Housing Finance
Intersessional Thematic Meeting June 24th 2025
Background Document

Version 20.6.2025

INTRODUCTION

The Open-ended Intergovernmental Expert Working Group on Adequate Housing for All was established pursuant to resolution 2/7 on Adequate Housing for All, adopted by the United Nations Habitat Assembly of the United Nations Human Settlements Programme (UN-Habitat Assembly). Accordingly, the first session of the Intergovernmental Expert Working Group was held at the headquarters of UN-Habitat in Nairobi from 9 to 11 December 2024. See here the report and the Chair's summary. The elected co-chairs, France and Kenya, developed a road map for 2025 which includes virtual intersessional meetings for member states, nominated experts and other stakeholders to pursue the work on the identified thematic areas, and a second meeting of the Working Group (OEWG-H2).

The virtual intersessional thematic meetings will roll out with two sessions for each topic to cater for different time zones, according to the following schedule:

Housing Finance: 24th June 2025 10:00-1:00 pm EAT (English, Russian, Arabic)
and 4:00-7:00 pm EAT (English, French, Spanish, Arabic)
Tenure Security: 25th June 2025 10:00-1:00 pm EAT (English, Russian, Arabic)
and 4:00-7:00 pm EAT (English, French, Spanish, Arabic)
Informal Settlements: 26th June 2025 10:00-1:00 pm EAT (English, Russian, Arabic)
and 4:00-7:00 pm EAT (English, French, Spanish, Arabic)
Social Housing: 27th June 2025 10:00-1:00 pm EAT (English, Russian, Arabic)
and 4:00-7:00 pm EAT (English, French, Spanish, Arabic)
Sustainability: 16th September 2025 10:00-1:00 pm EAT (English, Russian, Arabic)
and 4:00-7:00 pm EAT (English, French, Spanish, Arabic)
Definitions: 17th September 2025 10:00-1:00 pm EAT (English, Russian, Arabic)
and 4:00-7:00pm EAT (English, French, Spanish, Arabic)
Monitoring framework: 18th September 2025 10:00-1:00 pm EAT (English, Russian, Arabic)
and 4:00-7:00 pm EAT (English, French, Spanish, Arabic)

The **draft recommendations** drawn from the intersessional meetings will be compiled into a summary, which will be presented at the second session of the Open-Ended Intergovernmental Working Group on Adequate Housing for All (OEWG-H2), scheduled to take place in **Nairobi from 22 to 23 October 2025.** Similar processes will take place in the following years (2026-2028); a comprehensive set of housing policy recommendations will be presented at the third session of the Habitat Assembly in 2029. Such recommendations will already guide policy reform at the country level before 2029 and will inform other key multilateral processes.

OBJECTIVES OF THE INTERSESSIONAL MEETING ON HOUSING FINANCE

The meeting intends to review and provide inputs to the information contained in this background document, including:

1. The description of the key aspects of housing finance that influence housing markets and housing delivery, and
2. The draft recommendations for actions that will have positive impact on housing financing and housing affordability.

The recommendations drawn from the intersessional meeting will be presented at the second session of the Open-Ended Intergovernmental Working Group on Adequate Housing for All (OEWG-H2) that will be held in Nairobi on the 22nd and 23rd October 2025.

SUMMARY OF PROPOSED RECOMMENDATIONS

The summary of the proposed recommendations is below and a more comprehensive description can be found in the annex of this document. At the Intersessional Meetings, participants will be asked to provide further information, guidance and level of priority of these recommendations.

PUBLIC FINANCE AND SUBSIDIES

1. Deploy targeted, well-designed subsidies and support schemes to reduce housing production costs, expand access for low-income groups, and promote affordability.

2. Strategically leverage public assets—such as land, subsidies, and infrastructure—to unlock housing and informal settlements upgrading investments.

INTERNATIONAL FINANCE

3. Actively guide and influence the direction and use of development funds to ensure these resources play a central role in expanding access to adequate housing, particularly for low-income and vulnerable populations.

PRIVATE FINANCE

4. Attract both specialized and mainstream capital, including microfinance, while de-risking investments and ensuring long-term market stability.

5. Diversify the range of housing finance instruments available to small and emerging developers across the entire housing value chain. Housing investment instruments must be designed together with investors and must be adapted to national and local context and institutions.

6. Put in place coherent regulatory frameworks that align housing finance, land use planning, taxation, and construction standards. This includes refocusing on housing as a right and a social good, curbing speculative investments and the financialization of housing and regulating short-term rentals.

HOUSEHOLD FINANCE

7. Ensure inclusive and affordable housing mortgages but also develop complementary housing finance instruments such as microfinance for incremental construction, cooperative and mutual housing finance models, instruments to support the rental sector, and blended finance. Remove regulatory barriers.

8. Strengthen financial intermediaries and broaden long-term capital access through liquidity facilities, credit guarantees, tailored regulatory support, and increased transparency. Special attention should be given to microfinance institutions and secondary mortgage markets.

ENABLERS FOR EFFECTIVE AND INCLUSIVE HOUSING MARKETS

9. Integrate land governance, land value sharing, inclusive planning into housing policies to promote equity, affordability, and efficient land use and to enable the financing of adequate housing for all.

10. Recognize and finance diverse housing tenure forms, cooperative and mutual housing models, and strengthen tenant protections and participation.

11. Develop integrated, digitized and open-data housing and land data systems to better understand both formal and informal housing markets and to ensure transparency and accessibility.

12. Simplify and digitalize housing and land related permit processes to reduce delays, cut costs, and increase transparency, to enable greater financing for affordable housing and support to low-income groups.

13. Lower housing costs by: reducing the cost of services and infrastructure (through compact and well planned spatial development), making suitably located serviced land available at reasonable costs (through land readjustment, land banking, fit-for-purpose land regularisation, and use of public land), supporting domestic construction industries, and promoting urban densification (through infill development, vertical expansion, repair and conversion of existing buildings and zoning reforms).

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PROPOSED RECOMMENDATIONS FOR ADEQUATE, AFFORDABLE AND INCLUSIVE HOUSING FINANCE

Housing finance is shaped by a diverse ecosystem involving public, private, international, and household-level contributions. While governments increasingly act as enablers through subsidies and regulatory tools, many low-income countries face fiscal constraints and fragmented planning systems. Private finance dominates but often excludes low-income and informal populations due to risk aversion and high costs. Households, especially in the Global South, rely heavily on informal savings and self-construction, making up a significant share of total housing investment. Meanwhile, international development finance remains limited and uneven, often focusing on market-enabling approaches rather than direct provision.

Key technical recommendations were drafted around the main streams of revenue sources, namely: public, private, and household financing mechanisms. Additionally, few enablers of housing affordability were identified as key preconditions for the development of healthy and dynamic housing markets.

Aspects considered in the drafting of recommendations, include the **mobilisation** of financial resources (how to increase access to financing for adequate housing including ODA, IDBs, national banks, financing mechanisms, private-public-partnerships, private housing sector regulatory frameworks, climate financing, access to credit, community investments and savings groups, housing cooperatives, etc.) and the **allocation** of financial resources (how to ensure financing resources are adequately allocated to projects mobilizing the efficient tools for each specific context).

1. Public Finance and Subsidies

1.1. Effective Government Subsidy Schemes

1. **Deploy targeted, well-designed subsidies and support schemes to reduce housing production costs, expand access for low-income groups, and promote affordability.**

Governments should incorporate housing subsidies into national housing policies as essential instruments to address affordability and accessibility gaps that market-based mechanisms alone cannot fill. Accordingly, governments should design and strategically deploy housing subsidies and support schemes to reduce production costs, unlock affordable housing supply, and ensure inclusion of low-income and underserved populations. Public subsidies should be carefully tailored to address specific structural failures—such as the inability of certain groups to access formal credit, or persistent affordability gaps in rental markets.

Governments should target subsidies to the poorest households, using transparent eligibility criteria and socio-economic data to ensure equity and efficiency. Subsidies—including direct grants, concessional loans, tax incentives, and land at below-market prices— are most effective when they are tightly linked to affordability benchmarks, environmental performance, and inclusivity requirements.

Subsidy schemes should combine demand- and supply-side subsidies, offering direct support to low-income households while incentivizing affordable housing developers. For instance, targeted rent vouchers or down-payment assistance can enable access for low-income groups, while supply-side subsidies can incentivize private or cooperative developers to produce non-market housing in well-located areas.

To improve system-level outcomes, governments can offer credit guarantees, partial risk coverage, and first-loss mechanisms to de-risk lending to informal workers and microentrepreneurs. These tools not only expand market participation but also leverage private finance more effectively. Governments should simultaneously ensure that subsidy frameworks avoid regressive outcomes—phasing out broad-based interest-rate subsidies that disproportionately benefit wealthier households.

Complementary reforms are essential to unlock the full potential of subsidies. These include integrating housing programs with land and urban planning strategies, supporting efficient and climate-resilient construction methods, and investing in non-financial services—such as household-level construction support or safe building education. Such efforts ensure that financial support translates into durable, adequate shelter. Similarly subsidy schemes should be integrated with land access and urban planning policies, ensuring beneficiaries receive secure tenure and access to basic services.

Subsidy schemes must be embedded in a broader housing finance strategy, aligned with mortgage systems, rental markets, and public infrastructure investments. They should also be adapted to local housing market conditions, considering regional variations in land prices, construction costs, and urban density.

In parallel, governments should promote tenure security and rental stability through tenant-centered financing models. These may include rent controls, requirements for reinvestment in building upkeep, and support for tenant cooperatives. Establishing or scaling up social housing funds—financed through earmarked revenues such as property taxes or land value capture—can provide stable, counter-cyclical financing insulated from market volatility.

States should promote non-market housing solutions, such as cooperative housing and community land trusts, to expand affordable and inclusive housing options. Legal protections, access to affordable finance, and prioritization in public land allocation can enable communities to produce and manage housing collectively—contributing to long-term affordability, resilience, and social cohesion.

Finally, governments should strengthen housing finance systems to respond effectively to emergencies—including natural disasters, conflict, and displacement—while supporting long-term recovery. In crisis settings, tools such as cash transfers, rental vouchers, and transitional housing via public-private partnerships can provide rapid shelter access. As recovery progresses, subsidized loans, housing microfinance, and community-based savings models help households rebuild—especially when guided by “Build Back Better” principles.

In fragile states, donor-backed instruments, informal finance channels, and international guarantees are essential, particularly for refugees and IDPs. Regulatory flexibility, digital platforms, and blended finance approaches can improve delivery and transparency. Embedding these tools in national housing strategies will enhance resilience, inclusion, and preparedness for future shocks.

1.2. Leverage Public Assets and Finance for Informal Settlement Upgrading

2. <u>Strategically leverage public assets—such as land, subsidies, and infrastructure—to unlock housing and informal settlements upgrading investments.</u>

Governments should adopt a strategic approach to the use of public assets and financial resources to catalyze inclusive and effective affordable housing finance markets. Public land, infrastructure investments, fiscal incentives, and institutional capital must be mobilized not in isolation, but as part of integrated housing strategies that prioritize affordability, adequacy, and inclusion. This includes dedicated support for social housing and informal settlements upgrading as core components of public policy. By leveraging publicly owned land for affordable housing, aligning subsidies with clear affordability outcomes, and using guarantees or blended finance to crowd in private investment, states can maximize the impact of limited fiscal space.

Governments should also prioritize strategic interventions and deploy home improvement subsidies in tandem with efforts to provide secure tenure—legal, documented, or recognized forms of occupancy—as a strategic approach to unlock private and community investment in informal settlements. Additionally, public support should be structured to crowd in private capital, including through microfinance, community savings, and small-scale developer finance. Transparent governance, clearly defined objectives, and strategic allocation of public resources are critical to achieving financially sustainable and socially equitable housing systems over the long term.

Local and regional governments should utilize land-based finance mechanisms—such as land value capture, property taxation, land leasing or mandatory developer contributions —to generate complementary funding for urban upgrading and affordable housing. These tools should be embedded in legal and planning frameworks to ensure transparent, equitable reinvestment of land gains into infrastructure and services for underserved areas, while strengthening local fiscal autonomy and reducing dependence on external funding. They should also seek co-financing mechanisms between central, intermediate, and local governments to enable shared responsibility and resource pooling across government tiers and promote the strategic use of land value capture instrument in inclusive urban development in precarious urban areas.

Governments should catalyze effective public-private partnerships (PPPs) by offering transparent incentives—such as tax relief, planning flexibility, or density bonuses—in exchange for commitments to affordability, tenure security, and sustainability. Where appropriate, these partnerships should integrate resilience standards and green building criteria to promote long-term cost savings and climate readiness. Leveraging domestic capital markets, particularly through local currency bonds and blended finance structures, will also be critical to scale up investment in inclusive housing systems—including social housing and informal settlements upgrading — that deliver for all income groups.

2. International Finance

2.1. Steer multilateral and bilateral support toward inclusive, adequate and sustainable housing

3. **Actively guide and influence the direction and use of development funds to ensure these resources play a central role in expanding access to adequate housing, particularly for low-income and vulnerable populations.**

To achieve meaningful impact and ensure equity, the allocation and application of bilateral and multilateral funds must be grounded in clear, needs-based principles. This includes positioning housing as a strategic development priority, directing resources to areas with the highest demand, tailoring financial instruments to local contexts, aligning with national housing policies, and leveraging these funds in emergency situations to support rapid reconstruction and long-term resilience.

Housing must be elevated as a core funding priority in global frameworks to reflect the urgency and scale of need. By prioritizing housing as a strategic investment, multilateral donors can leverage its potential for positive impacts on health, education, and socio-economic inclusion. Resources should be directed to regions with the most severe housing challenges, particularly in the Global South, where urbanization, informality, and crises are compounding exclusion. Aligning funding with actual needs ensures more equitable and impactful interventions.

Financial strategies must be tailored to local contexts. Multilateral and bilateral aid should encourage inclusive, context-appropriate tools that reach underserved populations, promote housing diversity, and counter speculative pressures in land and housing markets. To strengthen long-term impact, international funding should align with national housing strategies and public finance systems. This includes supporting the diversification of housing finance, enhancing the role of financial intermediaries, and expanding access to affordable household-level finance.

Governments should strategically leverage Official Development Assistance (ODA) and International Development Association (IDA) financing to scale up social housing and slum upgrading programs that combine basic services, tenure security, housing improvements, and social infrastructure. These funds should support inclusive, participatory planning processes, and be structured to catalyse additional investment from domestic and private sources. To maximize impact, recipient countries should align upgrading strategies with poverty reduction frameworks and demonstrate clear commitments to social equity, governance reforms, and sustainable urban development. ODA/IDA resources should also be mobilized to de-risk public-private partnerships and strengthen broader housing finance ecosystems.

Finally, international funds should be leveraged to support rapid and resilient housing recovery in crisis settings. Blended finance models—including public, private, and remittance-based capital—can accelerate reconstruction and reinforce long-term resilience.

3. Private Finance

3.1. Foster Capital Mobilization While Managing Risk in Affordable Housing Markets

4. **Attract both specialized and mainstream capital, including microfinance, while de-risking investments and ensuring long-term market stability.**

Promote Specialized and Thematic Capital Inflows

To strengthen the financial foundations of inclusive housing systems—including the development and expansion of social housing—governments and financial institutions should actively diversify the sources and types of capital mobilized for housing finance. This involves expanding beyond traditional banking channels to include innovative, mission-aligned financial instruments and actors.

One key strategy is to support the development of Housing Microfinance Investment Vehicles (HMFIVs) that are specifically tailored to meet the needs of low-income households, particularly in informal and incremental housing markets. These vehicles can channel capital toward institutions and clients traditionally excluded from mainstream mortgage systems.

Efforts should focus on facilitating access to both domestic and international capital for high-performing microfinance institutions (MFIs)—especially Tier I and II institutions with proven operational capacity and stable portfolios. These actors are often well-positioned to serve low-income populations but lack access to long-term capital at scale.

Governments should also work to mobilize local capital by developing municipal or sovereign bond markets that can finance housing infrastructure and development. The issuance of thematic bonds—such as green bonds for climate-resilient housing or gender-focused bonds for women-led households—can align investment flows with broader social and environmental policy objectives, while also supporting long-term public investment in social housing. Complementarily, municipalities should broaden their revenue base and strengthen creditworthiness to enhance access to infrastructure bonds and development-linked financing instruments.

Finally, well-designed subsidies remain essential to de-risk entry into underserved markets and to incentivize private sector participation in low-income housing segments. When effectively targeted and combined with other financing tools, subsidies can make housing investments more attractive and viable for developers and lenders alike.

Provide Bridge Financing for Green Affordable Housing

Governments and development finance institutions should introduce short-term bridge loans for developers of green, affordable housing. These loans can cover early-stage costs such as land acquisition, permitting, or pre-construction expenses while long-term funding or subsidies are pending. Bridge financing can accelerate delivery timelines, lower development risks, and help mainstream climate-responsive features from the outset—even in low-resource settings.

Promote Climate-Responsive and Inclusive Finance Models

Climate change presents both a risk and an opportunity. Housing finance frameworks must integrate green building standards, promote access to energy-efficient housing loans, and support the issuance of green bonds for housing. Building codes and climate-resilient standards should be coupled with financing incentives to support adoption across all income segments.

De-Risk Investment and Strengthen Market Transparency

To attract private capital into affordable housing, governments should establish credit guarantee schemes, capital subsidies, and performance-based grants. Public-private-community partnerships should also be developed to finance upgrading at scale. These tools can reduce investor risk and increase returns for developers committed to delivering housing that meets affordability, quality, and environmental standards. Simultaneously, efforts must be made to improve property valuation systems and regulatory transparency, which are critical for investor confidence and sustainable market growth.

3.2. Diversify Housing Finance Instruments and Strengthen Support for Emerging Developers

5. **Diversify the range of housing finance instruments available to small and emerging developers across the entire housing value chain. Housing investment instruments must be designed together with investors and must be adapted to national and local context and institutions.**

Empower Small Developers and Local Markets for Affordable Housing

A key priority is to expand access to construction finance, especially for small and medium-sized developers who are often excluded from conventional banking channels. Financial institutions should design tailored financial products that address the specific needs and cash flow realities of this segment. In parallel, blended finance models—which strategically combine public funds, donor support, and private investment—can reduce perceived risks and catalyse larger-scale housing investments.

Beyond financing tools, attention must be given to strengthening the entire housing value chain. This includes: (1) Supporting local supply chains for construction materials, to reduce costs and enhance economic spillovers; (2) Facilitating collaboration between formal and informal actors to ensure that financing reaches incremental and self-built housing processes; and (3) Promoting climate-appropriate building designs, which help ensure affordability, reduce long-term maintenance costs, and improve overall housing quality.

At the same time, equity investment should be significantly increased to support emerging developers, particularly those from disadvantaged communities. Initiatives like South Africa's Intuthuko Equity Fund illustrate how equity capital, when combined with technical assistance and mentorship, can enable new and undercapitalized entrepreneurs to enter the housing sector. Scaling and adapting such models to local contexts would ensure that housing development becomes a driver not only of shelter provision but also of inclusive economic opportunity and innovation.

Design Investment Instruments in Collaboration with Investors

To attract long-term capital from institutional and private investors, finance instruments must be co-designed with a clear understanding of investor expectations. This includes: (1) Engaging pension funds, REITs, banks, and other institutional investors early in the product design phase—whether for guarantees, bonds, or credit facilities; (2) Aligning financial products with investor risk-return profiles, operational models, and regulatory needs to ensure uptake and scalability; and (3) Strategically use public funds not as primary finance, but as a catalyst—through tools like first-loss guarantees, interest rate buy-downs, or co-investment platforms—to unlock larger volumes of private capital.

Adapt Housing Finance Frameworks to Regional and Institutional Contexts

To build inclusive and resilient housing finance systems, it is essential that governments and development partners ground their policy and regulatory frameworks in local realities, rather than attempting to replicate highly financialized models from the Global North. The housing finance ecosystems in the Global South are shaped by a distinct mix of domestic constraints, such as limited credit access, informal financial networks, and strong public sector roles, as well as external dependencies, including exposure to global capital flows and interest rate fluctuations.

In many Global South's contexts, formal mortgage markets remain shallow or inaccessible to the majority. As a result, national systems often reflect one of two broad pathways: (1) State-led models, where governments directly finance or deliver housing solutions; and (2) Low-financialization models, in which informal or small-scale financial practices dominate in the absence of strong banking infrastructure.

National housing finance strategies should move away from one-size-fits-all approaches and instead adopt context-responsive frameworks that: (1) Recognize and support state-centred and informal finance models as valid and effective components of the housing finance landscape; (2) Offer targeted regulatory and financial support to small-scale developers, particularly in low-income areas and secondary cities where formal credit markets are often inaccessible; (3) Leverage fintech solutions to expand mobile-based credit scoring and digital access to housing finance, especially in underserved or rural settings; (4) Acknowledge the double dependency of Global South systems—on volatile foreign capital and weak domestic financial infrastructure—and build safeguards to manage this structural vulnerability.

By tailoring housing finance frameworks to local institutional, economic, and social conditions, governments can unlock greater inclusion, promote market stability, and foster housing systems that are both scalable and socially responsive.

3.3. Strengthen Housing Market Regulation

6. **Put in place coherent regulatory frameworks that align housing finance, land use planning, taxation, and construction standards. This includes refocusing on housing as a right and a social good, curbing speculative investments and the financialization of housing and regulating short-term rentals.**

Ensuring that housing systems are inclusive, affordable, and resilient requires a rethinking of how housing markets are governed and regulated. Governments must move beyond fragmented policy approaches and build integrated regulatory frameworks that align housing finance, land use planning, taxation, and construction standards with broader public objectives—particularly affordability, equity, and environmental sustainability.

Strengthen Legal and Financial Frameworks

Central to this task is the development of **robust and coherent legal infrastructure**. This includes secure and enforceable property rights, efficient foreclosure mechanisms, and clear oversight of financial instruments such as mortgage-backed securities, covered bonds, and other capital market tools. These instruments, while potentially valuable in mobilizing investment, must be deployed under stringent public regulation to ensure that they serve the social function of housing. This means embedding transparency, consumer protection, and affordability criteria into their design—backed by public credit enhancements like first-loss guarantees or earmarked proceeds for affordable housing projects.

Reframe Housing as a Social Good, not a Commodity

There is an urgent need to rebalance the social function of housing. In many jurisdictions, private equity firms, REITs, and other institutional investors have come to dominate housing finance—often prioritizing financial returns over the social purpose of housing. This has led to rising prices, displacement, and the erosion of housing rights, particularly for low-income and marginalized communities.

To reverse this trend, states must deliberately encourage public and community-based models. This includes expanding support for non-profit housing developers, cooperatives, and Community Land Trusts (CLTs), as well as repositioning public investment to prioritize collective over individual subsidies. Instead of subsidizing individual buyers in overheated markets, public funds should be used to support long-term, non-market housing that remains permanently affordable.

This shift also calls for enhanced regulation of securitization **and covered bond markets**. These complex financial instruments must operate under strict governance rules that ensure legal clarity, asset quality, and investor accountability. Governments should establish clear legal provisions for the transfer of assets into Special Purpose Vehicles (SPVs), require regular disclosure and stress testing of asset pools, and limit excessive risk-taking through LTV caps and creditworthiness standards. Centralized registries and standard documentation can help improve market transparency and discipline.

Anchor Housing Policy in a Human Rights Framework and Curb Harmful Investment Practices

Crucially, these regulatory reforms must be embedded in a broader human rights-based framework. Housing is not merely a commodity—it is a fundamental right. States should adopt and implement legal and policy strategies that make this right effective, especially for historically underserved groups. A rights-based approach means setting measurable targets, enabling public participation, and ensuring access to remedies when rights are violated. This also implies reining in institutional investors whose practices undermine housing affordability. States must adopt laws that require real estate investors to conduct human rights due diligence, limit rent increases, increase transparency, and set aside portions of portfolios for genuinely affordable housing. Similar principles should apply to individual property investors, especially those who purchase multiple homes or leave properties vacant—contributing to speculation and supply constraints. Tax policies should be reformed to disincentivize such practices, and revenues redirected toward climate-resilient, affordable housing.

Address Financialization, Short-Term Rentals, Student and Elder Housing Sectors

Other areas requiring immediate attention include the **regulation of short-term rentals** (e.g., Airbnb), which have contributed to the commodification of housing and displacement in many urban areas. Governments must impose limits on the number of rental days, require licensing and transparency, and prioritize long-term residential use of housing stock—particularly in cities facing acute housing shortages.

Finally, governments must address emerging forms of **financialization in sectors such as student housing and long-term care**. These markets, often overlooked in regulatory frameworks, are increasingly targeted by financial actors seeking high returns at the expense of vulnerable populations. Regulation must ensure quality, affordability, and protections from displacement or neglect. Parallel public and non-profit options must be scaled up to provide real alternatives.

4. Household Finance

4.1. Diversify and Make Housing Finance Instruments More Inclusive

7. **Ensure inclusive and affordable housing mortgages but also develop complementary housing finance instruments such as microfinance for incremental construction, cooperative and mutual housing finance models, instruments to support the rental sector, and blended finance. Remove regulatory barriers.**

Households sustain most of the housing costs, both with regard to formal and informal housing solutions. Facilitating housing finance is therefore crucial to attain adequate housing for all. Governments must ensure **inclusivity, affordability and broader reach of housing mortgages**.

However, conventional mortgage products typically serve formal, middle- to high-income earners, often excluding low-income groups, informal workers, and those seeking non-ownership tenure options. A broader range of financial solutions is needed to bridge these gaps and ensure access to adequate, secure, and affordable housing for all. Governments and financing institutions must expand access to low-interest loans, shared-equity homeownership models, and community land trusts to reduce upfront costs and promote long-term affordability. These approaches must go beyond conventional mortgage-based financing models alone and develop a **diverse and inclusive set of housing finance instruments.** This means expanding the housing finance ecosystem to include:

- **Microfinance for incremental construction**, tailored to the needs of households with informal income streams and no formal collateral. These small, flexible loans enable low-income families to build or improve homes progressively.
- **Cooperative and mutual housing finance models**, including savings groups, mutual aid associations, and community land trusts. These mechanisms empower communities to pool resources, collectively manage housing assets, and create non-speculative, self-managed housing solutions.

- **Instruments to support the rental sector**, such as public guarantees, subsidized interest rates, and credit lines, which can stimulate the development of affordable rental units—particularly in secondary markets where small-scale landlords dominate.
- **Blended finance strategies** that combine public subsidies, donor support, and private investment to de-risk and scale innovative housing finance products. These models can be especially powerful in supporting rent-to-own schemes or tenure-diverse developments.

At the same time, efforts should focus on deepening affordable housing finance markets by **identifying and removing regulatory and institutional barriers**. This includes conducting diagnostics to pinpoint market and legal bottlenecks; reforming regulatory frameworks to facilitate access for underserved populations; and supporting fintech and digital finance innovations that offer new ways to reach informal and low-income households.

Special attention must also be given to enabling non-market housing ownership, such as **cooperatives and mutual housing associations**. These models help insulate communities from speculation, build social capital, and demonstrate resilience in times of economic stress. Governments should establish dedicated legal frameworks, provide low-interest or guaranteed loans to cooperative entities, and allocate public land to support their development.

4.2. Financial intermediaries and market infrastructure

8. <u>Strengthen financial intermediaries and broaden long-term capital access through liquidity facilities, credit guarantees, tailored regulatory support, and increased transparency. Special attention should be given to microfinance institutions and secondary mortgage markets.</u>

To make housing finance truly inclusive, governments must move beyond a narrow focus on formal mortgage systems and **support a wider ecosystem of financial intermediaries**—particularly secondary mortgage institutions, microfinance providers, and cooperative lenders. These actors play a vital role in extending financial services to low- and middle-income households, especially those working in informal economies or pursuing incremental self-built housing.

A key priority is to **enhance the capacity of these institutions to mobilize long-term capital and manage risk effectively**. This can be achieved through supportive monetary and fiscal policies that provide liquidity facilities, enable access to wholesale finance, and introduce inflation-indexed loan products that protect borrowers and lenders from macroeconomic shocks. Risk-sharing mechanisms—such as credit guarantees and partial risk coverage—can further encourage financial institutions to lend to underserved markets.

In parallel, governments should invest in the **infrastructure** needed to deepen and stabilize the housing finance market. This includes supporting the development of **securitization frameworks and bond markets** that enable institutions to scale up lending, while ensuring strong regulatory oversight and alignment with social housing goals. Technical assistance for microfinance institutions is also essential, helping them evolve toward individual lending models, build sound core banking systems, and meet prudential requirements.

To build confidence and attract long-term capital—particularly from impact investors and development finance institutions—governments should promote **transparency** through credit ratings, performance benchmarks, and open data sharing. Strengthening credit bureaus, mortgage insurers, and technical service providers will also help de-risk housing finance for low-income borrowers while supporting financial stability.

By pursuing these measures in a coordinated and deliberate way, governments can create a more resilient and equitable housing finance system—one that serves diverse tenure types, supports inclusive urban development, and advances the right to adequate housing for all.

5. Enablers for effective and inclusive housing markets

The following aspects are key preconditions for the development of healthy and dynamic housing markets capable of delivering adequate and affordable housing at scale across all income groups. Housing markets evolve at multiple levels—from local saving groups to international financing mechanisms. However, this analysis focuses on the national level, which offers the most coherent scale for aligning policies, strategies, and instruments to support the emergence of functional local housing markets. While rooted nationally, these frameworks also benefit from regional and local coordination and harmonization.

5.1 Land Governance, Land value Sharing and Inclusive Planning

9. Integrate land governance, land value sharing, inclusive planning into housing policies to promote equity, affordability, and efficient land use and to enable the financing of adequate housing for all.

Governments have a critical role to play in ensuring that land systems serve the broader goals of social equity, housing affordability, and urban sustainability. This requires a coherent set of legal, institutional fiscal, and planning tools that integrate land into housing and urban development strategies.

Governments should recognize that secure land, housing and property rights are foundational for sustainable and inclusive housing markets that can provide access to adequate housing for all. **Effective land registration and land recordation systems** reduce legal and financial risk, increase transparency, and enable broader access to formal housing finance. Without clear land rights, both lenders and households are exposed to uncertainty, limiting investment and the formalization of housing assets.

At the same time, public authorities should take proactive steps to **capture and redistribute the value generated by urban development**—including infrastructure investments and land use changes. Strengthening the link between fiscal systems and urban planning—for example, through land value capture or **land value sharing** mechanisms—ensures that the public sector can reinvest in housing and infrastructure, and that the benefits of urban growth are more equitably shared.

The way land is regulated—through **zoning, taxation, and land use instruments**—fundamentally shapes the supply of land available for housing. These are public policy tools that directly influence land values, and thus, housing affordability. In contexts where land is scarce, well-designed regulations are essential to ensure that land is used efficiently and serves both social and economic priorities.

Governments should develop **fiscal policies that integrate land and housing** considerations. Land represents a large share of total development costs and serves as a strategic lever for guiding where and how housing is produced. Proper integration allows for better planning, coordination with infrastructure, and alignment with social housing needs. Equally important is confronting the speculative dynamics of land markets.

Governments should consider **legal and fiscal mechanisms to neutralize land speculation**—such as taxing underused land, enforcing time-bound development conditions, or piloting use-based occupancy rights.

Moreover, **land-use planning and land allocation policies** should actively support access to adequate housing for lower-income and vulnerable populations. This includes ensuring that affordable housing is built in well-located areas with access to infrastructure, services, and employment opportunities—not only in peripheral or underserved zones.

To support more equitable and efficient land use in housing development, governments should adopt a set of targeted policy measures that address both the regulatory environment and the dynamics of land markets. One key approach is to implement **inclusionary zoning** policies. By requiring that a share of new real estate developments include affordable housing units, governments can ensure that the gains from rising land values are not captured solely by private actors. This approach helps direct the benefits of urban growth toward lower-income households, supporting social integration and promoting more balanced urban development.

Another effective tool is **land readjustment** or land pooling, which allows multiple landowners to combine their plots for coordinated redevelopment. Once infrastructure is installed, the land is redistributed as serviced plots, with a portion allocated for public use or sold to fund infrastructure costs. This mechanism helps maximize land value for the community while facilitating orderly urban expansion.

Governments must also take action to **address land speculation and vacancy**, which contribute to artificial scarcity and price inflation. Introducing vacancy taxes or setting time limits for development can disincentivize speculative holding and encourage the timely and productive use of land, particularly in high-demand urban areas.

Finally, governments should **strengthen land information systems**, including cadastral and property valuation databases. Up-to-date, accurate land records are essential for applying land-based financing tools, ensuring fair and transparent taxation, and enabling the enforcement of land value capture mechanisms. These systems form the technical backbone of effective land governance and urban planning.

5.2. Financing diverse housing Solutions

10. Recognize and finance diverse housing tenure forms, cooperative and mutual housing models, and strengthen tenant protections and participation.

National housing policies legal, regulatory, and institutional frameworks must be intentionally designed to reduce disparities and prioritize the population most in need. Effective housing strategies should prevent the proliferation of informal settlements, reduce inequality, and ensure dignified access to adequate, secure, and affordable housing for all. Housing policies play a critical role in stimulating and guiding both public and private investment. They help create enabling environments for the emergence of effective financing mechanisms and the development of a diverse ecosystem of actors—including developers, financial institutions, local authorities, and community-based organizations.

Housing policies should explicitly **recognize and support a diversity of tenure forms**—not only individual ownership, but also rental housing, cooperative housing, and shared tenure models. This diversification allows for a better alignment of financial instruments with the varied needs and capacities of households.

Cooperative and mutual housing models must be actively supported as viable, non-speculative alternatives. These models promote affordability, build community resilience, and should be integrated into national housing plans with access to financing, technical assistance, and land resources. Special attention must be paid to groups most at risk of housing exclusion, including women, informal workers, and rural-to-urban migrants. Targeted programs should address their specific barriers to adequate housing, legal security and access to credit.

To ensure broad applicability and impact, housing policy must also identify scalable solutions suited to local institutional, social, and market conditions. Flexibility is key: successful approaches should adapt to different governance capacities and levels of market maturity across national and subnational contexts. To empower cities—often the frontline actors in housing provision—national housing policy should equip **local governments with innovative fiscal tools**. These include land value capture to redirect unearned gains from public investments toward affordable housing, participatory budgeting to strengthen community involvement in housing decisions, municipal bonds to finance large-scale social housing projects, and vacancy or speculation taxes to discourage underuse and speculation in the housing market.

5.3. Evidence-Based Decision-Making

11. Develop integrated, digitized and open-data housing and land data systems to better understand both formal and informal housing markets and to ensure transparency and accessibility.

Governments should prioritize the development of comprehensive, regularly updated, and disaggregated **housing and land information systems** as a foundation for effective housing policy and planning. Demand-side data is particularly critical to understand the profile of those in need of housing, the types of housing required, and what is affordable, especially for lower income groups. This data should be collected through a combination of household surveys, administrative records, and innovative tools such as mobile technology and satellite imagery.

It is essential that housing data be disaggregated by income, gender, tenure type, and geographic location, to capture the full diversity of housing needs and avoid one-size-fits-all solutions. Given the complexity of affordability, traditional metrics like cost-to-income ratios should be complemented by residual income analysis, which better reflects households' real purchasing capacity after meeting basic needs.

In addition, governments should segment housing demand by submarkets—such as formal vs. informal, rental vs. ownership—so that financing tools, subsidies, and housing programs can be more effectively tailored.

Policymakers should mandate the publication of clear, accessible zoning maps, buildable land inventories, and permit approval data at the municipal level. This transparency is essential for diagnosing regulatory constraints, enabling informed planning, and holding local authorities accountable. In parallel, governments should establish systems for regular audits of land use regulations, assessing their impact on housing production, affordability, and spatial equity. Performance indicators—such as permit processing times, development approval rates, and alignment with housing needs—should be tracked and publicly reported. By institutionalizing data-driven oversight, this approach promotes evidence-based policymaking and supports continuous improvement of land governance systems.

To support this, **institutional capacity** must be strengthened. This includes investing in training for data collection and analysis, upgrading digital systems, and promoting collaboration across sectors and agencies. Improved housing data infrastructure will enhance both public and private sector decision-making, reduce supply-demand mismatches, and enable more responsive, inclusive housing markets.

5.4. Reduced Bureaucratic Barriers

12. **<u>Simplify and digitalize housing and land related permit processes to reduce delays, cut costs, and increase transparency, to enable greater financing for affordable housing and support to low-income groups.</u>**

Governments must place the **simplification of bureaucratic processes** at the core of housing policy reform, particularly to expand the production and financing of affordable and adequate housing for low-income populations. Overly complex, multi-tiered administrative systems for land acquisition, building permits, retrofitting approvals, and occupancy certification create significant delays and increase costs. These burdens disproportionately affect smaller developers, cooperatives, and community-led initiatives—precisely the actors most engaged in serving the low-income housing market.

Simplifying bureaucracy begins with the **elimination of redundant or discretionary steps** in permitting procedures. Clear, streamlined processes—codified through updated regulations—are essential to ensure that land and construction approvals can be navigated without excessive legal and administrative overhead. Establishing predictable timelines, reducing the number of required agencies, and standardizing documentation can lower barriers to entry, reduce informal practices, and improve accountability.

The adoption of **digital permit platforms** is also critical. Single-window systems that integrate zoning, environmental, and construction clearances in one interface allow for real-time tracking and reduce the scope for arbitrary delays. When paired with open data systems, digitalization increases transparency and helps both public and private actors to plan and finance projects more efficiently.

In some cases, Governments should implement "by-right" development rules, allowing housing projects that meet zoning and building codes to proceed without discretionary approvals. Introducing legal timeframes for review, digitizing applications, and limiting public hearing requirements can reduce red tape and foster a more responsive development environment.

Importantly, simplified bureaucracy is not about lowering standards—although lowering unreasonably high standards may also be required in some contexts—but about ensuring that regulatory systems are proportionate, accessible, transparent and aligned with the public interest. Efficient procedures free up institutional resources, accelerate project execution, and lower risks - thereby improving creditworthiness and unlocking financing, especially in segments such as affordable rental housing and incremental upgrading.

5.5. Reduce Housing Costs

13. <u>Lower housing costs by: reducing the cost of services and infrastructure (through compact and well planned spatial development), making suitably located serviced land available at reasonable costs (through land readjustment, land banking, fit-for-purpose land regularisation, and use of public land), supporting domestic construction industries, and promoting urban densification (through infill development, vertical expansion, repair and conversion of existing buildings and zoning reforms).</u>

Housing must be recognized as a strategic sector capable of driving broad-based economic development. In many countries, however, the high costs of infrastructure, land, and construction continue to act as barriers to affordability, limiting access for low- and middle-income households. Addressing these structural constraints is essential to unlocking the sector's economic and social potential—contributing to employment, supporting local value chains, and building more equitable cities.

Governments should adopt an integrated approach that simultaneously enhances affordability, stimulates local economies, and supports inclusive urbanization. The cost of services and infrastructure can be achieved by promoting **compact urban development, coordinated urban planning and targeted public investment**—particularly in off-site infrastructure—can significantly lower overall housing production costs while improving the efficiency of service delivery.

Improving **access to well-located, serviced land** is critical. Mechanisms such as **land readjustment, land banking, fit-for-purpose land regularisation, and use of public land** when available can unlock urban land for development and reduce speculative pressures. Public policy should prioritize land that is connected to jobs, transport, and basic services, especially for affordable housing developments.

Supporting **domestic construction industries** is a vital lever for economic inclusion. Promoting locally sourced, climate-resilient building materials not only reduces import dependence but also supports small enterprises and stimulates innovation in green technologies. Simultaneously, investments in vocational training and workforce development for the construction sector can expand decent work opportunities and strengthen local capacity.

Finally, **urban densification strategies**—such as **infill development, vertical expansion, and zoning reforms, repair and conversion of existing buildings** to housing—can increase housing supply in well-serviced areas, lower per-unit costs, and promote more efficient infrastructure use. These measures, when designed inclusively, can foster compact, connected, and sustainable urban growth.

ANNEX: BACKGROUND

Housing is fundamental human right and a cornerstone for living in dignity and shared prosperity. However, over the last few decades, rapid global population increase (especially in developing regions of Sub-Saharan Africa and South East Asia) and undersupply of affordable housing is making it impossible for a large portion of the world's population to access adequate housing. It is driving a worldwide crisis of affordable housing[1]. Housing affordability is a key concern for countries, regardless of their income level. Housing affordability and housing finance are closely interlinked. The avenues through which housing is financed impact its affordability and inclusiveness.

Housing finance is a critical component of the broader housing ecosystem. It refers to the systems, instruments, and institutions that enable individuals, households, and developers to access the capital needed for the construction, purchase, improvement, or rental of housing. At its core, housing finance bridges the gap between housing needs and economic capability, turning demand into effective housing access.

A.1. Housing: A Key Driver of National Economies

Over the past century—and especially in recent decades— housing, land and property prices have become a key driver of economic cycles. Land and the property built on it constitute by far the largest share of global wealth. In many countries, land alone accounts for nearly half of the total capital stock. When combined with the value of the buildings on it, this figure rises to over 80% of total capital[2] with residential real estate accounting for approximately half of it[3].

Housing contributes significantly to national economies through both direct and indirect impacts. It stimulates job creation, supports local supply chains, and attracts investment. The housing sector links with numerous other sectors through upstream and downstream value chains as well as added values such as wages, profits, and taxes.

The growing influence of financial institutions and markets over land and housing is referred to as the financialization of housing. Since the 1990s, a major shift in the global economic paradigm, spurred by globalization and the deregulation of international capital markets, has enabled the rapid and widespread financialization of land and housing. Domestically, these changes were mirrored by a political shift in how governments relate to housing: from direct provider to market enabler. The acceleration of this trend was driven by the entry of banks and other financial actors, such as pension funds and insurance companies, into the housing sector over recent decades.

On one hand, this process has had a democratizing effect by making homeownership more accessible to a wider segment of the population. On the other hand, it has transformed housing from a

[1] *https://www.bdonline.co.uk/opinion/global-population-growth-means-we-urgently-need-more-housing-its-time-to-democratise-architecture/512264*

[2] *OECD (2017), The Governance of Land Use in OECD Countries: Policy Analysis and Recommendations, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264268609-en*

[3] *McKinsey Global Institute, The rise and rise of the global balance sheet, 2021*

basic necessity, a good for current use, into a highly lucrative store of value. Housing costs remain a significant barrier to homeownership, with land acquisition, infrastructure provision, regulatory compliance, and construction accounting for the majority of overall expenses. This results in a growing global challenge of housing accessibility and affordability, affecting increasingly large segments of the population.

Benchmarking studies conducted across various African cities[4] reveal substantial variation in these cost components, often constraining both affordability and the growth of formal housing supply. In many contexts, housing markets are further hindered by restrictive regulatory frameworks, weak urban planning systems, and inadequate land registration mechanisms. These structural challenges limit transparency, reduce the efficiency of housing as an asset class, and deter formal sector investment.

While housing is commonly seen as a financial asset for households, its performance is often compromised in low-income contexts. Many homes lack the legal, financial, and market conditions required to appreciate in value or to be leveraged for further investment. Homes built incrementally may suffer from poor construction quality, incomplete infrastructure, or lack of formal documentation. Lack of formal ownership (such as title deeds) prevents many homeowners from fully leveraging their housing asset.

The consequence of unchecked financialization, as noted by former UN Special Rapporteur on the Right to Adequate Housing Raquel Rolnik, is a struggle over the purpose of urban land: whether it should serve as a place for life or a playground for capital.[5] This conflict is visible in the growing shortage of adequate housing and highlights the tension between seeing housing as a human right versus as a speculative commodity.

Many leaders advocate for a need to curb the dominance of speculative financial actors in the housing sector and reorient investment strategies toward long-term social value. To this end, public oversight of real estate markets should be strengthened through the introduction of social criteria—such as rent controls, use requirements, or affordability conditions—particularly for institutional investors, including Real Estate Investment Trusts[6] (REITs) and investment funds.

Experts are also calling for a shift away from profit-driven ownership and credit models, toward collective investment approaches and use-based tenure systems. Such models challenge the financialization of housing and reaffirm its function as a social good rather than a commodity. This rebalancing of the housing sector could ensure that investment aligns with public interest and contributes to resilient, equitable urban development.

A.2. Composite Housing Finance Ecosystem: Public, Private, and Household Contributions

Housing markets are segmented into different submarkets, ranging from informal, self-built units to formal, developer-built housing. These various housing sub-markets contribute to adequate and affordable housing, together with homeownership in the formal housing market.

[4] *CAHF*

[5] *Rolnik, R. (2019) Urban Warfare: Housing under the empire of finance. London: Verso, p. 277*

[6] *Real Estate Investment Trusts (REITs) are financial instruments that play an increasingly important role in the housing sector. A REIT is a company that owns, operates, or finances income-generating real estate. REITs typically invest in rental housing (e.g. multi-family apartments) and affordable or workforce housing. Further information later in the document.*

Rental markets—including secondary rental arrangements such as backyard rentals—as well as social housing, also play a critical role in meeting diverse housing needs. Alternatives to full homeownership—such as lease-purchase agreements, shared ownership models, housing cooperatives, and community land trusts—can enhance housing affordability, flexibility, and equity. These multiple housing sub-markets draw on a range of revenue sources—public, private, and household financing—through diverse financial mechanisms.

A.2.1. From Provider to Enabler: The Strategic Shift in Public Finance for Housing

In the global north, most governments have shifted toward supporting households directly (via rent subsidies, vouchers, etc.) rather than funding the production of affordable housing, shifting from supply-side investment to demand-side support. However, in recent years, housing has been increasingly recognized as critical infrastructure, especially in response to affordability crises. This could signal a strategic reorientation back toward public housing investment in the coming years.

Many countries from the Global South are grappling with soaring public debt, diverting scarce resources from housing, health, education, and infrastructure. Governments are forced to prioritize debt servicing over affordable housing investments. In addition, bureaucratic inertia, institutional fragmentation, and weak stakeholder coordination continue to hinder effective housing development and planning systems are often poorly equipped to scale up affordable housing through subsidies or regulatory instruments. Countries with heavy foreign-currency debt are also exposed to exchange shocks, increasing housing finance costs.

A.2.2. The Expanding Role of Private Finance in Affordable Housing

Private finance plays a central role in housing by providing the capital needed to build, maintain, purchase, and rent homes. Investors have diverse objectives and priorities, which guide their engagement with different types of housing providers. As a result, investment flows may support a spectrum of models—from socially-driven initiatives such as housing cooperatives for low-income families to institutional structures like real estate investment trusts that emphasize financial returns.

Private finance fuels mortgage markets for individual buyers, offers construction loans and equity for developers, and supports the growth of rental housing through private landlords, real estate funds, and Real Estate Investments Trusts (REITs). In many countries, private finance accounts for the majority of housing investment, especially in middle- and high-income markets. However, mortgage-based housing markets often fail to ensure affordability and accessibility, especially for low-income and informally employed groups. High interest rates, strict eligibility criteria, and peripheral housing locations limit their reach and adequacy. The system's focus on ownership also overlooks rental and flexible tenure needs, making it insufficient to meet diverse housing demands.

At the global level, access to long-term housing finance remains limited. Mortgage markets are often underdeveloped, particularly for low- and middle-income populations, and private investors tend to avoid lower-value residential properties due to fixed operational costs and higher default risks among low-income tenants. High interest rates on domestic debt—about 12% in Africa vs. 5–8% elsewhere—make long-term housing loans unaffordable. Private sector interest is also low; housing for low-income groups is seen as high-risk and low-return. As a result, such investments are typically unattractive in the absence of targeted financial instruments or policy incentives. While initiatives such as microfinance and Real Estate Investment Trusts (REITs) offer promising alternatives, they have yet to achieve broad-based market coverage.

A.2.3. Households as Housing Financiers: Informal Systems, Investment Strategies, and Economic Resilience

Across all regions, households contribute actively and significantly to the housing economy—not only as consumers, but also as investors. This includes mobilizing personal savings, sourcing construction materials, engaging in self-construction, and participating in rental markets. Rental housing, especially in urban contexts, constitutes a critical component of household income strategies. Globally, housing is the principal financial asset for many families, often representing their largest store of wealth. For homeowners, it functions as both a place of residence and a capital asset—capable of appreciating in value, being transferred across generations, or serving as collateral for credit. In countries with underdeveloped financial systems, real estate is widely viewed as a safe, tangible, and enduring form of investment. It is estimated that 50 to 70 percent of household net worth globally is tied to housing, particularly in middle-income and emerging economies. Rising property values benefit homeowners through capital gains, while rental income contributes to household financial resilience.

In many parts of the Global South, a significant share of housing investment takes place in informal or unregulated environments, with the majority of households relying on informal financial systems to meet their housing needs, owing to restricted access to formal banking and credit institutions. This includes family-based loans, personal savings, rotating savings and credit associations (such as tontines), and community-based microfinance. These mechanisms support incremental housing development, often in the absence of formal land tenure or collateral typically required by banks.

While these informal systems are flexible and socially embedded, they often lack legal safeguards and may constrain long-term housing quality and investment potential. In addition, informal credit sources often charge crippling fees and offer no consumer protections. Nevertheless, they remain essential sources of capital for low-income households, particularly in informal settlements and underserved urban areas.

A.2.4. Gaps and Imbalances: The Uneven Role of International Development Finance in Housing

The analysis of the existing multilateral and bilateral support for the development and implementation of effective housing policies, programmes and projects conducted for the first session of the Open-ended Intergovernmental Expert Working Group on Adequate Housing for All shows that housing is generally not a priority in the multilateral and bilateral development sector[7]. Most bilateral and multilateral institutions do not account for housing or mention it specifically in their development programme reports and they tend to fund different types of housing interventions under various projects and programmes.

Between 2019 and 2023, multilateral and bilateral actors allocated around 54 billion USD to housing

[7] *https://unhabitat.org/sites/default/files/2024/10/2416779e.pdf*

interventions. Multilateral institutions contributed 11 times more than bilateral institutions. The types of housing intervention receiving the most resources are related to housing provision strategies, with funding of over 21 billion USD. The research notes divergent approaches among institutions and regions. The largest amount of funding is allocated by a few institutions to housing provision interventions in a limited number of countries, while most institutions focus on market-enabling strategies.

The research shows the highest amount of international funding being allocated to housing provision strategies in higher income regions with lower demographic growth rates. The majority of interventions in lower-income countries remain focused on market-enabling approaches, which are unlikely to meet housing needs, especially in the regions facing the most pressing housing challenges due to rapidly growing housing demand.

A.3. Regional differences

As population and urbanization rate grow, the demand for housing increases; regions with the higher demand for new housing are Asia and Africa, primarily in urban areas. UN-Habitat estimates[8] that the global housing crisis affects 2.8 billion people who lack affordable housing, including 1.1 billion living in informal settlements and 330 million homeless.

The undersupply of affordable housing resulted in a high percentage of poor households who ended up living in informal settlements and slums. It is estimated that around 40%, in some cases, 75%, of the population of fast-growing cities in developing countries is housed in informal settlements without basic services. Today, the number of people living in slums is estimated around 881 million in developing countries only. In In Sub-Saharan Africa, 59% of the urban population lives in informal settlements; in Asia and the Pacific, half of the urban population living in informal settlements[9]. Understanding regional and national differences is key to designing policies that reflect and adapt to local market structures, regulatory capacities and social needs, otherwise, one-size-fits-all solutions risk mismatches or unintended consequences.

Housing demand and supply are sensitive to the availability and cost of mortgage finance[10]. Across regions, the depth of formal mortgage markets varies dramatically, from mortgage-to-GDP ratios of under 10 percent in most developing economies to over 40 percent in the European Union and nearly 80 percent in the United States[11].

In much of sub-Saharan Africa and South Asia, mortgage markets are underdeveloped (formal mortgage finance reaches only 1–5% of households), with limited access to formal credit due to factors such as the prevalence of informal employment, restricted access to financial services and long-term finance, tenure insecurity and weak land registries, weak property valuation systems, and low liquidity. Informal finance (through savings groups, chit funds or small microloans) and incremental housing dominate.

Latin America has seen rapid mortgage growth since the early 2000s, but high real interest rates and short loan tenors still limit long-term tenure security. Initiatives like *Minha Casa Minha Vida* in

[8] *www.ifc.org/thoughtleadership*
[9] *https://www.habitat.org/emea/about/what-we-do/affordable-housing*
[10] *IMF (2024), Economics of Housing, Finance & Development*
[11] *Ferguson, B., Smets, P., Finance for incremental housing; current status and prospects for expansion, Habitat International (2009)*

Brazil reflect a collaborative approach between the public and private sectors in tackling housing shortages.

In East Asian economies a range of state-led instruments, such as provident-fund schemes and dedicated housing-finance companies, have been established to channel long-term, low-cost credit at scale. State-led housing initiatives—such as India's Pradhan Mantri Awas Yojana (PMAY) and Indonesia's National Slum Upgrading Program (NSUP)—play a pivotal role in expanding access to affordable housing. These programs are supported by mechanisms including subsidized loans and public-private partnerships that enhance affordability and scale.

In the Middle East and North Africa (MENA) region, governments frequently contribute by allocating land for housing development. However, the reach of mortgage markets remains limited. Notably, Morocco's FOGARIM program illustrates innovative financing solutions tailored to informal workers. Additionally, Islamic finance is increasingly being leveraged as an alternative mechanism to expand financial inclusion in housing.

A.4. Global Developments in Financing Affordable Housing

Noteworthy global trends and development in financing adequate housing are described below.

A.4.1. Climate Risks and Green Financing

Climate change has introduced physical and financial risks that can significantly affect the borrower's ability to repay and the long-term value of the property. Financial institutions are increasingly factoring in climate risk (e.g., flood zones, wildfire risk) into mortgage underwriting. This has negative impacts on access to credit and affordability as borrowers in high-risk zones may face limited financing options and higher insurance costs and risk premiums may make homeownership more expensive. At the same time, properties in climate-vulnerable areas see declining values, furthering regional housing market disparities.

Lenders and investors are increasingly rolling out "green" and resilience-linked products, such as energy-efficient mortgages, resilience bonds, and concessional retrofit loans, designed to fund flood-proofing, insulation, solar installations and other climate-smart upgrades alongside traditional home loans. These instruments are gaining traction in both public and private markets, reflecting heightened awareness of disaster risk and regulatory pressure on carbon footprint in real estate finance as well as incentivizing energy-efficient buildings.

A.4.2. Real Estate investment Trusts

Real Estate Investment Trusts (REITs) are investment vehicles—typically companies or trusts—that own, operate, or finance income-generating real estate. They allow investors to pool capital and gain exposure to a diversified portfolio of real estate assets, functioning similarly to mutual funds, but focused on property. In return, REITs generally distribute the majority of their taxable income to shareholders in the form of dividends. They may be publicly traded on stock exchanges (public REITs) or privately held.

Globally, the REIT market has been expanding steadily. Projections estimate a compound annual growth rate (CAGR) of approximately 2.8–3% through 2027–2029, representing an increase of roughly $350 billion in market capitalization between 2024 and 2028. REITs currently represent a modest but growing share of housing finance, particularly in the residential rental sector, where they play two key roles: (1) As equity investors, REITs directly own and manage properties such as apartment complexes and single-family rental portfolios; (2) As debt providers, through mortgage REITs (mREITs), which invest in residential mortgages and mortgage-backed securities—predominantly in the United States. They also serve as a critical channel for capital formation, enabling the financing of large-scale rental housing development, especially in the multi-family segment. By pooling resources, REITs can finance projects beyond the reach of individual investors.

Despite global growth, residential REITs focused on affordable housing remain extremely limited—especially in Africa. Most REIT investments are concentrated in commercial real estate or high-end residential markets. Few structures currently exist to channel REIT capital into middle- and low-income rental segments, leaving a substantial financing gap for inclusive housing.

A.4.3. Infrastructure and social bonds

The use of infrastructure bonds[12] in housing finance is gaining momentum globally. These instruments—whether traditional municipal bonds or green/social-labelled impact bonds—are increasingly used to fund both supporting infrastructure for housing (e.g., roads, water, energy) and direct affordable housing development. Infrastructure bonds represent one of the most scalable long-term financing tools for addressing housing needs, especially when aligned with climate, equity, or social investment goals. Gender-linked social bond such as implemented in Colombia, can incentivize housing access for female-led low-income household.

A.4.4. Leverage of domestic resources for housing

There is a growing global trend toward leveraging domestic resources to finance affordable housing, particularly in low- and middle-income countries. Governments and development partners increasingly recognize that sustainable housing solutions require tapping into local financial systems, public revenues, and community-based savings mechanisms. This includes the use of national housing funds, payroll-based contributions, domestic capital markets, and the formalization of informal savings groups such as cooperatives and credit unions. By mobilizing these internal resources, countries can reduce reliance on external aid, increase financial inclusion, and create housing systems that are more resilient, scalable, and responsive to local needs.

Kenya is increasingly leveraging domestic resources to expand affordable housing. The Kenya Mortgage Refinance Company (KMRC) plays a central role by offering long-term, low-interest capital to lenders, enabling mortgages at about 7%—significantly more affordable for low- and middle-income households. Alongside KMRC, SACCOs such as Mwalimu National SACCO provide housing loans tailored to informal and salaried workers, allowing incremental home construction. The government's Affordable Housing Fund, financed through mandatory payroll contributions, supports subsidies and infrastructure for housing projects. Complementing these financial mechanisms are ongoing land titling reforms, which improve tenure security and unlock access to credit. These

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[12] *Type of debt instrument issued to raise funds specifically for building or improving infrastructure (or housing in this case). The investor who buys the bond lends money to the issuer (often a government, development agency, or private company), which is then used to finance infrastructure projects. The issuer gets upfront money for infrastructure or housing; the investor receives regular interest payments.*

integrated efforts reflect Kenya's growing capacity to finance housing from within, using both institutional and grassroots tools.

A.4.5. Patient capital

Patient capital refers to long-term, stable investment in housing that accepts delayed or below-market returns in exchange for broader social benefits—such as affordability, sustainability, and tenure security. Unlike conventional capital, it is not profit-driven in the short term but focuses on closing market gaps, especially where housing remains inaccessible or requires innovation. In the housing sector, patient capital can play a catalytic role. It enables development of financially unviable affordable housing by absorbing early-stage risks, extending long-term loans, or providing subordinated debt. This is critical for projects with high upfront costs and long payback periods—such as community-led housing, first-time homeownership, and climate-resilient housing.

Key providers include development finance institutions (DFIs), pension funds, sovereign wealth funds, impact investors, and public housing finance agencies. Governments often support this through housing funds or state-backed facilities. Their involvement often signal stability and policy alignment to private investors.

In the Global South, patient capital remains moderate in scale but is gaining traction. Initiatives such as the Africa Long-Term Finance Initiative and institutions like Shelter Afrique are channelling funds into affordable housing through project finance and equity. Its influence is growing as governments and institutional investors adopt social return mandates and create risk-sharing mechanisms to scale housing investment. With proper regulation, land access, and subsidy frameworks, patient capital has the potential to transform housing markets in emerging economies—from speculative systems to equitable, resilient structures.

A.4.6. Blended finance

Blended finance—combining public, concessional[13], and private funds—is an increasingly important approach to closing the massive global housing finance gap. Blended finance refers to the strategic use of public or philanthropic capital to mobilize private investment in development areas where commercial returns alone would not attract sufficient funding. In housing, this often involves combining grants or concessional loans (from governments or donors), risk-sharing tools (e.g., guarantees, first-loss facilities) and commercial capital (from banks, institutional investors, or impact funds).

Globally, blended finance is being used to catalyse investment in affordable and climate-resilient housing. Emerging initiatives like REALL (Real Equity for All), Habitat for Humanity's Shelter Venture Fund, and the Green Climate Fund are deploying blended structures to support low-income housing entrepreneurs, green housing innovations, and inclusive urban development. These models are helping address barriers in traditionally underserved markets by absorbing risks and offering more patient capital, thereby creating incentives for private sector engagement. Public-private partnerships (PPPs) in housing, especially in Sub-Saharan Africa and South Asia,

[13] *Concessional finance refers to financing provided on terms significantly more generous than market conditions. It can include below-market interest rates, longer repayment periods, grace periods, and may include risk-sharing mechanisms to attract private investors.*

are also increasingly supported through blended finance approaches.

However, blended finance in housing still faces significant challenges. A major barrier is the mismatch between perceived risks and returns—private investors often shy away from low-income housing due to informal land tenure, low repayment capacity, and regulatory uncertainties. Additionally, there is a limited pipeline of bankable, scalable housing projects, and many local developers lack the technical and financial capacity to meet investor requirements. Weak property rights frameworks and slow permitting systems further deter long-term investment, while poor coordination among stakeholders and difficulty in measuring social impact reduce the effectiveness of existing blended finance efforts.

Despite these obstacles, opportunities are expanding. De-risking tools such as first-loss capital, credit guarantees, and subordinated debt have proven effective in attracting commercial investment. When well-structured and supported by strong policy frameworks and institutional partnerships, blended finance can unlock capital at scale, promote inclusive urban development, and enable low-income households to access safe, adequate, and affordable shelter.

A.4.7. Alternative Financing Models

Over the past few years, alternative financing models are helping bypass traditional mortgage barriers, in response to affordability constraints, rigid lending standards, and demographic shifts. These models offer flexible, inclusive, and often more accessible pathways to homeownership, especially for first-time buyers, informal workers, and younger generations. Across diverse contexts, community savings cooperatives, revolving funds, community mortgage programmes and community land trusts (CLTs) are scaling up as viable tools for securing land, basic services and affordable housing. Seed-funding initiatives, legal recognition of CLTs, and growing partnerships between NGOs, municipalities and financial institutions are enabling local groups to pool resources, formalize social-collateral lending and negotiate better access to subsidies and technical support.

Mobile-based and digital microfinance solutions are also contributing to revolutionize access to housing finance, especially in emerging markets in Sub-Saharan Africa and Southeast Asia. These innovations leverage mobile technology and alternative credit scoring to reach underserved populations, including informal workers, rural residents, and people without access to traditional banks that lack formal credit history to qualify for traditional loans.

Others initiatives such as Rent-to-Own approaches enable low-income households to build incrementally with affordable, disaster-resilient loans.

B.4.8. Land value Sharing

Land value sharing—generally known as land value capture—refers to public policies designed to recover increases in land value resulting from public infrastructure, regulatory changes, or collective action. Innovative land-based financing—especially through land value sharing, impact fees, and property taxes—is increasingly seen as a fair and sustainable way to finance urban development and infrastructure.

Key Policy Instruments for land-based financing include land-use mandates and in-kind contributions, where developers receive additional building rights in exchange for public benefits. Land pooling consolidates parcels for infrastructure development, with redistributed serviced plots. Development charges or impact fees fund infrastructure through levies on new projects. Land Value Tax (LVT) applies annual taxes on unimproved land value to curb speculation and encourage efficient land use. Key Success Factors for LVC involve maintaining updated land and valuation systems, establishing clear legal frameworks, and using context-specific instruments. Success also depends on strong coordination among stakeholders and ensuring revenues are reinvested in public services like transport and housing.

A.4.9. Remittances

Remittances—money sent home by migrants—play a significant and multifaceted role in the financialization of housing, especially in developing countries. While remittances traditionally serve to meet basic needs, they are increasingly being channelled into housing investments. A large portion of remittances are boosting housing demand in many countries as they're used to build, buy, or improve homes.

These inflows are driven by several factors: an increase in wealth, particularly in emerging markets; historically low interest rates between 2008 and 2021, which prompted investors to search for yield by putting their savings into housing investment; and capital flows to safe haven housing markets[14]. However, such investments are often made towards high-end and luxury housing units.

Research shows foreign direct investment can significantly boost housing prices. While these global trends benefit some wealthier housing owners, they also make it more challenging for local low-income households and even middle-income households to access affordable and decent housing and to get a foot on the housing ladder.

[14] *IMF (2024), Economics of Housing, Finance & Development*

A.4.10. Housing Finance in Crisis Contexts

In crisis-affected settings, housing finance is a necessary to ensure the provision of shelter and the incremental provision of adequate housing to support long-term recovery. In the immediate aftermath of conflicts, disasters and displacement, governments and humanitarian agencies either provide direct access to shelter (e.g. tents, access to emergency shelter in temporary accommodation, etc.) or give access to housing finance, such as grants, cash transfers, and rental vouchers to assist displaced populations in securing temporary accommodation. Public-private partnerships (PPPs) also play a key role in rapidly scaling up transitional housing options, particularly in urban areas.

In the recovery phase, housing finance mechanisms support reconstruction. Subsidized loans and microfinance enable affected households to rebuild, while community-based models, such as savings groups and rotating credit associations, support collective self-recovery. Increasingly, reconstruction finance incorporates Build Back Better principles to enhance housing resilience.

In fragile and conflict-affected contexts, where formal financial systems may be limited or non-operational, international credit guarantees and donor-funded programs are essential. Informal finance channels, including NGOs and faith-based organizations, often provide essential housing support in these settings. For refugees and internally displaced persons (IDPs), targeted instruments such as rental assistance, microloans, and remittance-linked housing finance offer crucial support, especially in protracted displacement contexts.

At the systemic level, blended finance, regulatory flexibility, and digital disbursement platforms are being used to improve delivery and transparency. International organizations such as UN-Habitat, UNHCR, and the World Bank play a central role in designing frameworks, providing technical support, and building local capacity. Together, these approaches aim to make housing finance systems more adaptive, inclusive, and resilient in the face of crisis.

Overall, the international community is moving toward more agile, inclusive, and resilience-oriented housing finance systems. The key challenge remains ensuring that such systems are accessible and effective in low-income contexts, where institutional capacity and financial resources are often constrained.

A.4.11. Housing as a Human Right

The COVID-19 pandemic has underscored the need for everyone to have a safe home to shelter. The economic crisis that followed saw many people unable to pay their rent or mortgage. Over the last five years, the international narrative around housing has been bringing back its importance as fundamental right rather than merely a commodity. International bodies, national governments and advocacy coalitions are increasingly embedding right-to-housing language in recovery plans, homelessness strategies and sustainable-development targets, sparking a wave of rights-based policy pilots and impact-oriented financing vehicles that prioritize security, dignity and inclusion over speculative returns.

The question for policy making is how to differentiate the positive functions of finance from the speculative ones, which are largely creating challenges within the land and housing sector. Speculation, as defined in this context, is investments that are made with a purely profit-seeking motive and are not likely have any social benefits. In some countries the acceleration of financialization and speculation on land and property has become so profitable that it has led to increased incidences of evictions and land grabbing.