

A horizontal bar composed of many small, colorful rectangular segments in various colors (blue, green, yellow, orange, red, purple, pink, cyan, grey, blue, green, yellow, orange, pink, purple, yellow, cyan, red, green, yellow, red, blue).

The recent global challenge of housing affordability: An exploration

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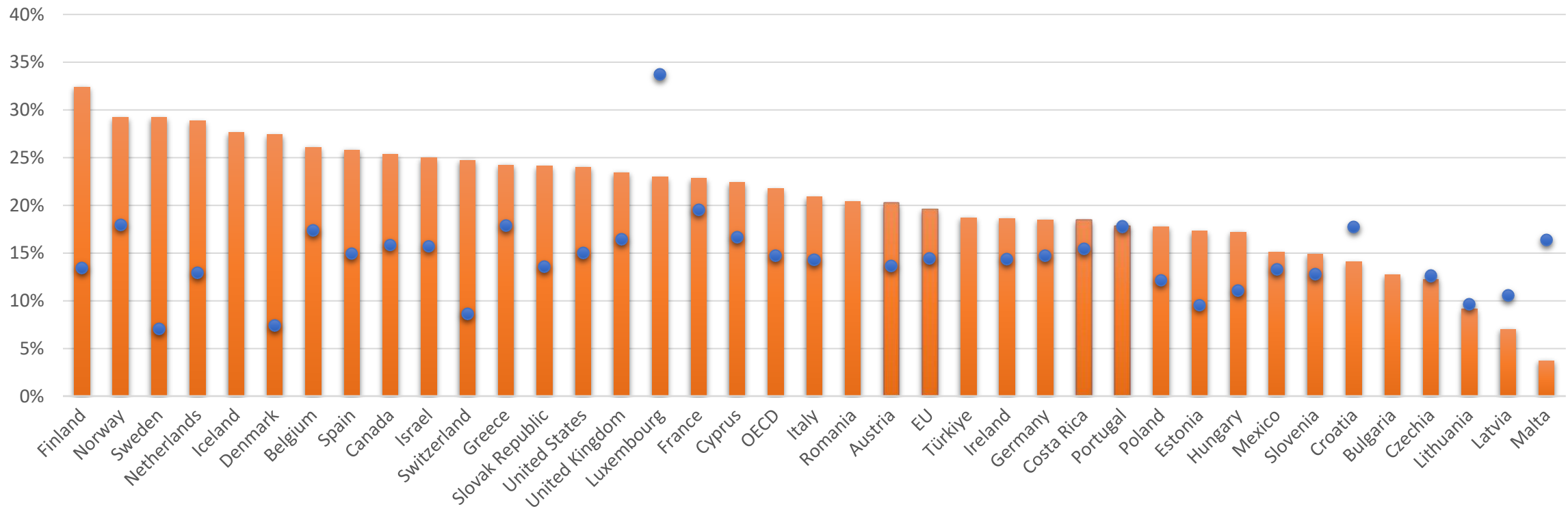
Introduction and background



- Since the global financial crisis, issue of access to decent, affordable, safe housing has come to the fore
- Many countries are struggling with the challenge
 - Housing 2030, indicated that at least 100million low- and middle-income households in the UNECE region can be classified as having overburdened housing costs i.e. are spending more than 40 per cent of their disposable income on housing (UNECE/Housing Europe, 2021).
 - A multitude of policy initiatives have been introduced in different countries to attempt to alleviate these underlying causes;
 - This includes changes to international lending practises, lack of access to finance for households, frictions in supply chains and construction sector difficulties.
 - However, the challenge continues, with many factors likely to have become increasingly strained following the recent Covid-19 pandemic, energy market disruptions and supply-side difficulties in international trade.

Housing affordability becoming a major challenge

Households housing burden as share of disposable income, %



Source: OECD.

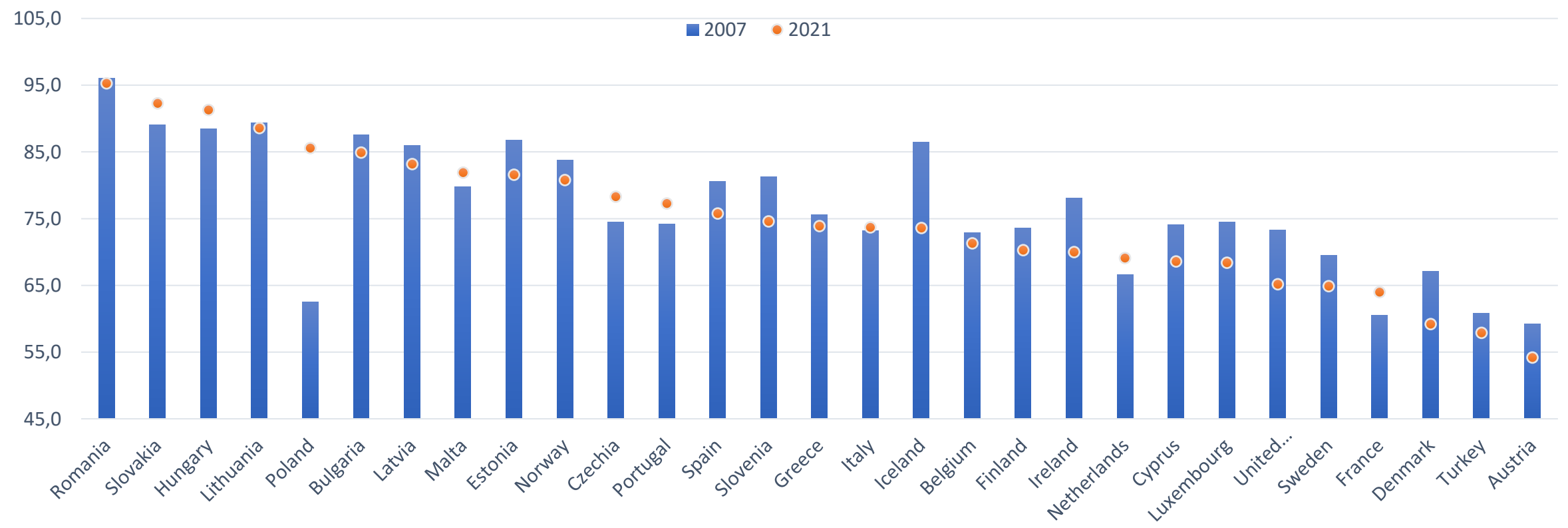
Indicator: housing payment/Disposable income

■ Rent (private and subsidised) (↓) ● Owner with mortgage

Changing tenure structure



Level of homeownership (%) – selected UNECE member countries

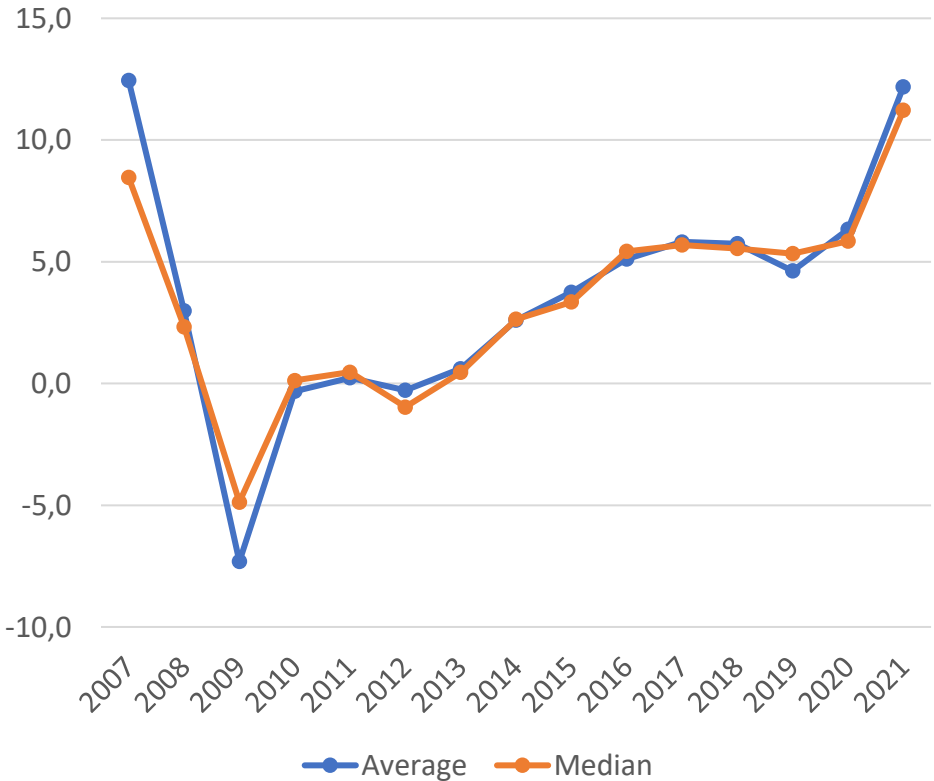


Source: Hypostat data.

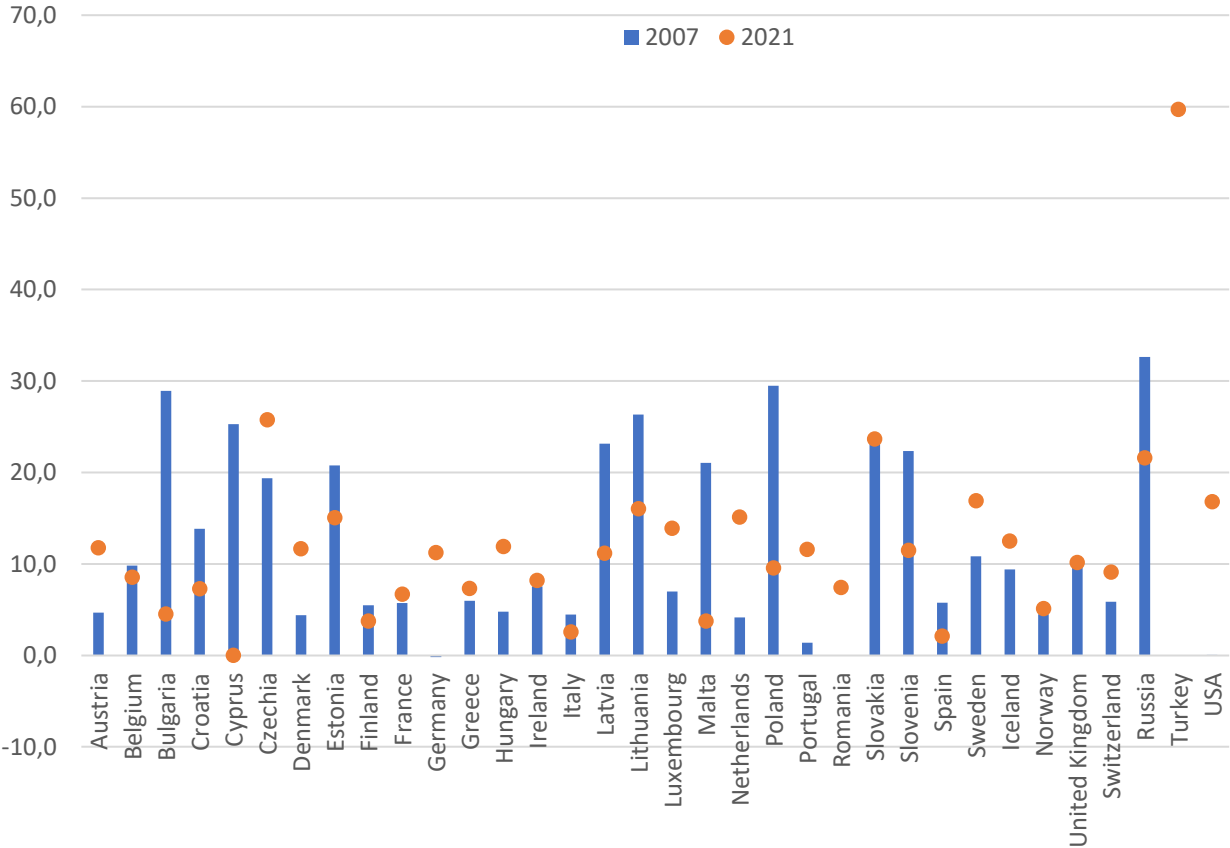
House price developments



House Price Growth Overall (% , year on year) – selected UNECE member countries

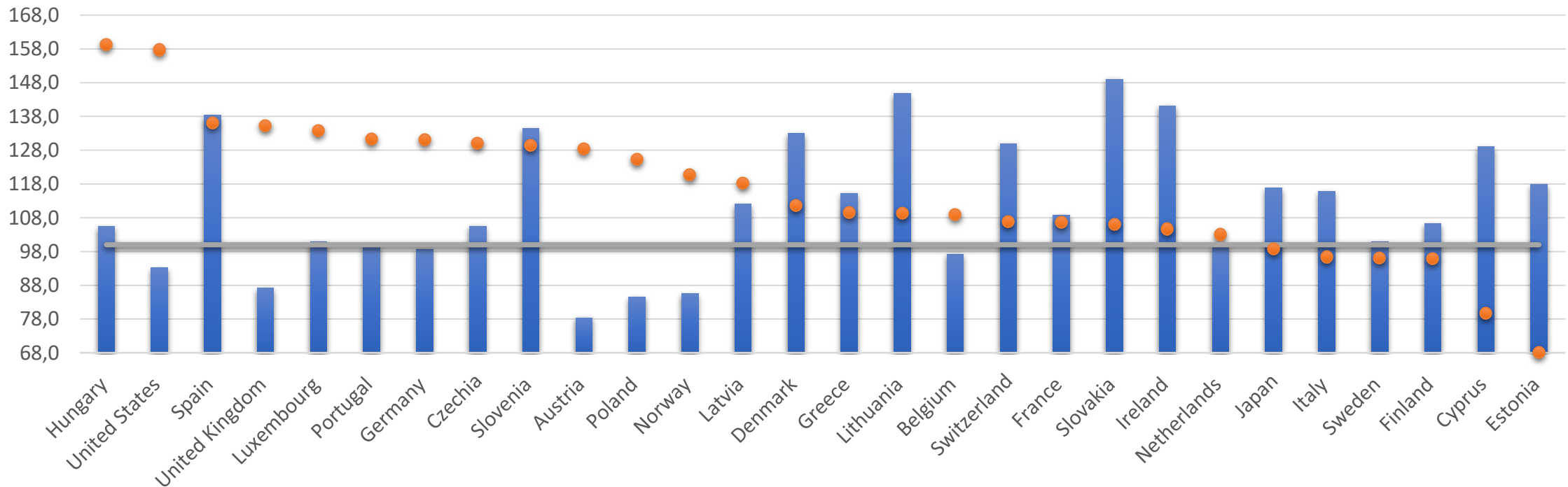


House Price Growth 2007 & 2021 (% , year on year) – Selected UNECE members



House prices rising faster than incomes in many markets

House price to disposable income ratio



Source: Hypostat data.

Study aims and objectives



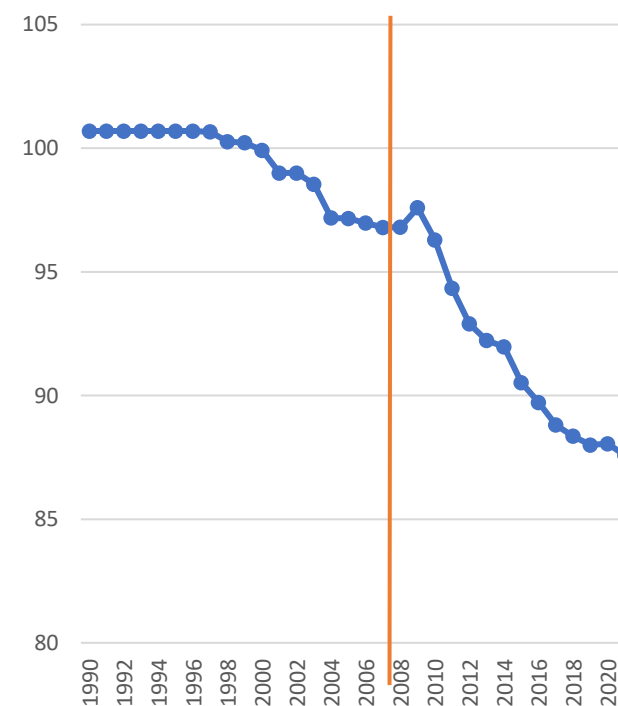
- Set out above context and global scale of the challenge
- Consider the factors that impact housing affordability
 - Demand side (factors that affect households income and expenditure basket)
 - Supply side – factors that affect the payment that households must make from the construction sector perspective
 - Financing considerations
- Study aims to lay out a discussion and contextualisation of the challenge with a view to understanding the context for the policy response.

Demand-side factors

Number of strong demand side factors

- Population change and demographic pressure
 - Expansion in number of housing units per person needed
- Access to mortgage finance and macroprudential regulations
- Higher interest rates since recent inflationary spiral
- Increase in non-housing costs which can exacerbate affordability pressures

Average Loan-to-Value Ratio Across Selected UNECE member countries



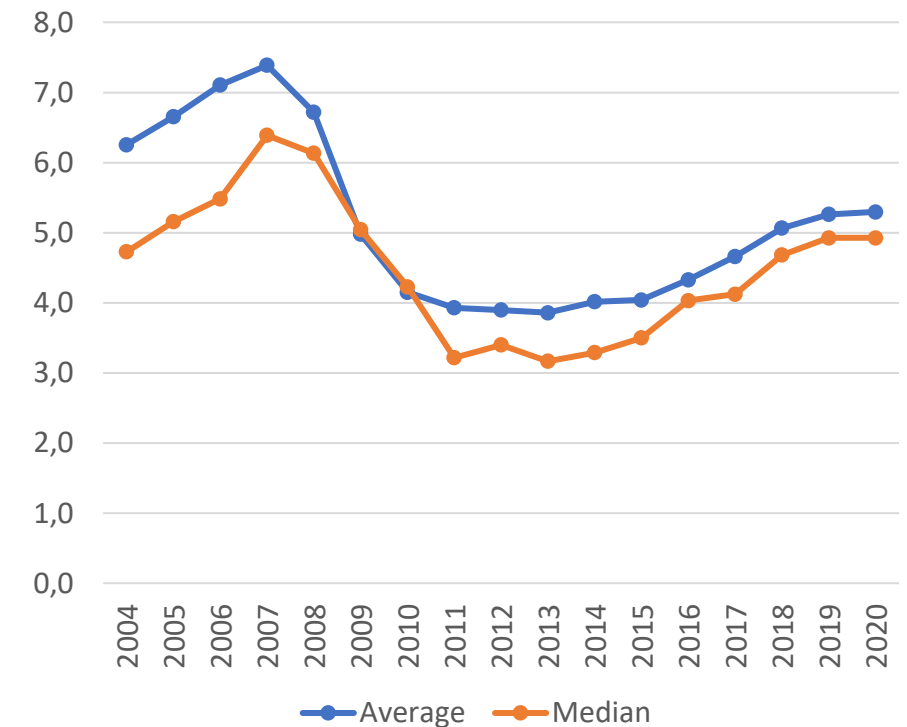
Source: IMF Macprudential Database.

Supply-side factors

- The trend in housing production per capita has been muted relative to historical levels. Why?

- Cost-side pressures for housing construction
- Materials and labour costs
- Environmental cost impacts
- Project timeline impacts
- Financing housing production

Housing Completions per 1000 Persons Over 18 – selected UNECE member countries



Source: Hypostat data.

Financing considerations

- Changes to the global financial system after the financial crisis is another area which is likely to have disrupted the production of housing.
- In many markets, financing structures were majority bank-based financing structures.
 - The development finance model - leverage for private housing production and sale.
 - Disrupted credit supply and changes to financial regulation and supervision
 - Changes to financial regulation were required by make the banking systems safer but likely to lower credit supply relative to historical levels
 - Recent increases in the cost of credit also likely to be weighing on investment plans and creating challenges to the financial
- New methods of financing affordable housing will be required and are becoming more widespread across countries.
- Typically, financing for affordable housing projects involves a mix of public and private funding sources.
 - Includes low-income housing tax credits (LIHTC), private activity bonds, government subsidies, grants, and loans from commercial banks or other financial institutions.
 - Developers may partner with non-profit organizations or use other creative financing mechanisms to make the projects financially viable.
- The balance of how financing can be pooled across instruments and the calibration of any projects is typically country specific and can change depending on the access to finance across markets.

Concluding remarks



- Short report considers some of the factors affecting the major challenge of housing affordability that is observed in many countries.
- Housing affordability challenges are driven by housing service payments (rents or mortgage) increasing faster than incomes and thus reducing disposable income after housing costs.
- Sluggish housing supply provision since the global financial crisis of 2007/2009 has led to access challenges for young households with many being unable to find a dwelling for purchase or rent.
- Factors on demand and supply side at play:
 - On the demand side, major increase in house prices relative to incomes and rising demographic pressures from population growth in many countries.
 - From the supply-side, major upward pressure on the cost of production is coming from materials and labour costs, environmental regulations and the delays and project timing challenges.
 - Access to financing for affordable housing is also discussed in detail with new modalities for financing outlined.
- The combination of these interrelated factors is leading to the major challenges faced in many countries in terms of housing affordability.
- These challenges are only going to increase in salience as part of the transition towards carbon neutrality which will increase the cost of producing and maintaining the housing stock.



Thanks for your attention