

## **BARRIER 3: FINANCING**

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Key words: existence and adequacy of financial mechanisms; financial stakeholders; cultural factors; financial discriminations; mortgage systems; public funds and subsidies; land-based finance; savings systems; upstream financing; indirect opportunities; development finance; progressive finance; microcredit.

Housing is expensive. Regardless of the context, building a house cost significantly, and the amount increase over time. In some context such an increase can be more than the actual construction of the house itself - when inseparable elements of an adequate housing are included: accessibility to centres of commerce and work, urban equipment, and service infrastructure, as well as the land on which the houses are built.

Observing global trends, very few people have sufficient financial resources to purchase housing without resorting to existing funds and financial mechanisms for this purpose. Therefore, financing is not the only element on which housing affordability policies are built on, it constitutes in a certain way its cornerstone. Generally speaking, a house is the result of more or less complex, high-cost construction operations. Depending on the context, an average family must save multiple years of its total income to cover the market price of a house. In this context, financing mechanisms are the cornerstone of housing affordability.

On one hand, public financing for housing construction and retrofitting is a frequent element in state housing policies, often linked to the provision of housing for low-income or vulnerable groups whose economic resources and/or particular conditions prevent them from accessing private financing. In such situations, direct public sector intervention - through direct construction, through public financing, or through subsidies - has proven to be an effective tool to ensure affordability for housing sectors. However, usually, public budgets are clearly insufficient to cover the massive demand for housing that currently exists; in response to this reality, governments have been implementing some innovative measures that facilitate access to resources for housing finance: from public urban development plans - land based finance - to the obligatory inclusion of social housing in new urban developments, the inclusion of cross-subsidies, to the implementation of specific housing funds, similar to pension funds.

On the other hand, mortgage mechanisms for the purchase of housing have shown to be one of the most effective elements that facilitate access to housing for an important part of the population, generally for the middle class in terms of income level. However, mortgage mechanisms can also become a barrier to accessing housing, mainly due to certain dysfunctionality that affect the financial markets in a given context - economic instability, unclear regulations, immature financial markets, lack of institutional guarantees, lack of incentives for financial institutions, and even cultural variables, among others.

It should be noted that when talking about financing in the housing sector, elements that directly or indirectly affect the sector are also implied. Such is the case of financing for housing construction - existing in many contexts - or the financing of plans for the improvement and industrialisation of the construction sector. Equally relevant is the issue of financing for urban development, as a fundamental element to facilitate the production of affordable housing.

## **Public funds and subsidies**

Public funds have played a key role in the provision of adequate affordable housing in different contexts. It is enough to think of the large post-war social housing interventions in Europe, the developmentalism plans of the 1960s and 1970s in Latin America and other African and Asian countries (such as Korea and Singapore) or, more recently, the case of urban development policies driven by the Chinese government. All these major operations were covered mainly through public funds.

However, in recent decades, the paradigm shift in the approach to public housing policy has entailed a progressive decrease in the funds available for affordable housing programmes in virtually all parts of the world. Another significant change in the provision of public funds since the public sector's enabling environment approach is the way in which these public funds are used. Whereas previously most of the funds were used for the direct provision of housing by the state, public funds are now mainly used for the provision of subsidies of a very diverse nature.

The subsidy approach has operated in a similar way on the supply side, in the provision of housing, and on the demand side. The supply-side subsidies have focused on the provision of funds or goods to the private sector so that it can provide housing at a lower cost. Demand-side subsidies, on the contrary, materialise through various types of assistance to the buyer, so that families can have the resources to purchase or improve their housing in accordance with market prices. In some cases, both types of subsidies intervene jointly.

## **Classic financing models**

Classic financing models are those linked to mortgage systems (including public and private mortgage systems) as well as housing savings systems. Traditional mortgage systems have perhaps constituted the most widespread mechanism for ensuring access to adequate housing. This is particularly true in high-income countries with well-established financial systems. If one compares what the annual mortgage loan portfolio represents with public investment, it can be understood that, in these contexts, mortgage financing constitutes the main source of financing for the housing system, very far from exclusively public financing.

Mortgage systems, public and private, have also been fundamental to access to adequate housing in middle-income countries and in some low-income countries. However, in these contexts, the impact of mortgages has been more selective: for most of the population, it has historically been impossible to access mortgage credit due to the lack of the usual requirements.

Another common housing finance mechanism that has had a certain impact in some contexts is housing savings schemes. This mechanism, which can be either voluntary - such as savings cooperatives, private savings banks of companies and public entities, among others - or compulsory - such as Brazil's compulsory savings systems - has proven to be efficient in serving particular groups.

## **Alternative financing models**

In addition to the classic models of housing finance based on mortgages and savings systems, partial financing models have been implemented for several decades, essentially linked to mechanisms that regulate the use of land. Two examples of these mechanisms can be identified in land-based financing and cross-subsidies.

Land-based financing of affordable housing is one of the main mechanisms for private financing of affordable housing in most high-income countries. It involves using the tools of value-added extraction on urban development to force developers to make free land transfers for the development of affordable housing.

A variant of this modality could be found in cross-subsidy mechanisms, where the provision of housing at below-market prices is included as a counterpart to the approval of larger urban development operations, so that the economic advantage derived from the development of other types of housing or other uses finances the more affordable housing. This is the case of the Madrid Nuevo Norte project, the largest urban transformation project in Europe today, where the urban use of the new approved Plan is linked to the provision of more land for subsidised housing (social housing) than what is foreseen in the current regulations.

## **Microfinance**

In various contexts, as previously mentioned, housing provision takes place outside of formal development mechanisms. Within the usual processes of slum formation (favelas, barriadas, slums), the construction of precarious housing evolves over time, as the income conditions of those who live there improve - even if only slightly - becoming, often, adequate housing.

However, several studies have proven that in this process of development over time, from shack to adequate housing, the total investment that families have to make exceeds the cost of a house developed through the formal market by far. The study of these processes is what has led to the progressive housing proposal, defined as an effective way to address the high demand for affordable housing, and is what has given rise to one of the most widespread alternative financing proposals in some contexts, commonly known as pay as you go. Under this system, through small microcredits - or small grants, depending on the existing programmes - families progressively build their homes as their means evolve.

In some contexts where microcredit systems work well, for example in India projects of this nature have been successfully implemented. On the other hand, several experiences have demonstrated the effectiveness of microcredits for financing the improvement and/or extension of housing.

## **Upstream financing**

One of the strategies that some governments have adopted to make housing more affordable is to focus financial efforts on activities that, directly or indirectly, have an important weight in the formation of the final price. Such is the case of urban development financing, including or not

the acquisition of land, which makes it possible to provide urbanised land for the development of affordable housing, which can be built later by different actors (public, private, cooperatives or self-construction), and made available at a lower cost.

Another modality that encompasses "upstream" financing is the promotion of the provision of funds for research and development in the construction industry, so that it is able to expand local production capacities and/or generate alternative, more economical building systems and materials, resulting in a reduction in construction costs, and indirectly in housing costs.

### **Indirect financing opportunities**

Eventually, some circumstantial elements present a window of opportunity for investment in affordable housing. Such is the case of the funds that for some years have been allocated by various public institutions to mitigate and adapt to the consequences of climate change. In many cases, for example in the European Union, the programmes plan to invest strongly in the retrofitting of buildings, including residential buildings, to improve their energy efficiency. Often, these interventions can substantially improve not only the energy conditions of buildings, but also their comfort.

The other point is related to the financing of energy efficiency improvements needed to accelerate the energy transition in the housing sector. Housing accounts for a large share of emissions worldwide and faces specific challenges when it comes to decarbonisation, not least since most retrofitting/home improvements are financed out of pocket, incentives are misaligned across the tenure spectrum and borrowing is expensive.

Another similar opportunity, in this case linked to low-income countries, is presented by development financing. Countries that, due to their socio-economic conditions, are recipients of development aid, can try to direct the resources received towards projects linked to improving the housing conditions of their populations.

## **CROSSING BARRIER 3:**

Speakers come from international organizations and multilateral initiatives, parliamentarians, and academia. Their discussion on financing affordable housing will be followed by the case study of INFONAVIT in Mexico, and Plan Vive in the region of Madrid.

### **Objective of the session**

To propose three priority actions to accelerate the crossing of the barrier.

### **Guiding Questions**

- The United Nations calculates unaffordability as a net monthly expenditure on housing cost that exceeds 30 per cent of the total monthly income of the household. Which mechanisms are being implemented successfully at national or local level to reduce the proportion of households that exceed this percentage?

- How to overcome the identification of affordable housing with social housing (often subsidized housing) when not only underserved households and communities are facing challenges to access adequate housing?
- Which types of housing policy changes have the greatest impact on the financial viability of market-rate housing projects?
- Which are the measures to be taken in terms of reducing capital and operating costs to increase the economic sustainability of affordable housing?
- Which mechanisms could be promoted to expand and improve the affordable housing stock?
- How to scale-up appropriate land and mortgage taxation policies so there are tax incentives for a full range of housing alternatives (homeownership, rental, cooperatives, etc.)?
- Are there data on capital availability and market penetration rates for the mortgage finance system (to low-income, less-credit worthy, and other marginal borrower groups)?
- Are the microcredit schemes effective as an option for the huge housing demand cities are going to have, for example in Africa or Asia? Could public funds being allocated to ensure housing is accompanied by the required provision of public services, mobility and connecting with the urban grid?
- Which impact could have to introduce mandatory requirements for developers to include affordable housing in their market rate mix, and for example, to provide height enhancements to ensure financial feasibility for them?
- How to introduce land value-based mechanisms for the provision of land for affordable housing at the local level?
- Whether or not social housing programmes address affordability challenge related to shallow rental markets, especially in countries with high homeownership rates?
- How financial instruments can be developed to finance energy efficiency improvements in the housing sector?

#### Final question

Please name three action-oriented proposals that from your point of view will accelerate the crossing of barrier 3 on financing.

#### Agenda of the session

- 10 a.m.            Opening intervention of the Chair's session.  
*Luiz de Mello*, director, Economics Department, OCDE
- 10:15 a.m.        Initial proposal of the priority actions to face the barrier by each speaker:
- *Andres Horcajada*, CEO & Co-Founder, TECTUM
  - *Julie Lawson*, Associate Professor, RMIT University
  - *Luis Roca de Togores*, President, Junta de Compensación Valdecarros
  - *Ruth Schagemann*, President of the Architects' Council of Europe (ACE-CAE)
  - *Elena Szolgayova*, Co-Chair, Housing 2030 Initiative

- 10: 45 a.m. Reactions from the Chair/speakers to the introductory remarks and first round of guiding questions to focus the discussion on specific proposals.
- 10: 55 a.m. Presentation of the case: Mexico  
*Carlos Martínez*, General Director INFONAVIT
- 11:05 a.m. Reflections on the case presented and second round of guiding questions
- 11:15 a.m. Presentation of the case: Plan Vive Madrid  
*José María García Gómez*, Deputy Councillor of Housing and Urban Planning,  
Regional Government of Madrid
- 11:25 a.m. Reflections on the case presented and third round of guiding questions
- 11:35 a.m. Wrap-up and summary of priority actions proposed for the AHA Forum Madrid Declaration
- 12:00 p.m. End of the session

## Biographies of invited chair and speakers

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**Luiz de Mello**, director, Economics Department, OECD, provides leadership and strategic direction within the economics department, ensuring the design and implementation of analysis and policies which promote stronger, cleaner, fairer and more inclusive economic growth for member and partner countries. Earlier in his career, Mr. de Mello held senior positions at the OECD, including Deputy-Director of the Public Governance Directorate and Chief of Staff and Counsellor to the Chief Economist. Prior to joining the OECD, he worked as a Senior Economist at the Fiscal Affairs Department of the International Monetary Fund, and as a Lecturer at the Economics Department of the University of Kent, United Kingdom. He holds a PhD in Economics from the University of Kent, United Kingdom.

**Andrés Horcajada** holds a law degree from the Complutense University of Madrid and is currently CEO and co-founder of Tectum: a company that invests in the development of affordable residential rentals in Spain, generating new homes to be put on the market at affordable prices. He is also co-founder and CEO of Locare, a global Real Estate Asset Management platform, as well as CEO of CIVISLEND.

**Julie Lawson**, Associate Professor, RMIT University, appointed Honorary Associate Professor in 2013 for the Australian Housing and Urban Research Institute in the Centre for Urban Research. She is currently Associate Editor of the journal *Housing Theory and Society* and has been awarded two AHURI grants in 2014 and 2015 for international research focusing on the transformation of public housing under federalism and the individualisation of housing assistance. Julie's specialisations are sustainable and socially inclusive cities, urban planning and infrastructure investment, housing policy and comparative urban development. Her research has informed critique and innovation in housing and urban policy in Australia and overseas. Her recent work includes an international review of urban and housing policy, evaluation of six international social housing financing mechanisms, development of housing supply bonds, an international review use of guarantees and specialist financial intermediaries and a proposal for an Affordable Housing Finance Corporation to promote investment in affordable rental housing in Australia. Her publication record includes more than 60 international articles and conference papers, including 11 books, peer-reviewed scientific reports and book chapters, 17 peer-reviewed articles and more than 40 conference papers and professional publications.

**Luis Roca de Togores**, president, Junta de Compensación Valdecarros. He was also CEO at Zapata, President at the Salamedina TRI and worked on management and strategies for multiple private companies.

**Ruth Schagemann**, President of the Architects' Council of Europe (ACE-CAE). She is an architect with the degree from the University of Braunschweig and at the University of Stuttgart in Germany. In 2006 she founded the Architect's office VICEVERSA Architektur + Medien together with her husband. She was elected member of the executive board of the Architects' Council of Europe (ACE) from 2016 until 2021, Coordinator of the European Network of Architects' Competent Authorities (ENACA), member of the Coordination Group Europe of the Federal Chamber of German Architects and is head of department of national and international professional policy at the Chamber of Baden-Württemberg. Since 2022 she is the President of Architects' Council of Europe (ACE).



**Elena Szolgayova**, Co-Chair, Housing 2030 Initiative, is an architect, urban planner and policy maker with long-standing research experience: 2003–2019 Director General, DG Housing Policy and Urban Development, Ministry of Transport and Construction, Slovakia. For over two decades participated in shaping the visions of the global, European, and national housing and urban policies, was one of those steering the process toward adoption of the Geneva UN Charter on sustainable housing. She participated in the Habitat III Bureau and in the Housing Policy Unit during the preparatory process of the New Urban Agenda. She has been one of the coordinators of the Housing Partnership under the EU Urban Agenda. Elena served from 2013 – 2019 as Chair of the UNECE Committee on Housing and Land Management. Since 2020 acts as a Co-chair of the Housing 2030 – joint initiative of the UNECE, Housing Europe and UN-Habitat.

## **Case studies**

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**Carlos Martínez Velázquez**, General Director INFONAVIT, holds a degree in Political Science from the Instituto Tecnológico Autónomo de México and postgraduate studies in economics from the same university, with a specialisation in Energy and Environmental Policy and Management from the Facultad Latinoamericana de Ciencias Sociales. He is a specialist in political economy with a social focus and human rights protection. He has been a civil servant since 2008, holding various positions in the federal public administration. He has also collaborated frequently as a commentator in the media and as an expert in academic publications on economics and human rights. He is currently the director general of the Instituto del Fondo Nacional de la Vivienda para los Trabajadores, INFONAVIT.

**José María García Gómez**, Deputy Councillor of Housing and Urban Planning, Regional Government of Madrid. He has a degree in Law from the Complutense University of Madrid, and a degree in Political Science and Sociology from the UNED. He has a Diploma in Legal Practice from the Complutense University and the I.C.A.M. Master's Degree in Business Administration - MBA- from the European University of Madrid. He has been a lawyer since 1996 at the I.C.A.M, practicing until 2008. He has held various institutional positions and management responsibilities in the Local Administration, Secretary of the Board of Directors, Purchasing and Administration Department and Director of public companies, in the field of municipal services and housing, and in urban consortiums. Also, in the private sphere he has participated in the management of Housing Cooperatives in their Governing Councils as Secretary and President. He has also been Secretary of the Board of Directors in a regional business association. From July 2015 to June 30, 2021 he has been General Director of Housing and Rehabilitation.