



What is affordable housing?





Affordability

In the housing sector, affordability is commonly developed by a ratio: it should cost no more than 30 to 40 % of total household income, or three to four the annual household income¹. Anything above this threshold is considered unaffordable.

This problem is a global one: by 2030, as the global population reaches 8.5 billion, of which 60 % will be living in urban areas, an estimated 3 billion people will need new adequate housing and basic urban infrastructure².

The Royal Government of Cambodia has developed key policies in 2014 (The National Housing Policy) and 2017 (The Policy on Incentive and Establishment of National Program for Development of Affordable Housing) to provide an institutional response to housing.

These housing policies provide a platform for greater collaboration between the private sector and government to increase the supply of affordable housing. To have a wider impact and be more inclusive, these policies must be more targeted towards low-income households in Phnom Penh.

Housing affordability remains a significant challenge, with prices out of reach for 60 to 70 % of the population. There is evidence to suggest many households place themselves at financial risk when acquiring housing loans, which can lead to over-indebtedness and severe financial stress. This situation poses a risk as low-income groups remain locked out of the market, which is likely to result in further inequality, increased over-crowdedness and expansion of informal settlements into hazard-prone areas.

TAKE AWAY POINTS

For approximately half of Phnom Penh's population, housing units should be priced between USD 15,000 to USD 35,000 to be considered affordable.

There is considerable variation in understanding the definition of affordable housing and the appropriate price ranges that must be considered. Affordability varies according to household income: every market segment should be considered in terms of income when developing a more inclusive affordable housing policy.

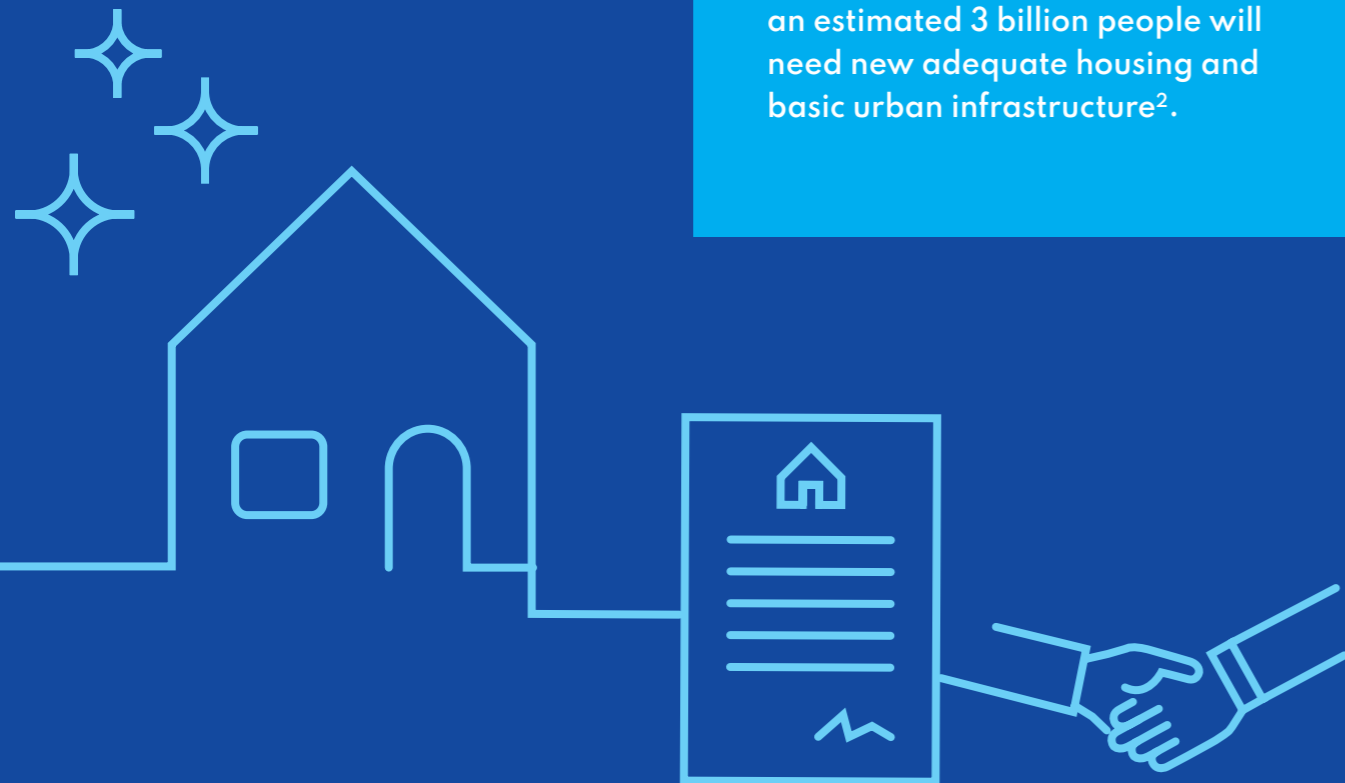
The existing policy framework offers very limited options to access homeownership for the poorer 25 % of Phnom Penh's residents. This group is unable to afford homeownership within the price range stated in the affordable housing policy.

Developing affordable and sustainable housing for low-income households requires constructive cooperation among all stakeholders to reimagine new affordable housing models, including housing design, manufacturing and production, supported by incentives and subsidies to support the industry.

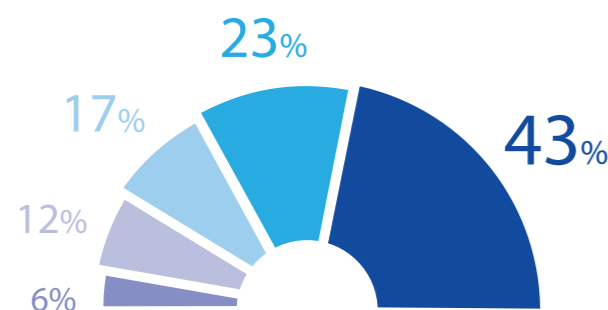
The 2017 Affordable Housing Policy offers incentives to developers to build homes that cost between USD 15,000 and USD 30,000. However, criteria are difficult to meet and it is unclear how they were calculated. As a result, affordable housing projects are scarce due to the uncertainty the policies provide to developers. Currently, only five projects are under way in and around Phnom Penh. The majority of developers do not consider affordable housing as a valuable market, and there is little incentive to invest in this sector.

¹ UN Habitat measures affordability as a net monthly expenditure on housing cost that doesn't exceed 30% of the total monthly income of the household.
<https://unhabitat.org/11-1-adequate-housing>

² 2020, World Bank, Housing Finance in brief.
<https://www.worldbank.org/en/topic/financialsector/brief/housing-finance>



HOW AFFORDABLE IS HOUSING IN PHNOM PENH?



Q1 AVERAGE ANNUAL INCOME DISTRIBUTION Q2 Per capita, per quintile Q3 2017

Q4 In 2017, the poorest 20% of the population earned 6% of the city's income, whereas the richest 20% of the population captured 43% of the capital's income. Source: 2017 NIS CSES.
Q5

In 2019, approximately 2.2 million people lived in Phnom Penh, comprising nearly 500,000 households³. Housing expenditure represents on average 31% of monthly expenditure per person in Phnom Penh, which is acceptable according to the definition of affordability used above. However, the average figure hides vast inequalities; there is uneven income distribution between rich and poor, and income inequality is higher between city center vs outer districts.

The demand for affordable housing remains largely unmet in Phnom Penh. Market prices are unaffordable for approximately 60% to 80% of the population. Only a small portion of households in this population group are currently able to purchase housing priced around 35,000 USD. A key concern is the limited number of houses offered in this price range. Many households who choose to buy in or over this price range put themselves at financial risk, and this has led to cases of defaults on payments or sacrificing other essential services, such as health and education.

ESTIMATION OF WHAT AFFORDABLE HOUSING PRICES SHOULD BE

Based on average annual income per household per income group quintiles.

	Q1	Q2	Q3	Q4	Q5
Average monthly income per capita	\$51	\$97	\$140	\$193	\$366
Average annual household income	\$2,161	\$4,087	\$5,890	\$8,103	\$15,356
AFFORDABLE If housing represents 3 times the household's annual income	\$6,484	\$12,262	\$17,670	\$24,309	\$46,067
MILDLY AFFORDABLE If housing represents 3.5 times the household's annual income	\$7,565	\$14,306	\$20,615	\$28,361	\$53,745
MILDLY UNAFFORDABLE If housing represents 4 times the household's annual income	\$8,645	\$16,350	\$23,560	\$32,412	\$61,422

The table presents a range of prices for housing to remain affordable based on the median income per quintile, based on the hypothesis that each household comprises on average 3.5 income earners. For instance, a housing unit priced approximately 25,000 USD would be considered affordable (three times the annual household income) for a household earning approximately 8,000 USD per month. A housing unit priced 15,000 USD would be considered mildly unaffordable (three and a half times the annual household income) for a household earning on average 4,000 USD per month. Source: 2017 NIS CSES report.

WHAT IS ADEQUATE HOUSING?

Housing can come in many forms. In many cities, housing conditions can be very degraded and hazardous. The UN High Commissioner for Human Rights defines adequate housing based on the following criteria:

- 1. Durable housing of a permanent nature that protects against extreme climate conditions.**
- 2. Sufficient living space, which means not more than three people sharing the same room.**
- 3. Easy access to safe water, in sufficient amounts, and at an affordable price.**
- 4. Access to adequate sanitation in the form of a private or public shared toilet by a reasonable number of people.**
- 5. Security of tenure that prevents forced evictions.**

Adequate housing is, at its core, the right to a place to live in dignity and security. When we discuss the affordability of housing, we always consider it as responding to criteria of adequacy.

CURRENT POLICIES & EFFORTS TO PROMOTE AFFORDABLE HOUSING

The 2014 National Housing Policy became the first legal framework adopted in Cambodia which attempts to define 'affordable housing' and estimate future needs. The 2017 Policy on the Incentives and Establishment of National Program for Development of Affordable Housing established incentives for developers to build dwellings priced between 15,000 USD and 30,000 USD. These incentives include tax exemptions and waived costs of infrastructure like water, sewage and electricity.

To be eligible, developers must offer a minimum of 100 housing units in the set price range, located less than 20 km away from the city center and offer green and communal spaces. They are also responsible for developing and connecting all networks to the local grids. To this day, only one developer, the Worldbridge Homes Serei Mongkul development in Takmao, Kandal province, has met these requirements and has been awarded by the Ministry of Finance the tax abatements.

³2020, Ministry of Planning, National Institute of Statistics, 2019 National Population Census.

However, the Ministry of Land Management, Urban Planning and Construction considers there are currently five affordable housing projects⁴.

The 2014 & 2017 affordable housing policies provide a voluntary framework for developers to offer housing below market prices. However, these include hard-to-meet criteria, and remain rare due to the absence of any enforceable legislation.

Of the five developers building affordable housing today in Phnom Penh, at least two developers do not rely on credit from commercial banks: one developer reinvests profits from past real estate projects into affordable housing financed by shareholders and investors.

Both developers consider these affordable projects as part of their Corporate Social Responsibility (CSR), since they consider there is a very limited scope for profitability.

The affordable housing market, by nature, is less profitable when compared to a traditional residential housing market. However, given the needs in Phnom Penh, it should be considered a market to invest in. Here are some aspects the Government and developers can consider to support the emergence of such a market:

- Land prices have increased rapidly since the adoption of the policy in 2017, and current prices of land located less than 20 km away from the city center do not allow for the profitable development of housing priced below USD 30,000. Instead of setting up at a distance from the city center, policy could define a distance ratio based on the activity center it aims at supplying.
- Developers who currently do not have the capacity to develop a minimum of 100 units cannot access the incentive scheme. It would be interesting to lower the threshold of unit numbers, as smaller affordable developments could become an interesting tool from an urban sustainability perspective.
- Despite the strong growth of real estate and construction in the total share of loans attributed by Cambodian banks (respectively 7 and 9% in 2018)⁵, developers operating in the affordable housing sector face constraints in accessing capital and keeping costs low.
- Building sustainable affordable housing, that addresses green building criteria, is essential in order to ensure the long-term affordability of housing, as well as contributing to the overall sustainability of Phnom Penh. Sustainability criteria should be established and taken into account to qualify for incentives from Government and/or specific support from international organizations.

⁴ Based on an announcement made in December 2020 by the Ministry of Land Management, Urban Planning and Construction have approximately five other affordable housing projects in the pipeline which have at various stages of completion- four in and around Phnom Penh and one in Poipet. However, the Central Public-Private Partnerships Unit (CPU), of the Ministry of Economy and Finance, in charge of confirming eligibility to the financial incentives defined in the 2017 policy declared during an interview for the Affordable Housing Study (co-financed by PiN, PED and GGGI) early in September 2020 that currently only one project had been awarded the incentives, Worldbridge Homes. The review process takes about one year, and at the time of the interview, no project was under review. This points to challenges for inter-ministerial work in this area. One of the explanations offered by the CPU for refusing

the attribution of the tax abatements was the recent creation of companies and their inability to prove sound financial management and tax compliance. This could indicate that investors are setting up new companies to develop affordable housing in order to preserve other companies' assets, highlighting their lack of confidence in the affordable housing market's profitability.

⁵ 2018, National Cambodia Bank database.

⁶ 2020, Planète Enfants et Développement, People In Need, Global Green Growth Institute, Affordable housing in Phnom Penh - Ensuring decent housing opportunities for all.

TYPES OF HOUSING IN PHNOM PENH

HOUSING MARKET SEGMENTS	1 st SEGMENT	2 nd SEGMENT	3 rd SEGMENT
HOUSEHOLDS	94,250 households (25% pop)	188,500 households (50% pop)	94,250 households (25% pop)
ANNUAL INCOME PER HOUSEHOLD	Over 13,000 USD	5,500 to 13,000 USD	Up to 5,500 USD
AFFORDABLE HOUSING COST	More than 39,000 USD	16,500 to 39,000 USD	Up to 16,000 USD
SUPPLY OF MARKET SEGMENT	Fully supplied	Partially supplied	Currently no supply
HOUSING UNIT COSTS PER SEGMENT	More than 80,000 USD	30,000 to 80,000 USD	15,000 to 30,000 USD (affordable housing policy) Less than 15,000 USD

Within the housing market in Phnom Penh, three distinct segments are apparent⁶

1st The first segment includes houses and condominiums backed by international investors, developers and buyers belonging to the 25% richest city residents, foreign residents and investors. This housing type begins at around USD 80,000 and comprises the majority of units in the current housing market. The entry price to this market segment highlights the discrepancy between available housing and existing household capacity to purchase a home.

2nd The second segment consists in an affordable housing market, which is gradually evolving, albeit slowly. Current efforts to build up this segment are less oriented towards developing an 'affordable housing market' and more about larger developers demonstrating corporate social responsibility, i.e. giving back to the community. Some smaller developers are also investing in this segment, seeking to capture quick profit, but generally with negative consequences on the overall quality of housing and newly developed neighborhoods.

The price range for this market segment is between USD 15,000 and USD 30,000, aligned with existing policy, as well as a higher tier market - ranging from USD 30,000 to USD 80,000⁷. Based on current incomes, a little more than half of the city's population's capacity to buy (in an affordable manner) corresponds to this segment.

3rd

Finally, a third segment for affordable housing should correspond to the low-income group. Affordable housing is still unavailable for this group and requires attention to answer specific needs and financial capacities. Analysis of household income shows that at least 20% of the population cannot purchase a home priced USD 15,000 or more, suggesting the need for the development of several housing models, such as a structured and subsidized rental market, a rent-to-buy scheme and shared equity model to assist lower income groups get onto the property ladder.

Housing can be considered as an ecosystem, as each market segment influences the others. For instance, an under-supply of housing in a price range affordable to the middle-income groups will impede any efforts to develop housing for the lower income groups: housing units targeted for lower income groups might be grabbed by middle income groups thanks to their increased economic and social capital. All income segments need to be considered together in order to develop an inclusive housing strategy.

“A city is an integrated housing market with a mixture of incomes. Cities need to think of housing as one market, in which decisions at the top trickle down through all income groups and where market failures in any submarket have ramifications across the city”⁸



To provide housing at the USD 15,000 price range requires state intervention (including waived land tariffs, taxes, subsidized access to land, and affordable finance). For those who cannot afford to purchase, additional options to home ownership are required, including rental solutions supported by government, bilateral and multilateral organizations.

⁷ Market research conducted in November 2019 identified the cheapest unit for sale on the market at \$36,680 for a 49 m² link house in Khan Por Senchey (source: report quoted above).

⁸ 2014, McKinsey Global Institute, A blueprint for addressing the global affordable housing challenge.

