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COMMITTEE ON HUMAN SETTLEMENTS

FINANCING OF HOUSING

Discussion paper prepared by the secretariat with the assistance of the Bureau

Introduction

1. The Committee on Human Settlements at its fifty-fourth session in September 1993 agreed that the in-depth discussion at its fifty-fifth session in September 1994 should focus on the financing of housing, including economic incentives to encourage ecologically sound and sustainable urban development (ECE/HBP/89, para. 13 (a)). The Committee further invited the secretariat to prepare a discussion paper with the assistance of the Bureau taking into account the work of the two Working Parties of the Committee.
2. The present discussion paper has been prepared in response to this request.
3. All countries are invited to circulate among themselves, with a copy to the secretariat, written responses to the issues raised in the discussion paper before June 1994, so that the secretariat can prepare an analysis of these responses and submit it to the Committee in September 1994. Countries are also requested to propose topics for the in-depth discussion of the Committee at its fifty-sixth session in September 1995.

I. BACKGROUND

4. The economic, social and environmental problems of human settlements receive special attention in all ECE member States, despite their differences in character, size and national peculiarities. The ageing housing stock and infrastructure, industrial restructuring and profound socio-economic reforms,

European integration, the creation of a number of new States, labour market dislocation and increased immigration all have a serious impact on the quality of life and well-being of the population and require permanent attention and timely policy adjustments. The key issue is housing finance to promote the quality of housing, its availability and affordability.

5. The housing sector must be seen and managed as a key part of the national economy. Both the quantity of housing units that individual households can afford through private financing and Government financing for public housing programmes are determined by the growth of gross domestic product (GDP) and the level of household income. The distribution pattern of national income between households and its changes under different economic conditions have a considerable impact on Government commitment to housing finance programmes.

6. The slow-down in economic growth in the ECE region has, in recent years, resulted in a cut in housing investment. In most countries, land prices and building costs have risen even more sharply than the general price level. In many countries, the number of single or two-family housing units increased at the expense of multi-family dwellings. Since one-family housing units are mostly of a better quality and more expensive to build than multi-family units, the number of newly built dwellings increased even more slowly than total housing investment. At the same time, housing investment was comparatively higher than investment in other sectors of the economy, indicating that appropriate taxation policies and the desire to own one's home encourage investment in this sector. In the countries in transition, the housing sector faces the challenges of transition from a planned to a market economy in very difficult economic circumstances. Housing construction and maintenance are at an all-time low.

7. In recent years, most ECE Governments have stated their strong support for owner-occupation. In countries in transition, housing privatization took a strong hold; in many instances, this was also the result of the Government's unwillingness to take responsibility for the maintenance of the dwelling stock. The prevailing view is that owner-occupation encourages self-help and household responsibility and promotes the entrepreneurial spirit, which contributes to the success of the transition to a market economy. However, experience suggests that the growth of owner-occupation helps to improve the dwelling stock primarily in countries with high levels of household income, while in other countries more diverse policies should be applied paying due attention to national circumstances and traditions.

8. Many countries of the ECE region still have a large rental housing sector. This is particularly important for the provision of housing in urban areas. In the rental sector, two main aspects need to be considered: the rent level (including rent control) and the management of the rental stock. There is a steady trend in the market economies towards rent schemes that target subsidies to low-income groups instead of granting general subsidies. Many countries have recently developed management systems based on a decentralized approach and more in line with the tenants' needs. Besides public housing which is owned and managed by government authorities, there are different types of non-profit agencies which provide "social" housing. Some operate with a combination of local public and private capital.

9. A move towards sustainable housing development implies three changes in economic policy: (i) an increased effort in basic research to solve environment-related problems of housing construction; (ii) the acceptance of initial higher costs to pay for the degradation of the environment, improved health, safety and welfare; and (iii) additional public and private investment requirements, at both the national and local levels. Integrated policy-making and decision-making can be furthered by developing criteria based on resource accounting, environmental impact assessment, revision of national accounts and macroeconomic indicators, as well as other methods that will eliminate conflicts between economic and environmental interests.

10. Written replies on the issues suggested for discussion in the paragraphs below should emphasize the following main aspects:

How are the construction, purchase and modernization of dwellings financed?

What are the existing financing problems?

What solutions have been or will be used to deal with this problem?

What solutions and models are suited to the countries in transition and what specific assistance might be provided to give effect to them?

II. ISSUES FOR DISCUSSION

A. Main issues to be addressed

11. What is the general economic context within which the housing sector has to operate in your country?

12. What policy measures have proved to be most effective to ensure adequate public and private financing in unfavourable economic circumstances?

13. Funds from various sources may be used to finance housing construction. As a rule, the importance of foreign financing depends on the type of owner and the type of ownership (rental, ownership, low-income dwelling). It would be interesting to compare the funds used in the various individual countries. Are they mainly mortgages, loans or other types of credit? Who are the most important backers? What are the conditions for awarding loans (variable or fixed rate mortgages, system for paying off loans, etc.)?

14. The market for the financing of housing construction comes within the very specific context of a global economy involving interactions with other markets. General economic characteristics, such as the formation of savings in the Government budget or private households, changes in the nominal and real interest rate, the representation of the relationship between the financing system, on the one hand, and the international capital market, domestic financial markets and the real estate and housing markets, on the other, would show where the financing of housing construction fits into the background of the general economy.

15. Every financing system has its weaknesses, which may, for example, be the level of and/or changes in mortgage rates, heavy indebtedness of households, low savings potential and other problems. What are the main shortcomings? Has there recently been any reaction to them by means of innovations (such as real loans, options models, etc.)? Who was responsible for these innovations and how can the results be evaluated? Whatever form they take, the funds invested in the financing of housing construction have to be refinanced in one way or another. What types of refinancing exist in the different countries (savings funds, bonds, loans, etc.)? Are there savings models especially designed to encourage capital formation?

16. At present, capital formation in the framework of professional mutual benefit societies and other types of insurance plays an important role in various countries. By whom and on what terms may these funds be used for the construction or purchase of dwellings?

B. Other issues which could be considered

17. Tenants have several possibilities for taking part in the financing of the construction of their dwellings, the key ones being: loans to tenants, tenants' sweat equity, leasing models, rental/purchase contracts, equity sharing, etc. What experience has there been with these new possibilities and how can they be evaluated?

18. With regard to refinancing, attractive secondary markets have developed in various countries and securitization has played a special role. Instruments such as mortgage insurance and revolving funds work along the same lines. These innovations might be evaluated as well.

19. Tax questions are also involved in the financing of housing construction. They include, for example, the possible tax advantages of housing savings and the deduction of the interest on income tax debts.

20. In countries which have some form of rent control, there is the question of the size of the possible impact on rents of changes in financing (such as variations in the mortgage interest rate). Are there specific regulations in this regard?

21. What is the average price-income ratio in your country for:
(i) multi-storey housing units; (ii) single-family housing unit? What is the market price/construction cost ratio for 1 m² of the housing unit
(i) in multi-dwelling buildings; and (ii) in a single-family house in the capital city of your country?

22. In many countries, Governments have provided incentives to promote the financing of housing construction (guarantees, loans at lower interest rates, advances, etc.). In this area as well, measures might be compared and their advantages and disadvantages might be discussed.

23. Which assessment techniques have been developed in the environmental economics of housing and have any regulations or legislation emerged?

24. What measures and financial instruments have been tested at national and local levels to promote sustainable housing in the public and private sector? What are the positive and/or negative results of some financial instruments in regard to sustainability concerns?

C. Specific issues for countries in transition

25. What legal regulations governing the purchase of land and real estate and what cadastre and real property registration systems were established, if any?

26. To what extent have competitive conditions been established in the house-building industry and how have they influenced construction costs?

27. Are there any legal provisions or economic (financial) incentives to make housing rent more realistic?

28. Which financial instruments are the most appropriate for housing development for low-income population groups?

29. What are the legal provisions and financial instruments to protect tenants during the period of economic transition?
