Welcome to our inaugural edition of Urban Futures, a report which tackles the increasingly prominent global topic of housing affordability. You may have seen our other publications, such as The Wealth Report, yet we recognise the responsibility of ourselves, governments and developers to help tackle the growing affordability pressures. This subject has become a critical issue for city authorities and businesses across the globe but is often viewed in silo. Knight Frank’s global network enables us to provide a holistic overview of the solutions, which are being implemented in some of the world’s leading cities as well as providing insight into a range of future solutions.

The affordable housing gap has been increasing due to limitations on supply, historical restrictions and a growing urban population. This growing pressure on housing affordability is changing the development landscape – influencing the types of product on offer as well as the locations developers are focusing on and even the organisations becoming involved in the development process. For this first issue we focus on six cities which have been at the forefront of the affordability debate. In these cities we cover emerging trends from the burgeoning co-living sector to the building of micro homes.

We have assembled a global panel of industry experts who provide their views on the best way to navigate the affordability landscape. One thing is clear: there is no all-encompassing solution, yet a combination of different approaches has the potential to really drive change.

In this extended edition we include a focus on Riyadh, the capital of Saudi Arabia. With a young population and a nation undergoing wide ranging reform, the provision of new residential communities and their affordability has become a topic of great importance. To this end we explore some of the challenges facing the residential sector with a focus on the provision of the value add services of healthcare and education.

We hope that you enjoy the report and find it useful in assessing the ever-changing development space. Please do get in touch if you would like any further information from our research or property teams across our network of global offices.

Stefan Burch
Partner, General Manager, Knight Frank KSA
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Three years ago in the The Knight Frank Wealth Report, I commented that access to high-quality, truly affordable housing was set to become one of the dominant global political themes. The Economist magazine had, at that time, noted that 60 million rich-world households spent more than 30% of their income on housing; and in the emerging world, 200 million households lived in slums. With rapid urbanisation, these numbers were only set to grow. And with global house prices rising by 6% more than incomes over the three intervening years, the issue has become further entrenched. The issue of affordability is not limited to one or two cities globally. While Hong Kong, San Francisco and London might spring to mind as the cities at the sharp end, the issue of how to ensure workers can access housing is relevant to almost all successful urban centres. In many cases, it is economic success itself that worsens the situation, attracting workers and pushing up the cost of accommodation as demand outpaces the ability of cities to provide new housing. What does affordability mean? There is no single definition of housing affordability. City authorities around the world have independently grappled with this issue and have come to different conclusions on how the problem should be defined let alone tackled. The most common definitions look at the relationship between house prices and rents against income. The Demographia International Housing Affordability Survey, for example, defines ‘affordable’ locations as those where house prices are no more than three times average household incomes. The UK charity Shelter believes that affordability entails spending 35% or less of your net household income on accommodation. Setting the bar at these levels reveals the scale of the problem. With the average household income, according to Oxford Economics, in London standing at £69,585 (US$87,600), and the average prices of property standing at £477,734 (US$602,000), house price to income ratios are more likely to be at 7 than anything approaching the bar set by Demographia. Even if housing is apparently affordable based on the agreed official metrics, the quality of that housing may still fall below the appropriate standard. For European and North American centres where mass urbanisation occurred much earlier than other parts of the world, ensuring older housing is fit for use is an ongoing challenge.
Flexible work force

While lack of access to affordable housing is felt most acutely by individuals and families, there are significant wider implications. The reduction in the mobility of labour impacts on economic growth. As companies become ever more flexible, the ability of cities to attract workers, especially top-tier talent, becomes ever more important.

Restricted movement can limit the opportunity to relocate to more productive areas, the cumulative effect of which is two-fold. On one hand, the missed opportunity from unfilled positions or not attracting the most suitable candidates leading to lost output. On the other, businesses may need to compensate top talent by paying higher wages in order to offset the higher costs of living.

Talent and creativity determine the ability to increase productivity and innovation, whilst sustaining growth.

The daunting reality for city leaders is that businesses are more mobile than people, when they can’t attract the right talent, or it costs them too much to do so, they may move to lower-cost areas. Facebook Vice President of Communications and Policy Office, Elliot Schrage told investors in 2018 that “If we can’t solve the housing and transportation issues, Silicon Valley won’t be Silicon Valley,” he continued that “these companies, like ours, will still expand elsewhere.”

Examples of where this may already be having an effect is in nearby Seattle with Amazon announcing its chosen locations for a second headquarters HQ2 as Long Island City, New York, and Crystal City, Virginia, instead of expanding in Seattle. The original headquarters has generated roughly US$38 billion in economic activity for Seattle between 2010 and 2016. However, Amazon has outgrown the city, claiming it is unable to recruit the level of staff required, in part due to high living costs. HQ2 is estimated to include a US$5 billion investment and provide employment for 50,000 people.

If cities desire to compete on the global economic stage, then the affordability of housing needs to become a priority for both the public and the private sector.

Economic implications

The size of the win from tackling housing affordability is significant. Research in 2015 by the University of California, Berkeley and National Bureau of Economic Research estimated that if all barriers to urban growth in the United States’s housing supply were lifted, it would raise the country’s GDP by 13.5%, or up to US$2 trillion. In the UK, Shelter found that every £100 million (US$130 million) invested in affordable housing results in £230 million (US$260 million) of economic output into the economy and sustains 1,270 jobs.

Opportunities for investors in this area are enormous. Innovations in housing design, funding, land assembly and construction are developing rapidly. And this is an area where the flow of ideas and experience is moving both ways, between private and public sectors and developed and emerging economies. As challenges and opportunities come, they don’t get much bigger, or more important.
In recent years, homes across the world have become increasingly unaffordable to a growing number of people. We take a look at the key drivers underpinning this trend.

Urban clusters
Urbanisation is the key trend leading to stretched affordability. Job prospects and increased wages are the major draw to global cities. The UN estimated that in 2017, over half of the world’s population lived in urban areas, up from 42% 30 years ago. This trend is set to continue with the proportion expected to rise to over two-thirds by 2050. The region with the highest urban population is North America, with 82%, however the fastest growing is what the UN defines as ‘East Asia and Pacific’ where the urban population has gone from a third in 1987 to 58% in 2017.

While young workers are still attracted to cities, older generations remain or are even relocating to urban areas. In an extreme interpretation of the trend of viewing City living, 82% of the population of North America live within urban areas as a percentage of the total population. In the UK, for example, developers are prevented from building on Green Belt land – a ring of countryside encircling major cities, which is maintained solely for agricultural or non-urban uses.

Some cities are unable to grow in response to demand pressures, purely due to their geography. This is the case with island metropolises or, for example, Mumbai, which is bordered on three sides by the sea. Almost all of the urban growth we expect to see over the coming years will take place in developing countries. In sub-Saharan Africa and South-East Asia, which together will account for almost 60% of global urban population growth, planning rules are not always respected or remain in place simply as legacy rules from the colonial era. In Dar es Salaam, Tanzania, the minimum legal plot size for a property was set according to British post-war standards at 400 square meters,” said Kallergis. “This is far too large when you consider average incomes, so many properties immediately end up on the informal market. As a result of these excessive and inappropriate rules, housing that is built to suit regulations often means that urban markets cannot meet the demand for affordable housing. In response to demand pressures, purely due to their geography. This is the case with island metropolises or, for example, Mumbai, which is bordered on three sides by the sea. Almost all of the urban growth we expect to see over the coming years will take place in developing countries. In sub-Saharan Africa and South-East Asia, which together will account for almost 60% of global urban population growth, planning rules are not always respected or remain in place simply as legacy rules from the colonial era. In Dar es Salaam, Tanzania, the minimum legal plot size for a property was set according to British post-war standards at 400 square meters.”

Housing is now seen as a commodity which has bolstered demand.

Housing becomes politicised when targeting multiple stakeholder’s needs; for affordable housing to work, all stakeholders must be satisfied with proposed new developments.

In most major cities, residential supply lags growth in demand.

T he world is facing an affordable housing gap – which we estimate hit US$740 billion in 2018 as measured by the difference between house prices and income. That is not to say that every city is created equally. The politics of property

The need to create more affordable housing is matched by the government’s desire to raise revenue. Across the US, for example, many states have tax and incentive schemes that reflect unfavourably on residential development; local governments are more likely to approve new office, retail or hotel developments, because the tax take will be substantially greater. However, often when residential developments are approved, pressures arise that act to halt the project, for example incumbent homeowners resist new developments, especially affordable housing. The challenge is to create the conditions where existing new developments will bring added value and not diminish property values, we discuss this concept in greater detail on page 14.

By the difference between house prices and income. The relocation enables a greater level of independence and connection through access to shops, amenities and transport. With more and more people vying for space in cities, land values, and therefore rents and property prices, rise accordingly.

That is not to say that every city is created equally. The draw of ‘first tier cities’ is such that, London in the UK, for example, has witnessed faster growing affordability pressures compared to other cities such as Manchester.

Housing affordability
Following the 2008 financial crisis, housing increasingly shifted from a relatively straightforward part of the economic mix to a complex investment vehicle, attracting huge sums from funds and corporations. In the wake of the crisis, a growing number of investors bought up ‘safe haven’ properties in cities like London and New York. “Housing has lost its social function and is seen instead as a vehicle for wealth and asset growth,” commented Ezalari Farah, of the United Nations, in an extreme interpretation of the trend of viewing housing as a global commodity. The availability of cheap debt exacerbated this, enabling individuals to borrow highly leveraged in order to invest.

The proportion of the population that live in urban areas as a percentage of the total population

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The politics of property

A political bag of tricks seems to exist; the need to create more affordable housing is matched by the government’s desire to raise revenue.

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Affordability is recognised as an issue across the globe. Here we look at different measures across 32 cities to gain insight into the breadth of affordability.

To understand the scale of the affordability challenge across the world we have built a Global Affordability Monitor to assess 32 cities around the world and to consider relative performance in three important areas:

House price to income ratio – This measure is the most commonly cited affordability measure. For this we have looked at the ratio between average house price and average household income, after taxes.

Rent as a proportion of income – As the population of tenants increases globally, it is critical to assess not only the affordability of buying a home but also how affordable it is to live in a city with respect to rented accommodation.

Real house price growth compared to real income growth – We have included this measure as we believe it demonstrates clearly whether affordability has improved or worsened over recent years. We have adjusted both house price and average household income, after taxes.

We present our findings as quadrants of affordability with the ‘least affordable’ cities being worst off on the three measures compared to others. The scale of the challenge varies dramatically depending on the city.

Over the following pages we further explore the findings of this year’s Global Affordability Monitor.

In the bottom left quadrant, cities have seen house prices grow by 21% over the past five years compared to a 9% increase in disposable household income growth over the same period.

Winding up, Amsterdam is facing growing affordability pressures.

**ACROSS THE 32 CITIES, THERE WAS AN AVERAGE FIVE-YEAR REAL HOUSE PRICE GROWTH OF 24%, WHILE AVERAGE REAL INCOME GREW BY ONLY 8% OVER THE SAME PERIOD.**
The Knight Frank Global Affordability Monitor 2019

Key Findings

There is a growing global disparity between house prices and income. Across the 32 cities covered, there was an average five-year real house price growth of 24%, while average real income grew by only 8% over the same period.

Some cities bucked the trend. New York saw its income growth exceed real house price growth by 1%. Moscow, Singapore, Mumbai and Paris also saw their average real income, over the last five years, grow faster than real house prices, indicating an improvement in affordability and a contributing factor to their positions. In Moscow, where there was the largest difference, real income outpaced real house price growth by 22%.

Amsterdam, Vancouver and Auckland, however, saw real house prices outstrip real income growth by 39%, 46%, 32% respectively. This evident disparity between the two indicators is a clear contributing factor to these cities falling into the ‘least affordable’ quadrant. Berlin’s performance has been similar which has contributed to the city being placed in the ‘second least affordable’ quadrant.

Dublin’s strong economic performance over the last six years has led to an increasing demand for housing; however, the new housing supply has failed to keep pace. This has given rise to affordability issues, placing Dublin in the second ‘least affordable’ quadrant. A lack of new supply was compounded by expensive debt and equity funding; stringent minimum design standards; and macroprudential measures which made it much harder for prospective buyers to access mortgage financing.

Things in Dublin are changing however. Design standards and the planning process have changed, which are helping to address development viability issues. And, while Ireland’s macroprudential measures may have supressed the pool of mortgages that would otherwise be available, they have achieved their aim of reducing systematic risk in the market. Developers and their funders are also adapting to the evolving landscape, by placing an increased focus on the private rented sector where there is an estimated €3 billion (US$3.4 billion) to €5 billion worth of capital available to be deployed to the Dublin market.

Affordability in Jakarta remains a key issue, despite the city’s ‘most affordable’ quadrant status. Indeed, to mitigate affordability pressures, developers are having to reduce the size of new residential units to maintain maximum capital value and keep prices attractive.

In the year to June 2018, nominal house prices in Kuala Lumpur fell by 0.7%, helping to maintain the city’s presence in our ‘most affordable’ quadrant. The city’s high level of new supply has helped to increase price competition, keeping prices attractive.

City-wide average affordability statistics are useful but they fail to highlight disparities in housing costs within sub-markets or across the income spectrum. Therefore, even cities in the ‘most affordable’ quadrant still have room for improvement and may not be affordable to lower income groups. The discussions in the next section of this report will provide many examples on how cities are looking to alleviate affordability pressures.

Affordability to access mortgage financing.

SOURCES:

**Cities in the different categories are ranked by alphabetical order.**
Corporates step in
The tech boom has transformed the fortunes of San Francisco, attracting tens of thousands of workers to the city for homeowners and renters alike.

Google announced in 2017 that it was spending as much as US$30 million on buying factory-built homes for its staff, a trend that we are seeing in other global locations. Cambridge University in the UK, for example, has been building properties which will include homes for staff to let at affordable rents.

Shared Living
For those unable to access housing through employment opportunities, co-living could provide an affordable alternative. Typically, co-living developments are smaller than traditional individual apartments, and include a private bedroom with an en-suite bathroom, shared spaces for working and socialising with other people, and fitness facilities.

Roam was originally designed for ‘traveller types’ as an alternative to hotels. Daisy Onubogu, global head of YIMBYRent (Yes In My Backyard), says that Roam’s reach stretches from London to Bali and it currently operates one development in San Francisco. Their properties are usually made up of between 25 and 50 units and, while they are typically priced above other shared living options, they are far below the city-wide monthly average. Onubogu says this is justified given the high-quality amenities, ample space and community atmosphere. With their development in San Francisco being oversubscribed, Onubogu says that “hitting capacity has confirmed that we’re on the right path,” adding that further locations are planned in San Francisco.

Indeed the popularity of the concept has led to significant investment. “In the last four years, multimality has been the recipient of the highest levels of investment of all property types in the United States,” says Michael Wolfin, multifamily specialist at Newmark Knight Frank. For example, in May 2018 Brookville Company and joint venture partner Rockpoint Group spent US$905 million on Starrett City, a 5,101-unit affordable multimality housing complex in Brooklyn.

Further growth may be limited in some locations, as policymakers struggle to find the new concept and how to include it into existing zoning regulations.

“There’s simply no framework in place for us,” says Onubogu. “Governments are still finding their way so we are doing our bit to start discussions about zoning and licences and any other questions that come up.” Governments around the world will have to adjust quickly.

Changing the mindset
Existing home owners can also contribute to a worsening of the affordability situation in San Francisco, and across the globe. Homeowners and local stakeholders block new housing developments to preserve the character of their locality, known as NIMBYism – “Not In My Backyard”. Conversely, YIMBY Action, a group set up to actively battle this viewpoint is gaining traction in the city.

Laura Foote, executive director of YIMBY Action, states that “there is no solution to this crisis, which does not involve building large amounts of multifamily housing.”

More widespread adoption of this mindset globally has the potential to make a big impact on existing supply pressures. YIMBY Action now has 2,000 members in San Francisco, and their lobbying is starting to bear fruit. According to the San Francisco Planning Commission’s Housing Needs and Trends Report, the city produced an average 1,900 new units per year since 1990, but this figure rose to 4,000 a year between 2014 and 2017.
London Affordable Rent
The UK’s National Planning Policy Framework (NPPF) defines Affordable Rent as being no more than 80% of open-market rent, including service charges. However, lower rents in London are genuinely affordable, the Mayor stated in the Affordable Homes Programme 2016-21 Funding Guidance that he expects rents to be set at benchmark substantially below this level, based on traditional social rents.

London Living Rent (LLR)
Locally specified rents for Londoners on average incomes, enabling them to save for a deposit. The LLR curies by area and is based on one-third of median gross household income for the local borough, as well as the number of bedrooms in the property.

London Shared Ownership
Shared Ownership allows Londoners, with household incomes of up to £60,000 (US$76,878), to purchase a share of the property, between 25 and 75 per cent, and pay a low rent on the remaining share. Owners can then buy additional shares in the property over time.

TfL’s landholdings, combined with the mayoral targets and the need to diversify its revenue stream due to funding reforms, make them ideally placed to boost the delivery of homes in London. Peter Elliott, senior property development manager at TfL, talks to us about how they plan to deliver.

The Mayor’s recent announcement on affordable homes targets for all new development sites means that as a holder of ‘government’ land, you need to deliver 50% affordable housing across all sites. How are you approaching this?

We have looked at our portfolios to prioritise the schemes most likely to deliver the highest levels of affordable housing. We will be able to navigate the challenges through a holistic approach and using the wider portfolio to achieve financial targets, housing number targets, and affordable housing targets.

There is a need to boost the delivery of affordable homes, and all homes, on a relatively short time-frame. How can you meet this challenge?

We are looking at different models of delivery, for example, we are trialling modular housing on three sites. Modular housing is interesting on a number of levels and can help meet some of TfL’s key objectives, namely, quick delivery and potentially increased affordability.

Looking at different forms of tenure also opens up the possibility of generating a long-term revenue stream, for example, through build-to-rent or multi-housing units. The focus is delivering these tenures where the private sector is unable to deliver.

To this end, TfL has launched its Property Guardianship scheme, whereby tenants are matched with properties and are required to pay a £30,000 (US$45,330) deposit. This deposit can be used to purchase a share of the property, between 25 and 75 per cent, and pay a low rent on the remaining share. Owners can then buy additional shares in the property over time.

NOTED

TfL, as one of the largest landowners in the UK capital, aims to play an integral role in delivering affordable housing that prioritises quick delivery and multi-tenure options.

Residential development has the potential to power London’s future sustainability created through solar panels and other methods to charge vehicles.

An emerging temporary and cheaper rental solution is to become a ‘guardian’ of a building that is changing use or being developed.

This option provides both the owner and occupier unrivalled flexibility with short notice periods.

LONDON SPOTLIGHT
Senior property development manager at Transport for London, Peter Elliott, discusses some of the ways in which TfL is addressing housing affordability in London.

London Affordable Rent
Transport for London, one of the world’s largest transport operators, is also one of the largest landowners in the UK capital, with an estimated 3,500 acres of land and assets in and around the city. It is playing an integral role in helping the London Mayor achieve his housing priorities.

In the Mayor of London’s 2018 ‘London Plan’, the document which outlines London’s strategy over the next 25 years, Sadiq Khan set new targets for housing delivery. He says the capital needs 64,935 new homes every year to meet the growing demand for housing. Of those, he says, some 45,500 should be affordable homes.

Affordable homes are available to rent at below-market rates, and for potential purchasers, a shared-ownership model allows tenants to purchase, purchase their homes.

The different typographies of affordable housing, as defined by the London Plan, can be seen to the right. Currently, all intermediate rented products such as London Living Rent and Discounted Market Rent should be affordable to households on incomes of up to £60,000 (US$76,878,196).

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Creating more land

In addition to the reallocation of nine sites initially earmarked for private property to public housing, the government is also actively attempting to expand the amount of land available to build on.

In 2018, the government unveiled plans for Lantau Tomorrow Vision, a new island created by reclaiming land. The proposal includes the building of 1,700 hectares, and creates housing and infrastructure for up to 1.1 million people at a cost to the public purse of up to HK$900 billion (US$114 billion). Another proposal encouraged the creation of an artificial island to house Hong Kong’s waste dumps, waste recycling and sewage plants, which could free up as much as 390 hectares for residential use, creating homes for 500,000 people, according to Hong Ye Kuk, a rural government body.

Small homes, big opportunities

Another reaction to Hong Kong’s lack of available land is micro housing units. One example of this is the OPod Tube Housing project created by James Law. The project is a start-up that converts disused water pipes into micro homes. His vision of a studio apartment measures about 9.3 square metres. The stackable homes, at 2.5 metres wide, are designed to slot into gaps between existing buildings. The OPod is estimated to cost £11,000 (US$14,336) per apartment to manufacture, and could be rented out for less than £300 (US$391) a month.

In a jam, mounting affordability pressures have resulted in micro housing units being sold even to those not initially earmarked for private property use, almost three-quarters is earmarked for public housing, with the government planning to build 380,000 units over the next 10 years. This will include 20,000 public rental units and 8,000 subsidised flats for sale. These new flats will be made available under subsidy to young couples and middle-class families, at a 50% discount.

Cool down

Since 2009, the government of Hong Kong has introduced a dew of measures, including increasing stamp duty, reducing loan-to-value ratios and taxing unsold homes. The success of these measures has been debated, with statistics indicating that prices in Hong Kong had more than doubled since then. The latest stamp duty changes raised the levy to 15%, from 8.5% in 2016. However, to aid affordability, first-time buyers have been excluded. In addition, a new vacancy tax, aimed at unsold units, was introduced in 2018 and has been set at 200% of the annual rental value. The market started to cool at the end of 2018, however, this is largely due to rising interest rates and the weakening economy likely to extend the fall in the stock market.

The government has also been subsidising purchases.

Of the 7% of the territory’s land mass that is residential use, almost three-quarters is earmarked for public housing, with the government planning to build 380,000 units over the next 10 years. This will include 20,000 public rental units and 8,000 subsidised flats for sale. These new flats will be made available under subsidy to young couples and middle-class families, at a 50% discount.

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The micro unit concept is not unique to Hong Kong. Patrick Kennedy, founder of Panoramic Interests, has created more than 600 new units of housing across Berkeley and San Francisco. In other cities, such as New York, micro housing schemes can be found through the market at all price points. For example, a micro apartment in Caruana, a development in Fort Greene, which opened in 2018, costs rents for nearly US$2,600 a month for the furnished version. Caesura, a development in Fort Greene, which opened in 2018, costs rents for nearly US$2,600 a month for the furnished version.

Micro homes are also springing up across Mumbai, in developer-driven dramatically slim apartment stiers to help more buyers access home ownership. “We have seen a 12% reduction in apartment size in Mumbai,” comments Vivek Rathi of Knight Frank. Some of these spaces are as small as 17.3 square metres and capital values start at 4,500,000 rupees (US$61,644).
In New York, rent control generally applies when a tenant has been living continuously in their apartment since 1 July 1971 in a building constructed before 1947. Overall rent control numbers are declining because when a rent-controlled apartment becomes vacant, it either becomes rent-stabilized, or if it is in a building with less than six units, typically removed from regulation altogether. Rent-stabilized apartments mean that rent can only be increased by a percentage determined by the Rent Guidelines Board. For renewals after 1 October 2018 this has been set at 1.5% for one-year leases and 2.5% for two-year leases.

Rent control has benefits to current tenants, providing insurance against increases and potentially limiting displacement. However, according to economists Diamond, Quade and Qian at Stanford University, it may decrease affordability and create negative spillovers on the surrounding neighbourhood in the long run. Rent controlled apartments incentivize tenants to remain in their homes, despite a change in their housing needs, which limits the efficient allocation of housing. Controls also reduce the quality of housing as landlords are not incentivised to invest, and with values artificially divorced from market reality, development values are reduced. Rent controls tend to aid a group of fixed existing tenants to the detriment of new households.

Revolutionising fractional ownership

A new ownership model is helping New Yorkers to get on the housing ladder. Property investment start-up Meridio, founded by Mohammad Shaikh, turns any property type into ‘units’ that represent a share of the building, which can be purchased by tenants and investors alike. Currently they are offering private placements to accredited investors, but plan to scale to public offerings next year. This fractional ownership model will allow anyone to get into real estate, even on a very small budget. It also helps tenants to invest in their home on a shared ownership basis, and much like shares they will receive dividends on their investment, ending the ‘empty money’ of rent.

“It should be as easy to invest in a property you pass on the street as it is to buy stocks and shares,” said Shaikh. “We can use this model for any kind of property, from multifamily housing to retail, offices or student accommodation.” It makes the rental process more rewarding as you can receive dividends from the shares you hold.

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Over the past decade, Mumbai has attracted people from all over the country, most notably from rural regions. The city’s population has more than doubled since the early 1990s and has struggled to cope with the influx. By 2030, Mumbai is expected to have a population of 28 million, according to the UN’s World Urbanisation Prospects Report.

Urbanisation has put significant pressure on Mumbai’s housing market. The city faces a severe shortage of land, because of its situation on a peninsula surrounded by the Arabian Sea. The average house price to average household income ratio stands at 7.

Incentives
To enable more citizens to afford stable housing, the Indian government has introduced a range of measures to make property more affordable. The most significant is the credit-linked subsidy scheme (CLSS), which incentivises citizens to get on the housing ladder. First-time buyers earning up to 1.8 million Indian rupees (US$24,685) qualify for the incentive, which is worth around 267,000 rupees (US$3,662). Given that average household disposable income is 1.1 million rupees (US$15,085), the majority of residents will qualify for the subsidy. In addition, under the Goods and Services Tax (GST) regime, buyers who access property through the CLSS are only taxed at 8%, down from 12%.

However, “these measures are only effective on the outskirts of Mumbai, where property prices stand between 5 million and 6 million rupees (US$68,568 – US$82,281).” In the Mumbai city area, where prices are upwards of 10 million rupees (US$143,500), they deliver no meaningful benefit,” according to Vivek Rathi, Knight Frank India’s senior vice president of research.

Building a sustainable future
India is now three years into the “Pradhan Mantri Awas Yojana” (PMAY), a scheme that aims to ensure “housing for all” or 20 million affordable homes, by 2022. Just 8% of the 4 million affordable homes promised by 2018 have been constructed. However, work is currently in progress on a further 1.8 million units, according to the Ministry of Housing and Urban Affairs. Mumbai has yet to benefit from the national scheme. Despite setting a target to build almost 50,000 homes across the city by 2018, and over 240,000 housing units approved in the wider state of Maharashtra, we are yet to see notable progress.

A high-rise boom
Developers seeking to build high-rise apartment buildings are currently constrained by India’s floor space index (FSI). This determines the amount of floorspace permitted on any given plot of land. In Mumbai, where land is scarce, raising the FSI limit could allow more vertical building to accommodate the swelling population. The Ministry of Housing and Urban Affairs is currently debating the issue, where accommodating more people into an already densely-populated area will place extra pressure on local transport and infrastructure.

NOTED

The Indian government is implementing programmes, including the credit-linked subsidy scheme, incentivising residents to get on the property ladder.

The ambitious national “Pradhan Mantri Awas Yojana” (PMAY) scheme aims to ensure 20 million affordable homes by 2022.

If the government was to lift floor space regulations in Mumbai, developers could build vertically, thus alleviating the pressure on space in the city, whilst increasing supply.

The rateable value of a property is based on the value placed on it by the local authority. If a property’s rateable value is £250,000, for example, this would be the basic rate of the annual tax. This rate is then multiplied by the multiplier to arrive at the total charge. If the multiplier is 1.89, the annual bill would be £472,50 (250,000 x 1.89).

UN01, 201): “In the Mumbai city area, where prices are upwards of 10 million rupees (US$143,500), they deliver no meaningful benefit,” according to Vivek Rathi, Knight Frank India’s senior vice president of research.
Over the last two decades, the demographic makeup of the city has changed rapidly, where currently almost half of the city’s population is below the age of 29.

Demographic and generational shifts

Arguably, no city in the Kingdom has seen this trend more than Riyadh. With a growing population, housing affordability in Riyadh is becoming more challenging. The Ministry of housing has launched the Sakani program to respond to rising affordability pressures.

To help tackle the growing affordability pressures, the Saudi Arabian government has launched the “Sakani” program, a scheme by the Ministry of Housing that aims to ensure housing for all, through the distribution of affordable housing and financing products. Saudi Arabia is now in the third year of the program, which was launched in February 2017.

Around 500,000 products were allocated in 2017 and 2018 including mortgage loans, cost-free land plots, under-construction residential units and residential units. In 2019, the target is to allocate 200,000 additional products to a number of beneficiaries across the different regions.

The program is in its early stages, waiting lists for products have reduced significantly over the past two years. Challenges still remain around suitable locations for land plots, quality of development and the bankability of beneficiaries, we foresee more progress being made in the coming years as the government continue to focus on the provision of affordable housing stock for the Kingdom’s burgeoning population.

Historically, it was not unusual for generations of the same family to be living in a single-family home. This in turn has meant that average household incomes are recorded as quantitatively high and therefore metrics, such as the house price to income rate, are marginally higher than some recognized affordability benchmarks. This in turn somewhat helps mask the affordability issue not only in Riyadh but the wider Kingdom.

This younger generation now exhibits a desire to move away from the aforementioned multi-generational household structure. However, due to the lack of suitable product the generation will continue to face an acute challenge to enter the housing market.

As a result of these growing challenges, we have seen affordability come to the forefront of the agenda particularly as cultural and social attitudes change at a rapid pace.

If we consider average salaries rather than multi-generational household salaries, the affordability of Riyadh’s residential market drops dramatically (see page 15) and instead of being in the most affordable quadrant the city moves into the second most affordable.

Using conventional affordability metrics, average affordability lies within SAR 400,000 and SAR 500,000 in comparison to average city wide prices of SAR 970,000. To this end, affordability, coupled with falling household sizes, will underpin demand for higher density developments which provides smaller, more efficient units that are affordable due to a reduction in size rather than build quality.

Building a sustainable future

Transport is viewed as a key component to building an affordable housing ecosystem. The implementation of the Riyadh Metro falls in line with this viewpoint.

The Ministry of Housing is implementing programmes to get Riyadh residents on the property ladder.

The ambitious Sakani program scheme has allocated c. 580,000 housing and financing products in 2017 and 2018 and is expected to allocate 200,000 additional products in 2019.
SOCIAL INFRASTRUCTURE – A KEY TO AFFORDABLE LIVING

The establishment of healthcare and education facilities in Riyadh is viewed as inherent to the development of the appropriate affordable ecosystem. The private sector is anticipated to play a key role in this process.

The case for Riyadh

With the government initiative under the National Transformation Plan (NTP), which is looking towards the private sector to help fill the void in the spheres of education and healthcare, careful planning is required as to the type of operator and allocation of space to ensure that the overall goal of affordability is met and such facilities are financially viable to keep the private sector incentivised to contribute.

The business case for the private sector to contribute in these asset classes is clear, as Riyadh has a hospital bed capacity gap of almost 4,200 beds (based on global average benchmarking) as at 2018 and the incremental number of student seats required by 2030 is circa 120,000 seats.

With Riyadh’s fast pace of growth and the objective to create affordable housing, we need to be cognizant of the lessons from an international perspective. Providing affordable housing which has both healthcare and education woven well within its ecosystem will ensure the success of these developments by way of:

• Creating a sense of community
• Maintaining higher residential occupancy levels as basic life provisions are catered to and economic activity is created
• Value creation for the population residing in these areas in the long run

Healthcare and education assets act as anchors to developments as they meet the basic needs of the population who would consider these locations as prospective places of residence. An important consideration for this cohort for which affordable housing is being constructed is the ease of access to these education and healthcare facilities, particularly from a monetary and distance, preferably walking distance, perspective. More so, the inclusion of these assets would create direct employment.

Economic implications

To put this into perspective, a single school with 2,000 students and a 100 bed hospital has the potential to create 800 to 900 additional jobs. The charts below show the breakdown of employment created by inclusion of such facilities in these developments.

Empirical studies suggest that employees of such organisations such as doctors, nurses, teachers and school staff prefer to stay close to their places of employment. If we consider them along with their families, a significant proportion of the dwellings being developed are more likely to be occupied.

High requirements for private sector investments in education and healthcare are supported by the government initiatives under the National Transformation Plan.

To ensure longevity and future value creation of affordable housing schemes, components that create a synergetic ecosystem must be included such as education, healthcare and recreation.

The inclusion of healthcare and education assets in Riyadh would have a direct impact on the socio-economic environment by creating employment.
THE NEXT MODE OF TRANSPORT

It may be cheaper to build property in isolated or underdeveloped areas but few people would choose to live there. However, lightning-fast travel could change all that.

When there is an abundance of land available for development outside cities, the difficulty lies in convincing populations to move there. The ability to travel easily from your home to your place of work, ease of access to shops, entertainment and other amenities, can have an impact on the quality of life. Linking satellite towns and cities with more established ones via a fast and efficient transport network could reduce demand in high-price areas and increase the standard of living for commuters.

The virtual expansion of a city is not a new idea. The brainchild of Elon Musk, Hyperloop, is taking this concept one step further. As a new spectaculatively fast mode of intercity transportation, Hyperloop could help open up swathes of unused land for residential development.

Hyperloop

Hyperloop aims to project commuters through a vacuum at 1,000 km per hour, thus acting to considerably ease commuter congestion on other modes of transport. It could be made a reality within three years, with early experiments already being conducted in the United Arab Emirates.

Hyperloop is not a direct way to combat the affordability crisis, but if its prices are affordable for all, it could reduce demand in high price areas and increase the standard of living for commuters from satellite towns.

Affordable to many or just few?

For Hyperloop to contribute to affordable living, the price needs to be low. According to Musk, this is achievable. For the route between San Francisco and Los Angeles, he forecasts that US$6 billion of investment would be required to create the infrastructure. Each pod would be able to hold 28 passengers, according to his model, and pods would depart every 30 seconds. The price would be the price of a one-way ticket sitting at US$20 per person. If similar prices were realised in countries such as the UK, where commuters can spend more than £3,000 (US$3,850) on an annual season ticket, this represents a saving of around £750 (US$960) per annum.

Politicians in the UK have cited Hyperloop as a viable solution to many of the nation’s transportation and mobility woes. The Australian Parliament’s Committee on Infrastructure, Transport and Cities has also called on Australian Government to look at Hyperloop as a way to ease the tight housing market. This would help workers in cities like Sydney move to homes that are twice the size and half the cost of city-center accommodation, while remaining just 15 minutes away by Hyperloop.

Can it be done?

Two companies have been working on making this concept a reality, Hyperloop Transportation Technologies (HyperloopTT) and Virgin Hyperloop One. Both claim that this new mode of transportation could be a reality within three years. Early experiments are already taking place on the stretch of desert between Abu Dhabi and Dubai. There has also been the development, by Musk, of The Boring Company, a tunnelling venture that would allow Hyperloops to be built underground. Various city councils across the US have reportedly given him the go-ahead to drill tunnels. The dirt that is excavated during the drilling process will not be wasted, either. The dirt will be used to make bricks, which will be sold to房企 for the dirt to the construction industry for US$20 per person. If similar prices were realised in countries such as the UK, where commuters can spend more than £3,000 (US$3,850) on an annual season ticket, this represents a saving of around £750 (US$960) per annum.

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Affordable housing has to start at policy level. Singapore’s success in affordable housing stems from a strong public housing policy, anchored by political will and a long-term approach to planning. Since 1960, Lee Kuan Yew, Singapore’s first prime minister, promoted home ownership with the aim of giving every citizen a ‘place in’ a country comprised mainly of immigrants. The Housing and Development Board (HDB) was set up to chart the course to deliver a large number of quality social housing at high prices. As a result, it is now mandated that 30% of all new residential units built must be social housing. This would make the best use of poor quality, accessible Green Belt land at a station. A more balanced approach would allow the release of poor quality, accessible Green Belt land. In return, local authorities should demand exceptional development standards with very high quality, sustainable places supported by community amenities and facilities, affordable housing and generous public open space. This would make the best use of poor quality, accessible land, resulting in better community and development outcomes and delivering much needed new homes.

Rising land prices are an inevitable by-product of urbanisation. But one effective way of bringing down the cost of housing is the use of ‘building information modelling’ (BIM) systems. This technology means that you combine ‘design and build’ within a single system, which allows developers to optimise project costs by up to 31%. When you combine this technological ability with modular building, the fact that we can create homes in factories and then ship to site has a significant impact on the ability to build affordable housing.

Building homes from wood also brings down cost. It is a sustainable material that can be transported easily, which makes it the ideal material to support modular development. Hybrid buildings, which use concrete or steel for structural elements, combined with wood, are likely to become more and more commonplace. We are also seeing major changes to the way that commercial and residential property interact. We predict that we will see more of a blend in future; shopping centres or petrol stations that currently boast just two or three floors could evolve to have a portion of residential housing on top.

Outside of these trends, the aim is on governments to incentivise affordable housing. Policies in the framework on which cities are built. The world could learn a lot from the likes of Vienna and Amsterdam, which have three floors could evolve to have a portion of residential housing on top of the Green Belt. Between a quarter and a third of potential residential land is controlled by the public sector. This could make a real impact on the delivery of new homes, including affordable homes. Despite successive government initiatives, public sector land provision remains low and slow. Tender processes are lengthy and extremely expensive, which encourages many developers from being able to bid.

The fundamental issue with housing affordability is that we do not deliver enough homes anywhere nor does data. This is the result of insufficient land for housing and a slow and costly planning system which delays development and acts as a barrier to entry for new players.

More land is needed for housing, including greater and faster release of public land and a more balanced approach to the Green Belt. Land is often held at a discount by the public sector. This could make a real impact on the delivery of new homes, including affordable homes. Despite successive government initiatives, public sector land provision remains low and slow. Tender processes are lengthy and extremely expensive, which encourages many developers from being able to bid.

England’s Green Belt has more than doubled since 1979; at 13% of the country it is larger than the urban area. Not all Green Belt land is of high quality and much provides little public benefit. 62% of non-environmentally protected Green Belt land in Greater London is within 5 km of a station. A more balanced approach would allow the release of poor quality, accessible Green Belt land. In return, local authorities should demand exceptional development standards with very high quality, sustainable places supported by community amenities and facilities, affordable housing and generous public open space. This would make the best use of poor quality, accessible land, resulting in better community and development outcomes and delivering much needed new homes.

Twenty years of planning reforms, six planning acts and two editions of the NPPF have led to a complex, costly and slow planning system. Elements of the planning system could be reformed but fundamentally the planning system is the same everywhere but the experience varies markedly. Rather than further system change, let’s focus on the culture of planning, making it about enabling rather than regulating.
Affordable housing schemes are best developed alongside communities with varying socioeconomic profiles. We believe healthcare and education assets provide an excellent opportunity for investors, partner with the private sector to both service their communities and build economically diverse neighbourhoods.

In Saudi Arabia, rising demand for education and healthcare services coupled with government initiatives that call for increased private sector participation presents an invaluable opportunity for the private sector to define the expansion in these sectors. With the government permitting foreign ownership in the healthcare and education sectors, international companies that previously chose to remain at bay are now actively looking to enter the Saudi market. With their entry in the country, the level of competition is bound to augment and in the long run will benefit consumers who will have choices available to them.

Keeping the above into perspective, it is becoming increasingly important for healthcare and education companies to invest heavily in undertaking market due diligence, analysing the requirements of their target market and developing offerings that create an affordable value proposition.