of the housing market’s sudden collapse, stabilizing the economy.

5. Collect housing market data and make it publicly available
Most countries lack detailed market data, so detecting a housing bubble, and how big it might be, is difficult. To make sure that interventions work, governments need detailed data on prices and other economic variables. Governments in developed and developing countries have often introduced policies without knowing their precise impact, which led to failure. Buyers should have as much information as sellers.

6. Promote mixed use of buildings
Housing policies that target certain groups risk creating neighborhoods with little diversity. For example, delimiting business districts and allowing buildings to be used only for office space will create neighborhoods that are deserted after office hours. Neighborhoods segmented by migration background often give rise to a segmented urban society. Mixing residential and office areas, high- and low-income groups, migrants and non-migrants can help create a more cohesive urban society with positive spillovers.

7. Finance upgrading of housing that reaches the poor
Many housing policies started by attempting to increase low-income groups’ financial means, either through direct cash transfers or indirect subsidies such as mortgage guarantees. But these have not always been successful, especially because the poor cannot shoulder large mortgages. One option is to finance housing upgrades, which require smaller financial sums and can be made available more quickly.

8. Promote homeownership while limiting its risks
Rates of homeownership are high in several Asian countries, such as Japan or Singapore. Promoting homeownership has several advantages such as encouraging accumulation of a physical asset and mitigating income disparity. But the pursuit of homeownership also carries serious risks such as over-borrowing or lower labor mobility. Governments should balance the pros and cons of homeownership before deciding to favor homeownership over renting.

9. Continuously improve housing quality while ensuring affordability
In quickly growing economies, a main concern is providing affordable and adequate housing. In Hong Kong, China, for example, the government has made large strides to ensure that low-income groups have such housing are able to live in housing that fulfills minimum standards and is affordable. As economies mature, policies should improve living quality. For example, in the 2000s, Japan and the
Republic of Korea introduced policies that targeted quality not just to improve housing but also to lower greenhouse gas emissions, among others. Improving housing quality can result in a win–win scenario.

10. Maintain existing housing stock to preserve pleasant living conditions
Government policies often aim to build housing without considering the need to maintain existing housing. The consequence: rapid dilapidation, with severe consequences such as higher crime rates. Refurbishing housing units are as important as constructing new ones.

These recommendations are the result of careful comparison of housing policies across economies. This book does not claim to deliver a silver bullet for all housing problems. However, we hope that the analyses are enlightening and provide new insights and information that will help support policy makers and implementers. Asia’s rapid growth should now make access to adequate housing a reality.
The Housing Challenge in Emerging Asia
Options and Solutions

The book provides new insights and ideas to design and implement policies that can best improve access to affordable and adequate housing. It offers an innovative theoretical framework for conceptualizing and analyzing housing policies. It also critically reviews and presents lessons from housing policies of several countries, including advanced economies within and outside Asia, such as Japan, the Republic of Korea, Singapore, Switzerland, the United Kingdom, and the United States, as well as emerging countries within Asia, such as India and the People’s Republic of China.

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