

HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance



- ➔ 2018, a turning point for social housing policy in France
- ➔ Haiti HOME: Catalyzing Haiti's affordable housing market
- ➔ The international market for second homes: Global trends in ownership and renting
- ➔ The Southern African Development Community's housing investment landscape: Major players and trends
- ➔ Report of the 2018 EFL Autumn Conference held in Milan

International Union for Housing Finance

Housing Finance International

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Haiti HOME: Catalyzing Haiti's affordable housing market

→ By Olivia Caldwell and Claude Clodomir

1. Introduction

Haiti suffers from an acute housing shortage, a high population growth rate, and rapid urban expansion. The pre-earthquake (2010) housing shortage was estimated at 500,000 units for a population of only 10 million people. The World Bank estimated that roughly 70% of Port-au-Prince's pre-earthquake population lived in informal settlements. These neighborhoods lacked access to basic services and are often located in high-risk zones. Since the 2010 earthquake over 1.5 million people have been displaced and 180,000 additional housing units have been destroyed. Despite numerous donor interventions to rebuild Haiti's housing stock,

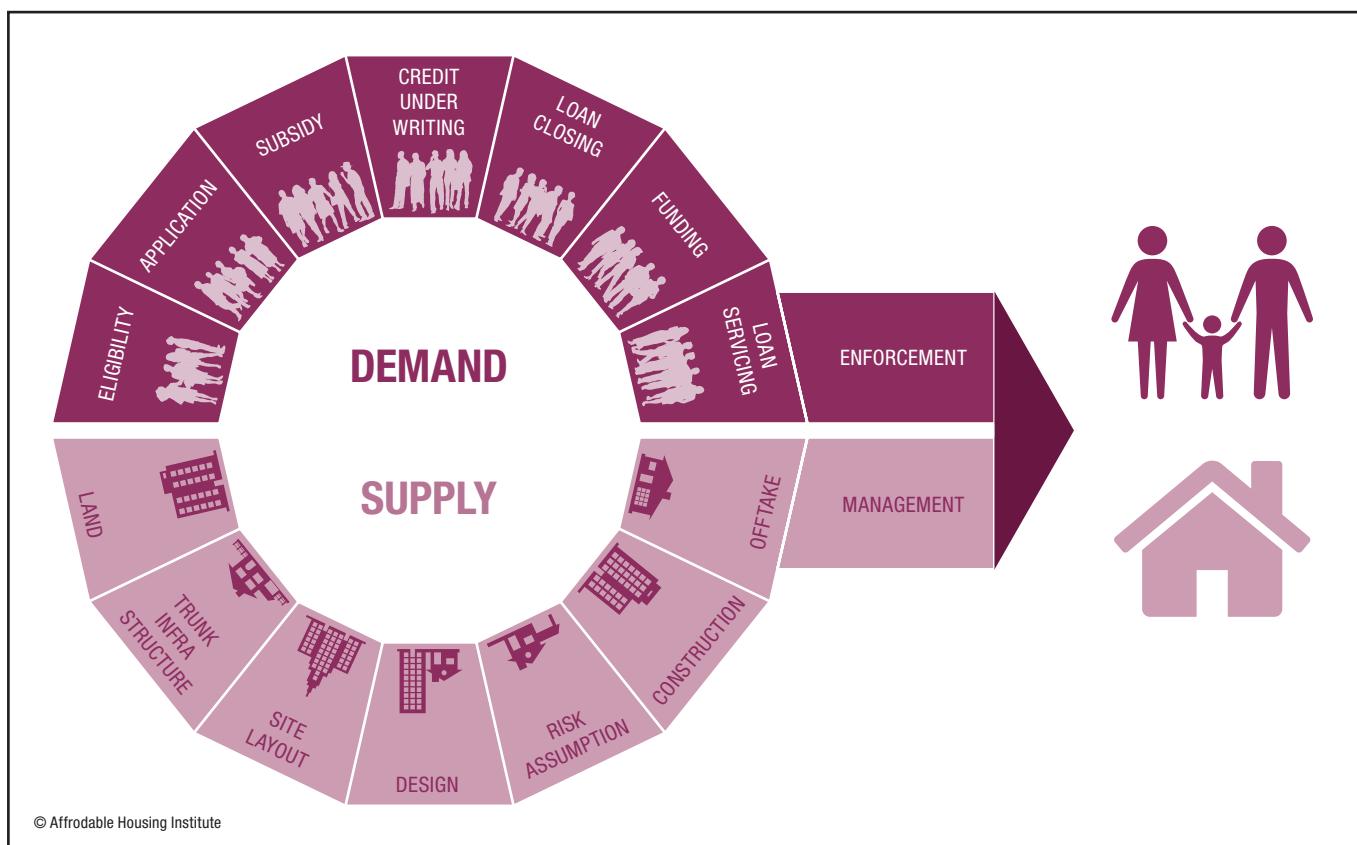
a great majority of urban residents still live in precarious shelters and continue to be vulnerable to climate and seismic hazards.

The housing shortage is both quantitative and qualitative. Formally titled housing remains rare and the average price of a formal house in Port au Prince is around USD 300,000, far out of reach for the majority of the population and new units are critically needed to bridge the quantitative deficit. At the same time, home improvement loans are necessary to eradicate the qualitative housing shortage and increase urban resilience. Despite this great need, Haiti's housing market is underdeveloped and is currently unable to meet the country's growing housing demand because it is critically

constrained by major hurdles on both the supply and demand sides of the housing value chain.

2. Haiti's housing value chain faces many hurdles

Although numerous interventions tried to rebuild Port au Prince after the earthquake, few took a holistic approach by focusing on the market's enabling environment. Most donors sought to engage directly in reconstruction without seeking to tackle the housing market's underlying structural issues. A successful housing ecosystem only emerges when the demand and supply value chains, each with eight interlinked steps, operate effectively and at scale. Unfortunately,



Haiti HOME: Catalyzing Haiti's affordable housing market

Haiti's housing market is stunted by weak links on both sides of its housing value chain.

The supply side of the housing value chain looks at the physical production of homes. Here, the first major issue is land tenure. Over 90% of land transactions in Haiti happen on the informal market. Haiti's courts are filled with land disputes and many investors shy away from developing real estate in such contentious circumstances. Furthermore, land in Port au Prince is very expensive and the small amount of land available for development is subject to land-use economics under which more profitable assets are prioritized. While hotels and luxury apartments have sprouted around the capital, affordable housing developments remain nonexistent. Mitigating high land costs through greater density and verticality is currently impossible because Haiti's condominium law remains unapplied and misunderstood, meaning no one in Port au Prince formally owns an apartment. To make matters worse, construction costs in Haiti are substantially higher than most other countries; materials need to be imported, are subject to custom duties, and transport complications. Despite attempts to bring innovative construction technologies to Haiti (notoriously showcased at the Zoranje housing expo after the earthquake), these techniques have had limited success in reducing construction costs and most households still prefer to live in brick and mortar houses. Given all these restraints, developers have been shy of entering the seemingly high risk and low reward affordable housing market.

2.1. Demand side constraints

The demand side represents people's ability to borrow money in order to finance the purchase of a new home or repair an existing home. The housing finance sector in Haiti is very weak and the country has fewer than 1,000 outstanding mortgages. Few households in Haiti are eligible for mortgage financing either because they earn too little or their revenue stems from informal employment, which is difficult to underwrite. Haiti's per capita income is estimated at USD 250, less than one tenth of the Latin American average, and almost 90% percent of workers are employed in the informal economy and are ineligible for formal bank financing. The Government of Haiti launched the Kay Pam program after the earthquake to offer long term funding (30 years) at fixed rates (8%) to first time homeowners, but the program has struggled to take off due to the limited amount of supply and lack of qualifying households. Banks refuse to go down-market due to the perceived risk of lending to lower middle-class households.

Despite these many hurdles, Haiti is home to a growing middle-class whose housing needs are not being addressed. This middle class presents a significant opportunity for developers and financial institutions interested in broadening their market and willing to overcome their perception of risk.

3. About Haiti HOME

In 2015, the United States Agency for International Development [USAID] developed and funded the Haiti Home Ownership and Mortgage Expansion [HOME] program to specifically address these issues and strengthen the country's housing value chain. The program is implemented by the World Council of Credit Unions [WOCCU] in partnership with the Affordable Housing Institute [AHI].

The HOME program seeks to catalyze the affordable housing market in Haiti by working with local private sector developers and financial institutions. HOME uses a mix of pay-for-performance incentives and technical assistance to push companies outside of their comfort zones and go down-market. The technical assistance supports them in going down-market, while the financial incentives encourages them to lead the way and reward them for their efforts. HOME has adopted a value chain approach and works simultaneously with developers and financial institutions in order to ensure that both the hurdles on the supply and demand are being addressed. By doing so, HOME is focusing on creating an enabling environment under which a housing market can be catalyzed.

In adopting a value chain approach, it was important for the HOME team to first understand the target market and the price points they can afford. The program ensures that developers are producing houses at these price points and encouraging financial institutions to work with vulnerable households that are credit worthy. The value chain becomes functional once a household can access finance to buy an affordable and safe home. After three years, ten companies have stepped up to the challenge, over 300 houses are in the process of being built and hundreds of families have benefited from a housing repair loan. The housing market has begun to budge.

4. Interventions on the supply side

Instead of engaging in housing development directly like other donors had previously done, HOME invited local developers and landowners to present their projects. By working directly with the Haitian private sector, HOME has

avoided some of the pitfalls that have frustrated so many international organizations. Haitian companies are more familiar with the country's land issues, know which land is under dispute, and are able to navigate the complex land registration system. Once a project has been presented, HOME designs a carefully calibrated pay-for-performance incentive agenda in order to encourage developers to lower their prices, use green building techniques, and adopt international best standards in the development process. HOME accompanies each developer from site planning to the sale of the houses and provides assistance each step of the way.

The method of combining incentives with technical assistance has proven effective. When developers know they can make more money by building smaller and more affordable units, that's what they do. The incentives encourage developers away from luxury real estate and get them to focus on the affordable housing sector. In order to ensure that the houses go to the right people, HOME has applied income-qualifying criteria, which target a broad spectrum of the Haitian middle class. The criteria are carefully calibrated in order to ensure that developers do find a market for their homes while enabling previously excluded households to buy one.

Haiti is also extremely vulnerable to natural hazards. With more than 90% of the population at risk of earthquakes and hurricanes, the provision of financeable, formal affordable housing increases resilience as well as spurs on economic growth. Building according to high seismic standards is crucial to the sustainable development of the country. Investing in good construction is much more cost effective than building back afterwards. In order to ensure that homes are built according to standards, HOME only works with reputable construction companies and ensures that all housing structural plans are properly certified by engineering firms.

To help Haiti's notoriously bad environment, HOME is teaching developers about the benefits, both environmental and economic, of going green. HOME is working with the International Finance Corporation's green certification tool for emerging markets, EDGE, a very effective and user-friendly application. HOME's incentives encourage developers to adopt green building practices when they were previously reluctant to do so. Affordable additions to houses are encouraged, such as adding solar panels, collecting rainwater, or reducing the ratio of windows to walls. So far three projects have received EDGE certification and another two are under review.

Chabuma



Villa Flora housing project in Port au Prince, developed by Chabuma and supported by Haiti HOME.

Haiti HOME has been working with Chabuma throughout its transformation from a local Haitian building supply company into a housing developer. Patrick Brun, Chabuma's CEO, had noticed that many of his customers were engaging in auto-construction and he began looking into the state of the affordable housing market in Haiti. Once he determined that there were no developers building affordable housing, he quickly realized the size of the opportunity. Chabuma partnered with HOME in order to better understand the market and get technical assistance as well as financial support in developing their first housing projects.

Today the company has developed two housing projects and is in the process of developing its third and most ambitious project. All of these projects have received support from Haiti HOME. In a country that lacks residential developers, and those few that do exist focus on small, high-end markets, this represents a big step in increasing accessibility of homeownership for lower-income Haitians. These integrated developments target the working middle class that currently has limited to no access to mortgages and offer an alternative to lower-income households within the informal sector with household incomes ranging from USD 500/month to USD 4,400/month.

Chabuma's first development, Corlette, is located in downtown Port-au-Prince and includes 37 units targeting the capital's middle class. The units are all EDGE certified and priced around USD 100,000 for each unit, remarkably affordable given the price of similar houses in the neighborhood (around USD 500,000). In order to receive the pay-for-performance assistance, Chabuma has had to sell the houses to income-qualifying households through a mortgage. This ensures that the subsidy is well directed.

Chabuma's second development is aimed at lower-income Haitian households with price

points under USD 20,000. These houses are affordable enough that they can be purchased through a local credit union, making them available to informally employed workers. This is an important development as informal workers do not have access to mortgages and need to seek finance from credit unions or microfinance institutions. Despite being very affordable, these houses are also green certified and achieve high levels of water and energy efficiency through very cost-effective mechanisms.

Finally, Chabuma has recently broken ground on their third and most ambitious housing development in the Port au Prince area. Village Dominique is based in Santo 3 and is composed of both a commercial and residential community. The community will be home to 37 middle-income households. Each home will be sold for USD 50,000 to USD 75,000, far below Port au Prince's average market price.

In developing this third project, Mr. Brun is seeking to achieve a more ambitious goal and disrupt the Haitian housing market. Beyond providing affordable housing, Chabuma wants to be the first developer in the history of the country to sell individual condominiums. The lack of clarity on procedures to sell condominiums in Haiti is a major impediment to building vertically, optimizing land use and building affordable housing. This is largely caused by the fact that laws related to these matters are relatively new (2012) and complex. Mr. Brun, supported by Haiti HOME, will seek to overcome this legal hurdle and be the first developer to sell affordable, green, and vertical apartments in Haiti.

Panamera and Tecina



HOME began collaboration with Tecina S.A. in 2016, supporting the company in developing a business plan, facilitating meetings with commercial banks, and providing funding for a market study to assess the commercial feasibility of constructing the Noailles development. In 2018, less than two years later, the housing development officially launched and the sale of homes to the public commenced. The development,

located in Village Noailles, in the town of Croix des-Bouquets, extends over 3.5 hectares, providing 75 single-family housing units. The Noailles development aims to address a chronic need for modern and affordable housing in Haiti that is accessible to the Haitian working middle class that currently has limited to no access to mortgages. To maximize the commercial impact of the project and capture different aspects of unmet market demand, Tecina seeks to create a mixed-income community. The sales strategy focuses on low-to-middle income households, government employees, and employer-sponsored housing. Pricing reflects the different units with 44% of the units priced at USD 72,000, 47% at USD 102,000 and nine percent at USD 131,000. They are conveniently located 15 minutes from the Port-Au-Prince international airport and 35 minutes from the border with the Dominican Republic.

The project's successes have created momentum in the market as developers are starting to see the market potential for the Haitian middle-class and HOME has recently started working with Panemara, another local developer, on a similar site. The high-risk perception of this market segment has been shattered and many private sector companies now see the potential for profits. As NGOs continue to leave Haiti and the expat community is dwindling down, so is the demand for luxury housing.

All of these developers have started from scratch but are in the process of changing the Haitian housing market. Since the program began, two housing developments have been completed and three are currently in construction with a total private capital commitment of over USD 20 million. The housing prices range from USD 19,000 to USD 140,000, well below the Port au Prince average for formal housing. The market now has a few nascent developers who understand the business case for affordable housing and are eager to expand their operations. In fact, two of Haiti HOME's partner developers have committed to continue investing in the sector after the program ends.

5. Interventions on the demand side

In order to ensure developers can sell the houses and households can access financing, HOME is working on the demand side with microfinance institutions, credit unions, and banks. By providing a mix of technical assistance and financial incentives, HOME is seeking to increase access to housing finance for both formal and informal households following two strategies:

- 1) Encouraging banks to offer mortgages down-market for formally built houses

2) Supporting credit unions in developing home improvement products and small mortgages for the informal sector

Both of these strategies are crucial to support a large portion of the Haitian population. Most families will not be able to afford even the cheapest formally built home and need to have access to home improvement finance instead. Well-designed housing microcredits can support lower-income households in undertaking important home improvements which will contribute to their wellbeing. Making these loans available is part of HOME's holistic approach of addressing Haiti's quantitative and qualitative housing shortage.

HOME is working hand in hand with Haiti's main banks in order to support them in going down-market and offering smaller loan amounts. Before HOME's intervention, individual mortgages averaged around USD 200,000. Banks blamed the large mortgage sizes on the lack of affordable housing being supplied by the market. By connecting banks to developers, HOME was able to quickly build the banks' appetites for smaller mortgages closer to USD 70,000. Furthermore, HOME started offering down payment assistance to income-qualifying households to make sure they could meet the banks' 20% down payment requirements. Since the beginning of HOME's activities, the mortgage market has more than doubled in volume while making smaller and smaller loans.

Simultaneously, HOME is working with credit unions in order to ensure that informal households also have access to housing finance. Credit unions have been especially enthusiastic and have doubled their housing loan portfolios. HOME is currently working with two major credit unions: Kotelam and Socolavim.

HOME's original partnership with Kotelam, one of the country's largest credit unions, targeted a 75% boost in Kotelam's housing loan portfolio, and today the portfolio is up 191%. The HOME Program achieved this growth by streamlining Kotelam's credit underwriting procedures, training credit agents on monitoring and supervising home construction, and providing training on product marketing and market segmentation and research. Kotelam's performance drastically exceeded the conditions for the payment of incentives under the HOME Program. Kotelam mobilized over USD 1.8 million in private capital in return for only USD 150,000 in incentives, with a leverage effect of 1 to 9. This growth was achieved without exposing the credit union to

additional risk. In fact, Kotelam reduced its portfolio at risk at 30 days (PAR30) by 1.5%, while growing its housing portfolio by an astounding 191% within nine months.

However, Kotelam did not stop there. The credit union broke new ground, when its Board of Directors announced the strategic decision to launch a long-term mortgage product, formalizing the housing product. Kotelam will create mortgages in previously untapped areas and will bring new innovative players into the mortgage space, offering a new solution for low income clients, typically ignored by commercial banks when it comes to long term financing.

Non-bank financial institutions (credit unions and MFIs) have been limited to offering unsecured, short-term, high interest rate housing micro-loans at rates upwards of 24% per year. This option is severely limiting given that clients take costly, successive short-term loans to complete a home over the long term. Kotelam's new mortgage product is extended to 10 years and fixed at a 12% interest rate.

HOME is also working with Socolavim, a credit union located in Saint Marc, not far from Port au Prince. HOME set up a growth plan with Socolavim to disperse 185 housing loans. The cooperative exceeded its original targets by more than 20% and disbursed 224 home improvement loans. The total amount disbursed during this period was USD 1.8 million approximately, of which 25% were delivered to female members. The average housing loan size was USD 7.4 thousand. This partnership increased the housing portfolio from USD 1 million to 2 million representing a 100% growth rate for only USD 60,000 in incentives. with a healthy housing portfolio at risk (PAR) over 30 days of only 5%. As of December, 85% of Socolavim's members with housing loans were concentrated in monthly income brackets of USD 150 to USD 1,500. The current housing portfolio shows that housing loans up to USD 7,500 represent 83% of the portfolio. Access improved because products are aligned to member needs and capacities through an efficient credit process and technical assistance that guides low to medium-income households in decision-making.

Today, Haiti HOME is working with three financial institutions and has mobilized over USD 7 million of private capital with only USD 240,000 in incentives, a leverage effect of 30 to 1. Over 750 new housing loans have been issued under the HOME program. These

new loans have enabled developers to find a source of offtake for their completed housing units and for low-income households to improve their homes. Through these interventions both the supply and demand sides of the housing value chain are being reinforced and the market is delivering housing to previously unserved populations.

6. What's next?

With two more years of operations left, the HOME team hopes to achieve long-lasting results in the Haitian housing ecosystem as well as inspire other underdeveloped housing markets in adopting similar mechanisms.

Locally the HOME team wants to ensure that, when the project ends, the Haitian private sector continues to engage in affordable housing development. Going beyond our current activities, we wish to also encourage foreign investors from DFIs or the Haitian diaspora to come and invest in the market. As developers build larger and larger housing sites, the risk of each project will be better understood, and investors will grasp the size of the opportunity in Haiti.

Financial institutions need to continue their efforts in expanding their mortgage portfolios and offer smaller and smaller loans. Hopefully credit unions will be able to access long-term financing to roll out their micro-mortgages at scale. With banks seeking to go down-market and credit unions simultaneously seeking to go up-market, the housing finance gap should close.

At the international level, there are numerous countries with stunted housing markets that struggle from similar issues, notably in Sub-Saharan Africa. The Democratic Republic of the Congo, Liberia, and Sierra Leone are examples of countries facing land tenure issues, poor infrastructure, expensive construction materials, and an almost non-existent mortgage market. The Haiti HOME program could be replicated with local actors in order to implement best practices and catalyze the local affordable housing market. Funds need to be deployed strategically at the local level in order to push the private sector outside of their comfort zones and into new market segments. Of course, major structural barriers will still need to be addressed in Haiti and elsewhere before a truly functioning housing market can occur. In the meantime, however, the HOME model can be replicated and support willing institutions in order to generate momentum and bring about lasting change.