

Urban Development Perspectives of Affordable Housing Strategy

Dr. Narayanan Edadan¹
Consultant, World Bank

1. Introduction

There is a growing recognition that establishing strategies for integrating urban development is critical to enable the cities and towns in developing countries to play their roles in promoting inclusive development, particularly meeting the housing demand of poor and low-income households. This warrants a paradigm shift in the way urban administrators and planners approach urban development. Rationalization of urban planning and land development processes coupled with a combination of pro-poor land management, housing and human development and viable mass transit approaches are vital for addressing housing poverty among the urban poor and low-income communities. Although, under the current institutional dispensations, both national and local governments have significant roles to play in providing infrastructure, services and housing in urban areas, the limited success of public housing and slum upgrading programs have shown that market-oriented strategies and processes of creating housing and improving its affordability for poor households are critical to address current housing problems.

2. International Experiences in Affordable Housing Development

A review of international historical precedents in affordable housing development suggests that countries tackle the problem of affordable housing through a combination of slum rehabilitation and market-based mass housing provision solutions. Depending upon the market and housing affordability conditions of urban population, they fine-tune these strategies to meet their sociopolitical objectives.

Broadly, the housing strategies could be divided into the following typologies;

- Direct provision of subsidized public rental housing (Singapore, Hong Kong);
- Market-based affordable housing based on credit and other subsidies to private sector (China, India);
- Serviced land, cash and credit assistance to poor households for new housing and home improvements (Thailand, Cambodia, Philippines, India);
- Market-based private housing with special assistance such as development of serviced land and investment subsidy for affordable housing (USA, Japan, Australia, India);
- In-situ slum rehabilitation through non government organizations or private sector through instruments such as additional FAR and TDR (Brazil, India and other countries in Latin America and Asia).
- Policies focused on private housing rather than public rental housing (Singapore, Hong Kong and China).

Availability of land for affordable housing in locations accessible to work places of low-income households is a challenge in many countries. Even though the policy incentivizes private developers to use private land

¹Dr. Narayanan Edadan is currently working as a Housing and Disaster Risk Management Consultant of the World Bank. The views expressed in the personal. This paper is drawn from the work done by the Author for the ADB-TA 7148, 2014

for affordable housing projects, the role of government in guiding the development of land for residential developments through land consolidation/pooling and provision of trunk infrastructure and services toward orderly urban expansion needs to be stressed. Land (re)adjustments and planned development of trunk infrastructure, including public transit, and financial incentives for affordable housing through interest rate subvention policy, etc are some of the common threads in the housing policies implemented in developed countries. While high-density vertical development of housing is common, in particular for CBDs, some countries follow low-rise, high-density development models (Japan, Vietnam). A major advantage of the latter model is that it allows incremental housing improvements based on the economic constraints and housing needs of families².

3. Policy Framework

The conventional housing policy followed by many countries in their early stage of urban development phase was mass provision of developable (serviced) land through the provision of trunk infrastructure, in particular access road/ public transport, water supply and sanitation, and electric supply. Mass provision of housing, either by public agencies or private real estate developers, or both, was thus made possible. For various reasons, such mass provision of developable land has not happened in many countries. This poses a few pertinent questions, such as:

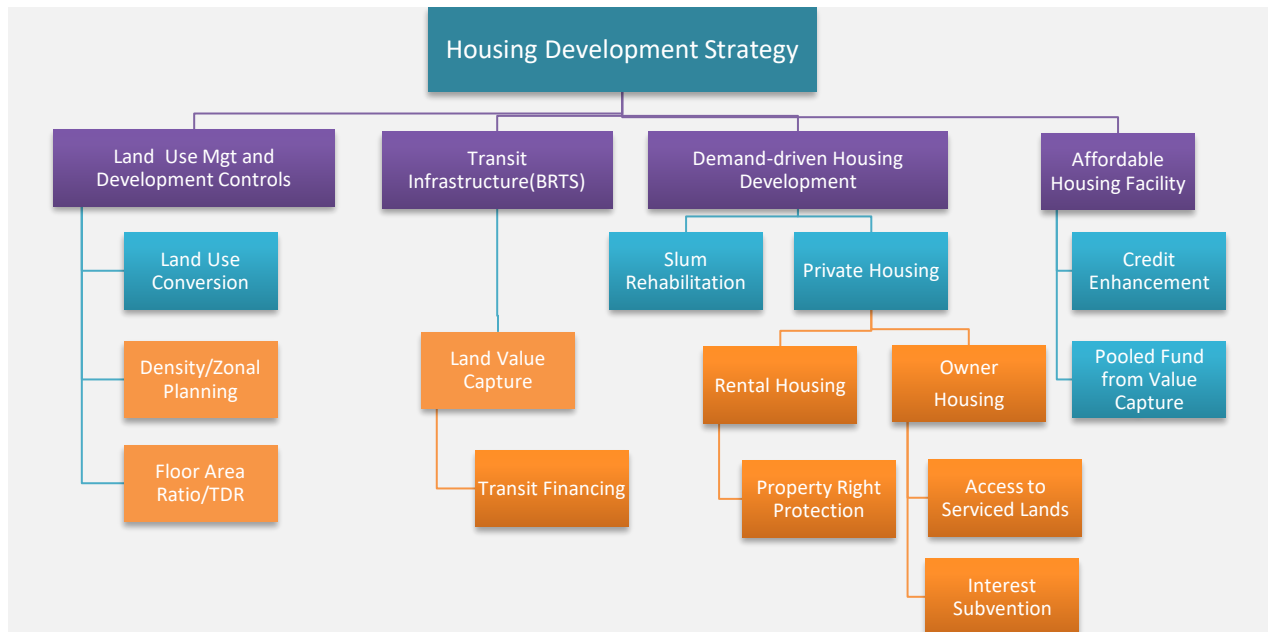
- Why the proposed fiscal and financial incentives formulated by the government failed to attract private developers to enter the low-income housing segments in a big way?
- What are the institutional and economic constraints experienced by the private developers to invest significantly in affordable housing? and
- How can urban local bodies approach (mass) transit-oriented development, particularly with respect to the use of cost-effective bus transits and enabling affordable housing development?

Answers to these questions would feed into the development of a framework for addressing the housing needs in urban areas of the country. The affordable housing policy framework should address three basic urban development strategic elements such as (a) mass housing strategies, (b) land management and (c) infrastructure and public transit enabling easy and affordable mobility of urban population for home to work trips. A main challenge of many cities is their inability to manage these three elements effectively. Since the affordable housing policies formulated in many countries rightly discourage unsustainable urbanization and uncoordinated development of urban infrastructure and housing, there is an urgent need to link urban infrastructure with housing and encourage (mass) transit-oriented development both within the urban development planning (DP) area and urban fringes. This strategy should go parallel with efficient land management, strengthening of the institutional and financial capabilities of public and private agencies involved in infrastructure and housing development, promotion of rental housing options and down-marketing of housing credit through credit enhancements and other financing mechanisms for enabling low-income households to purchase/ rent housing units.

However, most of the large schemes initiated by private developers through Public Private Partnerships took place in undeveloped areas outside the developing planning (DP) area, far from public transport, basic urban infrastructure trunk lines, and basic urban services including schools. This means the policy in its present form would simply legitimize urban sprawl and building up contingent liabilities for the government to carry out inefficient and expensive retrofitting of basic urban infrastructure later on in an opaque

² <http://johnkriken.com/> accessed on 16 May 2013.

manner. Also, affordable housing units being developed under these schemes are very small with no possibility of self-help incremental expansion. Low-rise, high-density housing development model, under which incremental expansion is possible to create mass housing stock and it could be a desirable model for many countries. However, availability of efficient public transportation services such as bus rapid transit (BRT) systems is a fundamental prerequisite for the viability of low-rise, high-density housing development.



Transit-Oriented Development: Transit-oriented development (TOD) is a concept of urban development aiming at efficient, sustainable, livable and inclusive “compact city” that relies on extensive use of public transportation systems rather than private vehicles. Neighborhoods developed under the TOD concept usually consists of a center with a public transit node (bus stop or train station) surrounded by high-density development with gradually lower-density development spreading outward from the center. TOD concept has been applied in many countries in a variety of forms such as planned development of suburban expansions, development of new towns, and high-density, mixed-land-use development in downtown areas that are vibrant, pedestrian-friendly, and genuinely integrated with transit.

The most fundamental prerequisite for implementing TOD is, of course, establishment of decent public mass transit system in the first place, which require consensus among general public and unshakable political will to give priority to the (bus) transit corridors (BRT) because metro rail (subway or elevated rail) option would be too expensive for developing countries to be a viable option. Experiences of BRT systems in a few cities indicate strong resistance from motorists (users of private vehicles). TOD is a new enough concept for developing countries in that there is no clear path or “definitions, standards, or road maps for developers to follow” (Dittmar & Ohland, 2004)³. Investors or builders are risk-averse. Some have also argued that because there is no market and no incentives “for more compact, mixed-use development near

³ Dittmar, Hank and Gloria Ohland, eds. *The New Transit Town: Best Practices in Transit-Oriented Development*. Washington, DC: Island Press, 2004.

transit,” there is not much TOD supply. These problems all need to be addressed for efficient TOD implementation (Homes & Hermet, 2008)⁴.

Land Use Controls: One question often asked in the planning practice relates to the impact of land use controls such as zoning, in particular FAR regulations, on the land and housing prices. Cheshire & Sheppard (1989)⁵ found if all the planning constraints are removed, the floor area of a planned city would increase by 50% and this would result in a reduction in land prices because, in the absence of zoning, density and other development controls would increase the average lot size and size of housing. Even though some would argue that development controls are not objectionable per se, the parameters used are often arbitrary and were set without taking into account the demand side of the market and efficiency of city structure and consequently, land use regulations such as minimum parcel size and low FAR would reduce developed land areas and increase prices (Bertaud A, 2002)⁶. It is also observed that regulated urban development through planning instruments such as low FAR has led to an increase in commuting cost of people and result in a reduction in the welfare gain (Brueckner & Sridhar, 2012)⁷ to the society.

Lack of availability of land for affordable housing projects that are located close to the work place of low-income families is a serious problem faced by most cities in India. Conversion of acquired agriculture land for residential use by the urban local body is a common approach. In the absence of coordinated development of housing and infrastructure, particularly public transportation, these green-field projects lead to urban sprawl and unsustainable urbanization. Global experiences suggest that a policy of urban “infill” development, rather than green-field development outside the existing urban areas, is more sustainable and efficient. Also development control such as low-density zoning has prompted unregulated urban growth and illegal conversion of agriculture lands resulting in increase in urban sprawl and residential land market inefficiency (Edadan N, 2015)⁸.

Land Value Capture: In practice, a large number of land value capture mechanisms are used to leverage concessional building regulations along public mass transit corridors, nodes or hubs for investment in urban infrastructure improvements. There are many mechanisms being practiced to capture the incremental land value generated from the changes in land uses, zoning and development controls. The most common among them are tax increment financing, development impact fees, special assessments and betterment levy and external development charge are common. These are mostly used towards financing additional infrastructure costs and also providing social services. Experience from some of the cities in India attempting to initiate BRT suggest that the land value capture could be a powerful instrument to finance infrastructure improvements as well as developing housing along public mass transit corridors, nodes and hubs. One of the important instruments being used to capture land value and to encourage private developers to locate affordable housing in areas accessible to mass transit is the Transferable Development Rights. Application of TDR policy has been availed by private developers to increase affordable housing units, although, these are not significant enough to increase the housing supply. Skewed

⁴ Joe Homes and James Van Hermet, Transit Oriented Development, <http://www.law.du.edu/images/uploads/rmlui/rmlui-sustainable-transitOrientedDevelopment.pdf>

⁵ Cheshire P C and Sheppard S, British planning policy and access to housing: some empirical estimates Urban Studies, 26, 1989

⁶ Alain Bertaud, The economic impacts of land and urban planning regulations in India, India-Urban land reform, Memo, The World Bank, 2002

⁷ Jan K Brueckner, K S Sridhar, Measuring welfare gains from relaxation of land-use restrictions: The case of India's building-height limits, Regional Science and Urban Economics, 2012

⁸ Narayanan Edadan, Structural Determinants of Unregulated Urban Growth and Residential Land Pricing: A case of Bangalore, Journal of Urban Planning and Development ASCE, Vol. 141, Issue 4, December, 2015.

political will and lack of an efficient and transparent market for transacting TDR instrument are some of the challenges for scaling up the TDR policy in some countries.

Rental Housing: In spite of the fact that rental housing is the most logical housing option for immigrant population and that nearly 30% of the households in India are living in rented houses⁹, there is an inherent bias for ownership housing both in public and private housing. Historically, rent control and “tenancy rights overriding private property rights” and social welfare agenda followed by governments are some of the reasons for formulating the public policy bias in favor of ownership-driven public housing provision programs. Housing was treated as one of essential human needs such as food and clothing in the election manifestos of political parties and the social value of equating economic status to owning a house, rather than living in rental house, has also shaped the housing ownership bias in the government policies.

Private CBO Partnership in Housing Development: Many Asian countries have adopted strategies to empower community-based organizations to provide housing and basic service supports to the urban poor. The “We Care Housing” program implemented by the National Housing Authority (NHA), Thailand, is a good example of proactive initiative by the government to create large housing stock for urban poor and low-income communities. A noted innovation is the application of a shared risk mechanism through the NHA that addresses lease default guarantee scheme, adjustable term mortgage, and stepped payback increments. The institutional initiative of [Urban Community Development Fund \(CODI\)](#) in Thailand is one of the best examples of mainstreaming urban poor and lower-income communities through community partnerships.

However, one of the main challenges experienced by real estate players while dealing with low-income housing is the credit risks of poor families and lack of predictability in such a revenue model. In the absence of viable credit enhancement mechanism, and shared credit risk mechanism, many developers find it difficult to operate demand-driven affordable housing development models, in spite of the fact that the fiscal and tax incentives provided under the prevailing affordable housing policies are encouraging. A review of some of the Private CBO partnership models¹⁰ in India suggests that CBO intermediation reduces the project risk through efficient risk profiling of beneficiaries and obtaining a social collateral/ security. The CBO partnership would further help beneficiaries’ access government housing assistance available for housing the urban poor. Even though this model would work better with rental housing, a revenue and property management model that allows conversion of leased houses to owned houses and bridge financing from the CBO to mitigate the credit defaults would enhance the sustainability of the model. However, a shortage of graduated CBOs capable of entering the housing segment and partnering with private developers may negatively affect the scaling-up process.

4. Way Forward towards Mass Housing Development Strategy

A basic enabling system based on land use control and trunk infrastructure development for dynamic incremental urban expansion, which would have incentivized private developers to deliver housing continuously and flexibly in response to the significant demand in the market, has not emerged in countries

⁹ 65th NSS Survey, Government of India

¹⁰ One of the successful examples is the DBS affordable housing project implemented in Ahmadabad.
<http://www.dbscommunities.com/>

Also, there is an interesting study finding (in Dhaka, Bangladesh) that typical housing unit price (per square meter) for low-income households is higher than that for middle-and-high-income households. If this is, indeed, the case, there is a natural incentive for private developers to develop housing more for low-income households.

like India yet. With such a system to enable orderly urban expansion in place, direct subsidies would not be necessary for the housing units themselves, which ensures large-scale, sustainable affordable housing development in the long run. To ensure availability and affordability of affordable housing for target beneficiary low-income households, however, the basic enabling system needs to have some controlling mechanism (e.g., minimum provision of affordable housing) and some support facilities (e.g., credit and subsidy for target beneficiaries). More conventional policy action of mass provision of developable (serviced) land must be put in place through large-scale (subsidized) public investments in trunk infrastructure, in particular public mass transit systems, in combination with various urban planning/land use control measures (i.e., incentives and regulations) towards orderly urban expansions.

Narrowly-defined slum improvement based on conventional-style in-situ slum improvements with the provision of basic urban infrastructure and services is still worth implementing. However, potentially viable sites for such schemes would be mainly in and around relatively stagnant medium-and-small-sized cities rather than in rapidly expanding urban areas. Also, such schemes will not address the issue of shortage of affordable housing at all because it will simply make one bad housing unit without basic urban infrastructure and services into one decently-serviced housing unit. In the absence of an effective and aggressive parallel mechanism to prevent the growth of existing slums and the formulation of new slums, most of these curative measures would not be sustainable.

The need to establish a new preventive mechanism through the mass provision of affordable housing, including rental housing, are, therefore, obvious and should be part of the inclusive urban development strategies. Experience from China, Singapore and Hong Kong indicates that rental housing assistance was an important part of their public housing strategy during early phase of their economic development. The policy to create large stock of rental housing would necessarily warrant changes in the existing tenancy regulations and establishment of robust private property right protection measures to encourage private sector to enter in the low-income rental housing market in a large scale. Interestingly, the Government of India has initiated a public rental housing program as part of its affordable housing policy. Ultimate property buyers need to access mortgage loans through credit enhancement and [shared credit risk mechanisms](#). The government and development partners should play the role of credit enhancers and partial credit guarantors rather than primary mortgage financiers. It is important to note that none of the existing policies have provisioned financial assistance for poor and low-income households to access rental housing options.