

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



the Housing Bank
for
**SMH
FINANCE**
Small & Medium Housing Finance

Presentation
at
**2nd International Conference on
Construction Industry-ICCI 2006**
by
Zaigham Mahmood Rizvi
Chairman
H.B.F.C.

The challenges facing financial Policymakers &
practitioners dealing with housing finance

29-30th August , 2006 at Expo Centre, Karachi - PAKISTAN



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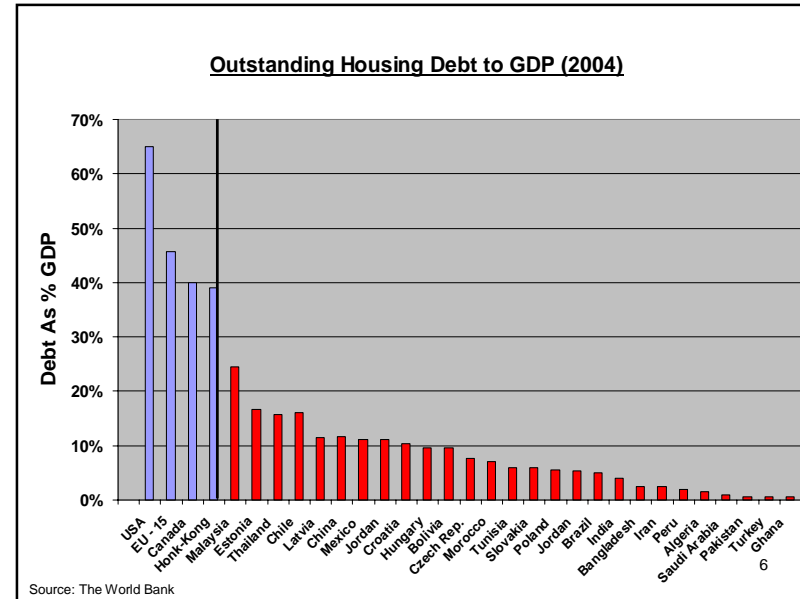
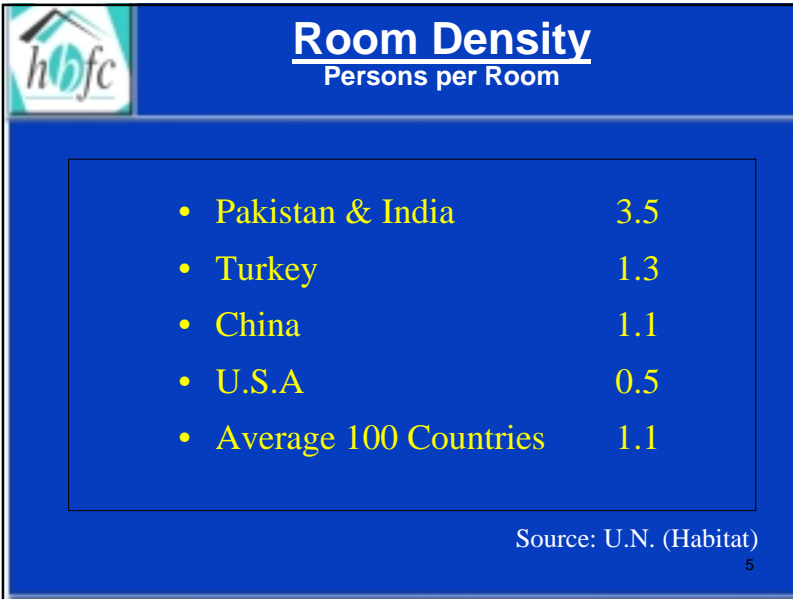


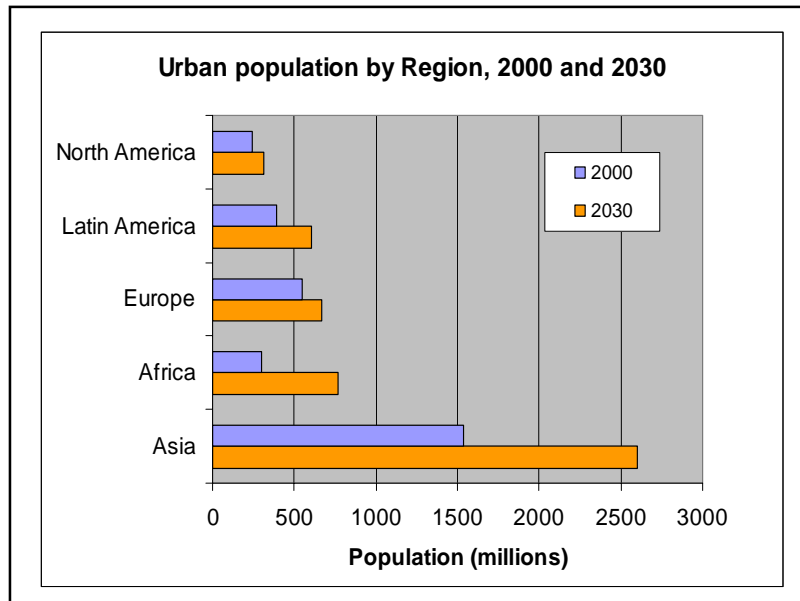
Global View



Housing - Global View


- The problem of inadequate or nonexistent housing has reached crisis proportions globally. The world population passed 6.1 billion in 2001 and is expected to reach 7.9-10.9 billion by 2050, according to the United Nations (UN) Population Fund. This sheer volume alone exerts enormous pressure to improve existing housing and create new homes.
- As the global population grows, rural areas around the world are emptying and mega cities springing up, usually as unregulated districts circling an older, more organized core.
- According to the Washington, D.C.-based advocacy group Population Action International, as of 1996 (the latest figures available), approximately 52% of the total housing in Caracas, Venezuela, consisted of squatter settlements; in Dar es Salaam, Tanzania, the figure was 49%, and in Karachi, Pakistan, and Mumbai, India it about the same.





**Housing –
a mega Issue**

for Pakistan as well




HOUSING – a Critical Issue

- Growing rate of Housing Demand in Urban areas 8% p.a.
- **Housing Units in the country** 19.649 million.
 - Ownership 80.8% 15.876 m
 - Rent free 10.2% 2.004 m
 - Rented 9.0% 1.768 m
- **Units required for the population of 149 million.** 25.839 million
- **Shortfall of Housing Units** 6.19 million*

* Based on 1998 Survey.
 * This estimates that backlog may now be increased to 7.0 m.

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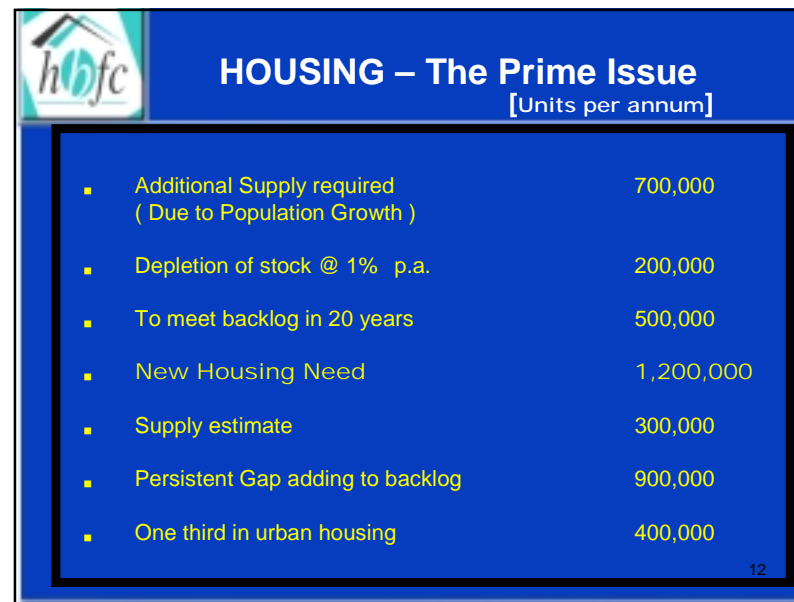
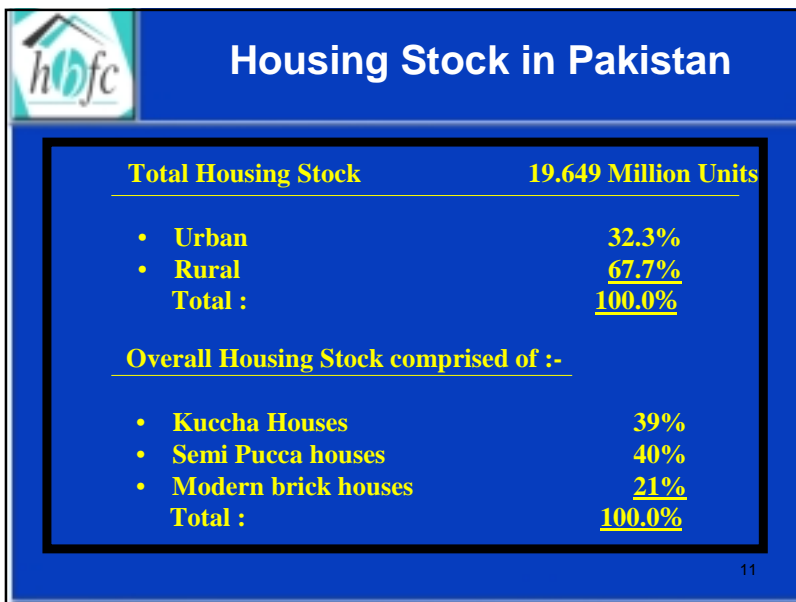



Annual Demand for Housing

Contributing Factors

- **Population Growth**
- **Previous Backlog**
- **Depletion.**

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Potential for Housing Construction Industry and Housing Finance

	<u>Per Year</u>
• Urban Housing Needs	400,000
• At average cost of Rs.1.0 Mn/Unit	Rs.400 Billion
• Mortgage Finance potential at 35% of Urban Housing needs	Rs.135 Billion (3% of GDP)
• Current Mortgage Finance (2005)	Rs.18 Billion only (0.5% of GDP)


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The Demand/Supply Gap Resulting to "Homeless" People Issue

- The ever widening demand/supply gap is finding solution (or hiding itself) through following options:
 - a) Katchi Abadis (squatter settlement) on Govt. land.
 - b) Informal subdivision settlements on agricultural land (zoning issue as well).
 - c) Densification of environmentally degraded inner city areas.


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BUILDING NEW HOUSES IS THE ONLY SOLUTION

- We need to substantially increase the **HOUSING STOCK**.
- This is possible through “construction” finance and not “purchase” finance.
- In Pakistan nearly 90% of housing is built for ownership and not for investment (equity built up through mortgage is not common).
- Housing should become an investment avenue as opposed to plot. Today it is the reverse.
- Investment in housing is possible only if “rentals” match the “mortgage” payments.
- This is possible through increase in housing stock investment.
 - fiscal incentives on mortgage payments; and
 - effective tenancy laws.

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Squatter Settlements and Rehabilitation of Homeless

- Nearly half of urban Pakistan’s area is illegal habitat and squatter settlements.
- In Karachi only more than 55% of population live in “Katchi Abadis” or squatter settlements.
- An estimated 250,000 – 300,000 people annually migrate to Karachi (urbanization issue), needing an additional 40,000 – 50,000 housing units every year.
- Due to population growth, in Karachi, nearly 1/3rd of the population is deprived of drinkable water and nearly 2/3rd of population/habitat is without sanitation.
- This leads to issues of adequate supply of sanitation, water, electricity municipal services, health and education.


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Challenges to Real Estate Sector

- Titling and ownership laws.
- Laws to promote, regulate and monitor wholesale housing solutions/projects.
- Development of market based housing finance instruments like Securitization, REITs, Mortgage Bonds etc.
- Affordability - its assessment and design solutions accordingly.
- Expansion of outreach program to unserved sections of population.
- Promote construction, increase housing stock.

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AFFORDABILITY ISSUE

**Income
Distribution**

INCOME DISTRIBUTION IN PAKISTAN (1 US \$ = 60 Pakistani Rupees)	
• Absolute Poor: Surviving On Charity & Community Help	05 %
• Families Monthly Earning Between	
» Rs.1,000 to 2,000	15 %
» Rs.2,001 to 10,000	60 %
» Rs.10,001 to 25,000	15 %
» Rs. 25,000 & above	05 %
• Per capita Income	Rs.4000 p.m.
• Minimum Wages	Rs.4000 p.m.

Income levels and Mortgage Affordability	
• About 20% of population is very needy and very poor. Their mortgage affordability is less than Rs. 2 lac (Micro upto 2 lac).	
• Nearly 3/4 th of the people have income levels less than Rs.6,000 per month and their mortgage affordability is less than Rs. 5 Lac (Small – between Rs. 2 – 10 lac);	
• Nearly 85% of the people can hardly afford mortgage up to Rs. 15 Lac (Lower Medium – between Rs. 10 – 25 lac);	
• Nearly 95% of the people fall below the Mortgage affordability of Rs. 30 Lac (Upper Medium - between Rs.25–50 lac);	
• Less than 1% can afford mortgage of Rs.100 Lac and above	
• Average per capita income of Pakistan is Rs. 4,000 per month;	
• Commercial banks focus on high net worth clients and maintain strict unbending rules of not catering to certain professions (deemed unworthy by them) and certain location.	

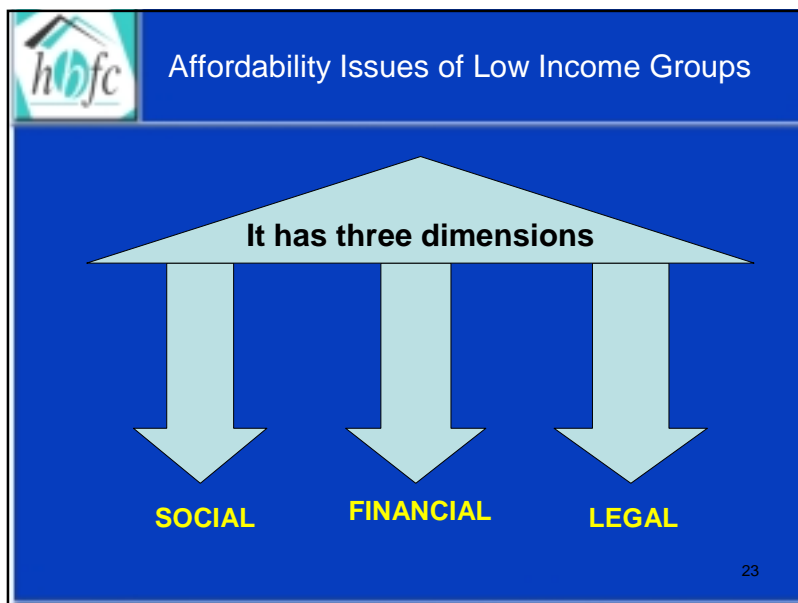


HBFC's Definition of Financing	
• Micro	up to 2 lac.
• Small	Rs. 2 – 10 lac.
• Lower Medium	Rs. 10 – 25 lac.
• Upper Medium	Rs. 25 – 50 lac.
• Higher	Rs. 50- 75 lac.


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Issues of Low Income Groups




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- The slide has a blue header with the 'hbfc' logo and the text 'Affordability Issues of Low Income Groups SOCIAL'. Below the header, a list of five bullet points in yellow text describes social issues. The number '24' is in the bottom right corner.
- Large family units
 - For initial period of mortgage, spirits are high to sacrifice for the shelter. The spirit gradually fades over the years.
 - While longer tenors are desired for lowering mortgage installments, sustainability of income for longer tenors is rather unrealistic assumption.
 - Documented verification of income is difficult. Some time whole family is gain fully employed but informally.
 - In case of any emergency the family circle being financially weak is enable to share burden.



Affordability Issues of Low Income Groups
FINANCIAL

- Propensity to save is negligible rather negative in most cases.
- Sustainability of cash flows and affordability over 15-20 years tenors of the loan, is generally an unrealistic assumption.
- Any prolonged illness moreso in elders of the family adversely effect mortgage affordability.
- Mortgage payments being small amounts, the bank transaction costs are prohibitive.

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Affordability Issues of Low Income Groups
LEGAL

- Titling issues are complex in retail low cost housing.
- Documentation is poor and difficult due to illiteracy.
- Bribing to get documentation/ verification from various concerned departments becomes of significant portion of the loan amount.

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Social Housing Bank

Micro Housing Bank



MICRO HOUSING FINANCE BANK(S)

- HBFC intends to establish a separate financing platform **Social Housing Bank (SHB)** for promoting low-cost housing under micro housing finance scheme.
- The SHB will have an initial capital of Rs. 500 million and will be licensed as a Micro-Finance Bank by SBP.
- The sponsors of the Bank along with HBFC may include institutional sponsors like ADB, IFC, Islamic Development Bank etc.

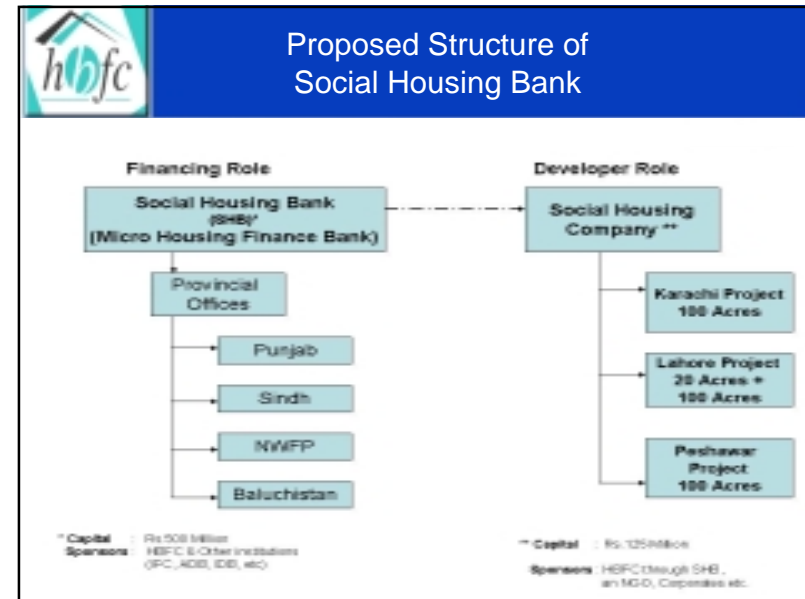
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Social Housing Bank

- In order to design, develop and manage specific Low-Cost Housing Projects, a Social Housing Company is being promoted by HBFC from the platform of Social Housing Bank.
- It will play the role as a “Developer and Manager” of Low-Cost Housing Projects. It will have an initial capital of Rs. 125 million.

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Social Housing Company

MICRO HOUSING FINANCE

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Social Housing Company (Proposed)

**A socially responsible and commercially sustainable solution
to poor people housing problems.**

- A Social Housing Company is being promoted by HBFC, SAIBAN, Acumen Fund etc to design and develop low cost housing projects on concept of "Incremental Housing"
- Initial capital is proposed at Rs 125 – 250 Mn.
- The idea has been encouraged by the Prime Minister and is being promoted under SBP platform.
- Nearly 55% of urban population is living in Katchi Abadis in Karachi. Figure is lower in other cities.
- Social Housing Company is to promote affordable housing facilities to low-income groups and less privileged class of the society.

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Social Housing Projects (Proposed)

- To provide housing to needy and poor people, on the concept of "Incremental Housing", like Khuda Ki Basti, Karachi.
- HBFC has approached Government of Sindh to allocate a 100 acre land to HBFC, wherein it will be floating a housing scheme for needy and poor section of the population.
- The Project will be structured to be socially responsible and will operate as commercially viable entity as well.
- Similar low cost housing scheme is being planned for Lahore, Gawadar, and other cities.

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Social Housing Company (Proposed)

- Potential Sponsors
 - HBFC
 - Acumen Fund, USA
 - Saiban
 - Corporates etc
- Initial Capital
 - Rs.125 – 250 Million

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Low Cost Housing Projects



Projects Under Consideration

- **Taiser Town Karachi** **100* Acres.**
- **Shahdra Lahore** **20 Acres.**
- **Lahore** **100* Acres.**
- **N W F P** **100 Acres.**

* Land allocation applications have been submitted to the respective authorities.



Projects Under Consideration.

- Gawadar – two schemes are under consideration.
 - Small housing:
For fishermen, port workers and lower grade employees of business and government Employees.
 - Medium housing.
For middle level workers and people from Makran Coast working in Oman and Gulf.
- Two schemes are of 100 acres each.

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Low-cost Construction Technologies - Certification

- There are many low cost housing construction technologies being promoted by various international and local vendors.
- There is no one platform which would evaluate and certify as to which technologies are internationally proven low-cost housing technologies and would cater to our local requirements.
- HBFC, in association with Pakistan Council of Architect and Town Planners (PCATP) has initiated a project to review all available low cost technologies, and “Technically clear” as to which of these internationally proven technologies would best suite the local conditions and could be financially evaluated by micro housing finance institutions.

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Low-cost Construction Materials Industries (CMI's)


- Banks and DFIs, under a policy framework have to encourage low-cost construction material industries (CMI's).
- The CMI's are needed to be developed on a mass scale, wherein some fiscal incentives are to be granted by the Government to make CMI an attractive investment for the project sponsors.

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Sponsor a Shelter Foundation

A separate Platform for any "Charity"




Sponsor a Shelter Foundation”

Public support program through Zakat and Donations for enhancing mortgaged payment capacity of low income borrowers.

- HBFC being a housing finance institution, specializing for low and middle income groups of the population, is fully conscious of the fact that due to property price escalation during the last few years, even low cost housing has gone beyond the affordability of low income people.
- HBFC being socially responsible, caters to housing finance needs of low and middle income groups of population. Any support to enhance mortgage affordability of the poor is the responsibility of society at large and any institutional mechanism for this has to be through a separate entity, outside HBFC.
- Therefore, to support these people and to enhance their mortgage affordability, a program “Sponsor a Poor for seeking Shelter” is proposed to be launched where a poor borrower may be required to make a part of the mortgage payment, whereas the balance will be from the Foundation through contribution of Zakat and/or individual/corporate Donations.


[more](#) 41



Sponsor a Shelter Foundation

- Eligibility for such poor and needy will be determined through a transparent mechanism of the Foundation and the amounts will be limited within its financial resources.
- It has been checked with the religious scholars that such a support program is perfectly eligible for Zakat.
- Initial response is positive from various corporations, philanthropists and overseas Pakistanis to make their Zakat contributions/ donations for the purpose.
- HBFC is in a very comfortable position to ensure that the recipient is a very deserving case and the contributions are being applied towards reduction of loan obligations. Since the objective is a very noble one, of providing shelter to the poor and needy, it is expected to receive a good response.
- HBFC would only recommend deserving cases to be assessed by the foundation. The Foundation would approve/disapprove requests for financial support on merit, as per its own laid down criteria.

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Sponsor a Shelter Foundation

- Through "Foundation" we propose to take charity and social service outside HBFC.
- Initial Resources: (Rs. In Mn).

HBFC's	250*
Zakat Foundation,	750
Corporates, Individual.	<u>1,000</u>
Total	2,000

* HBFC will contribute this amount from a special fund at HBFC, which can be used only for charity and social cause.

- Corporate and Individual donations will be tax exempted.
- Management of Foundation will be a combination of public and private sector nominees.

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Thank You.

<http://www.hbfc.com.pk>
info@hbfc.com.pk