1. IMF'S LATEST HOUSING MARKET ASSESSMENTS

Hungary ([Article IV](#)): "Efforts to scale back house purchase incentives and to address supply constraints are needed to mitigate market pressures. In 2018, housing price growth was in double digits, especially in Budapest, partly supported by high wage growth, fiscal incentives, and labor scarcity in the construction sector (…). Budapest house prices appear high compared to fundamentals. Given that a large part of purchases is paid for with private savings, including by foreign citizens, and is done for investment purposes, tightening of macroprudential measures (loan-to-value and debt service-to-income (DSTI) may not be sufficient to contain house price inflation, but can reduce the likelihood of risky mortgages. Moderating price increases would therefore be helped by reviewing the various fiscal incentives for house purchases, basing them on means-testing and targeting, reducing impediments to doing business to spur construction, improving transportation network and commuting options, and improving urban planning to increase housing supply over time. In the context of money laundering risks in the sector, staff also encouraged the authorities to continue their AML/CFT efforts, as Hungary remains on enhanced follow-up based on Moneyval's 2016 assessment, including by continuing to monitor large purchases of luxury real estate", according to the IMF's latest [report](#).

2. A LOOK AT HOUSING AFFORDABILITY IN ASIA

In this interview, Matthias Helble talks about the state of housing affordability in Asia, the causes and consequences of worsening housing affordability, and policies to address housing affordability issues. Matthias is an Economist in the Economic Research and Regional Cooperation Department at the Asian Development Bank.

On the state of housing affordability

Hites Ahir: In the latest issue of the Asian Development Outlook, you talk about affordable housing in the region. What is the state of housing affordability?

Matthias C. Helble: The state of housing affordability looks very dire. We collected detailed housing price data from public and private sources for 211 cities in 27 countries in developing Asia. Combining them with household income data, we calculated the price-to-income ratio (PIR) by city. Our results show that on average the PIR is 15.6, indicating that housing is severely unaffordable. The unaffordability is not only limited to large cities (with more than 5 million inhabitants), but also affects smaller cities (with less than 1 million inhabitants). Furthermore, we cannot see systematic differences across subregions in Asia. Cities in all subregions suffer equally, be it in Central Asia, East Asia, South East Asia, South Asia, or the Pacific. The housing unaffordability stretches from West to East, from Karachi, Kathmandu, Dhaka, and Bangkok to Dili (Timor-Leste), and from South to North starting from Jakarta, Ha Noi, and Vientiane, to Beijing and Ulaanbaatar.

Figure 1: Housing affordability in 211 cities in 27 countries in Asia

% of cities
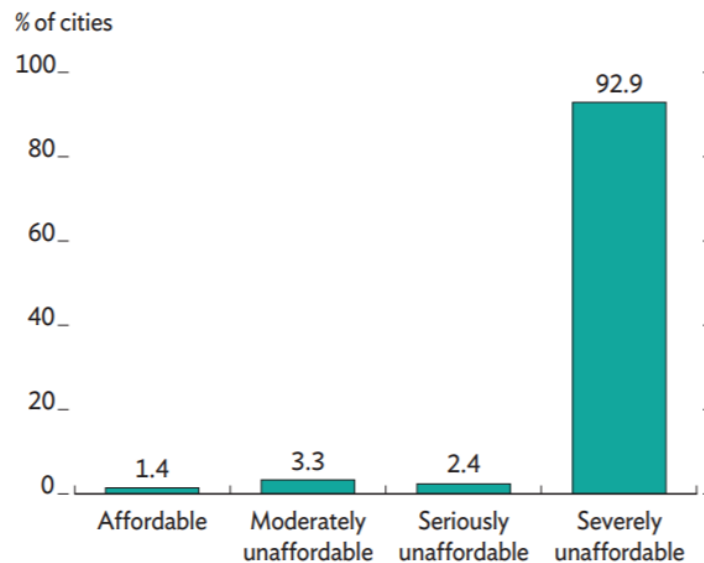
Source: ADB estimates using data from Colliers International;
Global Property Guide; household income and expenditure
surveys, various countries; Knight Frank; Makaan; National Bureau
of Statistics, People's Republic of China; Numbeo; World Bank's
PovcalNet; Zameen.

HA: How do you measure housing affordability?

MH: We measure housing affordability by the price-to-income ratio (PIR), which is probably the most commonly used indicator of housing affordability. It is the ratio of the housing unit price over the annual median household income. Demographia International suggests the following cut-offs: A PIR of below 3 is considered to indicate affordable housing. Housing is moderately unaffordable if the PIR is 3 to 4. For example, cities in developed countries have a PIR averaging 4.0. If the PIR is above 4.1, housing is considered seriously unaffordable, and a PIR above 5 indicates that housing is severely unaffordable. In our sample of 211 cities, we only found three cities (Hubli Dharwad in India, Khulna in Bangladesh, and Timphu in Bhutan) that have affordable housing.

HA: The level of income in a city tends to be higher than in the rest of the country. Do you think the results might be overstating the deterioration of housing affordability in the region?

MH: It is indeed a challenge to obtain household income data at the city-level. For several countries, we had access to household income and expenditure surveys (HIES) at the city-level (or a geographical unit that was dominated by a single city). We could thus control for the fact that the level of income is higher in cities. For the remaining countries in our sample, we made

use of the positive relationship between city size and income and adjusted the national household income upward using a regression-based approach. Apart from the challenge of adjusting national household income to city size, the HIES data itself might not always accurately report the entire income of a household. An underreporting of household income would lead to an overstatement of the housing affordability problem. In order to test the sensitivity of our results, we developed various scenarios, for example assuming that the real household income was 25 percent higher. Running these tests, we found that housing remained severely unaffordable in most cities in our sample because the housing prices are simply very high.

On the causes and consequences

HA: What is driving the deterioration in housing affordability?

MH: The main driver is the rapid urbanization in Asia, alongside economic success. The demand for housing is thus increasing rapidly while the supply is lagging. Cities have been slow in expanding the availability of low-cost developable land with access to public amenities and transport. The land price of well-served and centrally located areas is thus spiraling. At the same time, we see a lot of unplanned, even chaotic, urban expansion. Another aggravating factor is that in Asia almost everybody aspires to become a homeowner and the rental market is still relatively small in most cities in developing Asia.

HA: What does the literature say about the consequences of a deterioration in housing affordability?

MH: The unaffordability of housing has severe consequences beyond the negative impact on the individual household. Housing unaffordability damages the economic competitiveness of cities and thus can undermine the growth prospects of the entire country. We have solid empirical evidence of three main channels through which housing unaffordability affects the economy:

- First, housing unaffordability results in a less flexible labor market and thus leads to labor misallocation.
- Second, as housing prices rise, firms tend to invest in real estate rather than in innovation and productivity enhancement. Furthermore, banks tend to lend more to firms that have real estate assets instead of the best business prospects, resulting in capital misallocation**.**
- Third, high housing prices deter people from moving to the city. Housing unaffordability thus slows the process of urbanization and thereby reduces agglomeration-induced productivity growth and aggregate welfare.

On the cures

HA: What policies have been implemented in Asia?

MH: A wide range of policies have been tried throughout Asia. The table below provides some examples. It is important not to expect that the same housing policy would work equally across countries. For example, an idle land tax boosted the construction of housing after the Second World War. The same policy today is not having much effect in the Philippines due to uncertain land titles.

Table 1: Main policy options used in Asia toward affordable housing

| Objective	Target	Measure	Examples
Reduce housing prices	Increase housing supply	Direct provision	Cambodia; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; Malaysia; Myanmar; Philippines; PRC; Singapore; ROK; Taipei,China; Thailand; Viet Nam
		Subsidized production	Subsidies in Malaysia and Thailand; loans in Kazakhstan and the Philippines; tax credits in India, Indonesia, the Philippines, Thailand
		Mandated production	Indonesia, Malaysia, ROK, Viet Nam
		Land provided	Myanmar, Philippines, PRC, Singapore
		Tax on vacant land and unoccupied units	Indonesia, Japan, Malaysia, Philippines
	Contain housing demand	Anti-speculation through taxation or purchase restriction	Differential purchase and property tax in Singapore and Hong Kong, China; purchase restrictions in Malaysia and the PRC; seller stamp duties or capital gains taxes in Indonesia, Malaysia, the Philippines, the PRC, the ROK, Singapore, and Taipei,China
		Macroprudential (e.g., ratios of loan to income)	Indonesia, PRC, ROK, Singapore
	Directly price control	Price and rent controls	Rent control in India, Myanmar, the Philippines, and the PRC; price controls in the PRC and the ROK; price discounts in Malaysia
Increase ability to pay	Direct subsidy	Capital grant	Indonesia; Malaysia; Singapore; Taipei,China
		Allowance	Hong Kong, China; Japan; Malaysia; Singapore
	Tax incentives	Income tax deduction	India, Indonesia, Singapore
	Financing measures	Low-interest loan	Singapore; Hong Kong, China; India; Indonesia; Kazakhstan; Malaysia; ROK; Thailand; Viet Nam
		Guarantee and insurance	India; Indonesia; Kazakhstan; Hong Kong, China; Malaysia; Pakistan; Philippines; ROK; Viet Nam
		Savings scheme	Malaysia, Philippines, PRC, Singapore

PRC = People's Republic of China, ROK = Republic of Korea.
Source: ADB.

HA: Is there a framework that policymakers can use to address housing affordability issues?

MH: There is no specific framework, rather we have some recommendations.

- First, the housing unaffordability crisis cannot be solved by the public sector alone. The private sector needs to be part of the solution, notably through the provision of low-cost housing. Governments need to provide incentive schemes to encourage that.
- Second, the best housing policies will flounder if the policy implementation and enforcement is weak. This has been the case in many developing countries.
- Finally, we are living in an age in which an incredible amount of data on the housing market and related issues is becoming available. Collecting and analyzing the data and feeding the results into the policy process could greatly improve the effectiveness of housing policies.

Figure 2: Housing policy option tree
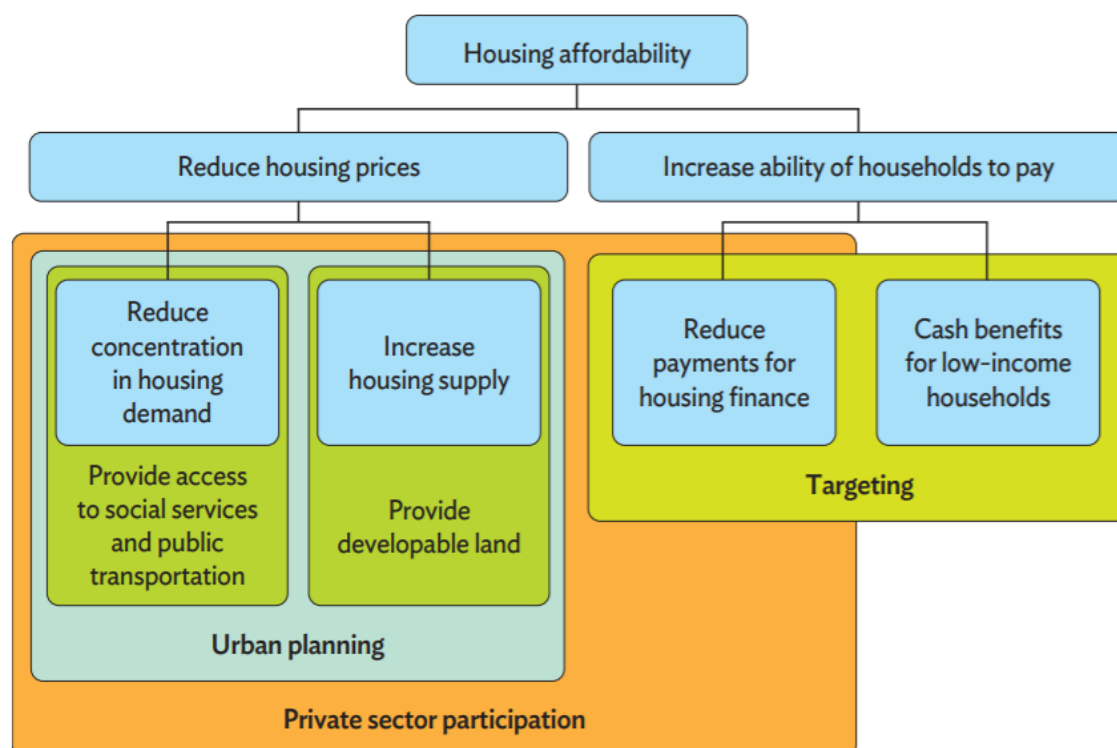
Source: ADB.

HA: Do you think that most of the discussion on affordable housing tends to be around "increasing housing supply" and not concentrating much on other important elements such as affordable transport, upgrading slums, and others? Please explain your opinion.

MH: Increasing housing supply alone will certainly not solve the problem. Similar to other policy areas, there is insufficient coordination between the line ministries responsible for housing and other ministries. Housing policies need to be well embedded into urban planning. Integrated neighborhoods need to be developed with access to social services, such as education and healthcare, as well as transport. Another problem is that we do not yet have enough sound evidence on many aspects of housing prices such as how access to transport affects housing prices in developing countries. Thanks to the emergence of big data, I am convinced that a lot of new interesting insights will soon be uncovered. At the Asian Development Bank, we are already working with big data to measure traffic congestion and travel time, for example.

HA: Is there a success story that you could share with us?

MH: A case that is often cited is Singapore. Yet there are other less well-known, but still very valuable, examples, such as in South Korea. Due to fast economic growth in the 1980s, South Korea witnessed a sharp increase in housing prices in its major cities. The government responded by announcing the "Two-Million Housing Drive," promising to build 2 million new housing units within 5 years. It achieved the objective through a mix of public and private action. The government also introduced a successful policy of allocating housing units to target income groups according to their ability to pay. This approach improved housing conditions, both in terms of quantity and quality, and helped the middle class to build their wealth through house ownership. The country's housing policy was also well integrated into urban planning so supply constraints were quickly removed. While certainly not without challenges, South Korea provides a useful example of how to tackle housing affordability.

ABOUT GLOBAL HOUSING WATCH NEWSLETTER

The Global Housing Watch Newsletter aims to present a snapshot of the month's news and research on global housing markets. If you have suggestions on new material that could be included or ideas to improve this newsletter, you can send it to Hites Ahir (hahir@imf.org).

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