



HOUSING FINANCE MECHANISMS

In Thailand

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UN  HABITAT

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Housing Finance Mechanisms in Thailand

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FOREWORD

At the dawn of this new urban era, UN-HABITAT research shows that by 2030, two-thirds of humanity will be living in towns and cities. We thus live at a time of unprecedented, rapid, irreversible urbanisation. The cities growing fastest are those of the developing world.

And the fastest growing neighbourhoods are the slums. Indeed, the global number of slum dwellers is now at or close to the 1 billion mark. Excessive levels of urbanization in relation to the economic growth have resulted in high levels of urban poverty and rapid expansion of unplanned urban settlements and slums, which are characterized by a lack of basic infrastructure and services, overcrowding and substandard housing conditions.

Yet housing and the services that should be provided with it are one of the most basic human needs. It is enshrined in various international instruments, including the Habitat Agenda. And reducing the number of slum dwellers around the world is a cornerstone of the Millennium Development Goals set to fight poverty around the world. So if we fail to achieve the Goals in towns and cities, we will simply fail to achieve them at all.

It was with this crisis in mind that the United Nations General Assembly decided in its resolution of 26 February 2002 to transform United Nations Commission on

Human Settlements into a fully pledged programme. The General Assembly in its resolution called on UN-HABITAT to take “urgent steps to ensure a better mobilization of financial resources at all levels, to enhance the implementation of the Habitat Agenda, particularly in developing countries.” It also stressed “the commitments of member states to promote broad access to appropriate housing financing, increasing the supply of affordable housing and creating an enabling environment for sustainable development that will attract investment”.



The Habitat Agenda recognises that housing finance systems do not always respond adequately to the different needs of large segments of the population, particularly the vulnerable and disadvantaged groups living in poverty and low income people. It calls UN-HABITAT to assist member states to improve the effectiveness, efficiency and accessibility of the existing housing finance systems and to create and devise innovative housing finance mechanisms and instruments and to promote equal and affordable access to housing finance for all people.

In our quest to reach as many people as possible, a cornerstone of our agency's new Medium-term Strategic and Institutional Plan is partnerships. We have no choice but to catalyze new partnerships between government and the private sector. This is the only way to finance housing and infrastructure at the required scale – the scale needed to stabilize the rate of slum formation, and subsequently reduce and ultimately reverse the number of people living in life-threatening slum conditions.

It is clear that in the coming 20 years, conventional sources of funds will simply be unavailable for investment at the scale required to meet the projected demand for housing and urban infrastructure. Many countries around the world continue to face deficits in public budgets and weak financial sectors. Local governments have started to seek finance in national and global markets, but this is only in its initial phase.

New mortgage providers have emerged, including commercial financial institutions and mortgage companies. But only middle and upper income households have access to such finance, while the poor are generally excluded. Although social housing is becoming less important in Europe and in countries with economies in transition, the need to provide shelter that is affordable to low income households still exists, including in developing countries.

This is why the exchange of information and knowledge on human settlements finance systems is so important. It is why it receives increased recognition in facilitating the development of human settlements finance systems and in turning knowledge into action for developing practical human

settlements finance methods and systems for these pressing problems.

Our Human Settlements Finance Systems series documents the state, evolution and trends of human settlements finance in member states, and examines the factors and forces which drive the development of human settlements finance systems and the roles of different institutions and actors in shaping the systems and trends, and reviews human settlements finance systems. It presents an interesting review of policies, instruments, processes and practices. It examines the strengths and weakness of these systems and practices, their relations to the housing sector and the broad economic and social sectors, and lessons learned from practices.

Indeed, the country review studies we present are a valuable resource for member States because it is a body of work that also shows how human settlements finance systems and models can be applied to local use and thus provide a wider range of options for human settlements finance. The series also serves as guidebooks for policy makers, practitioners and researchers who have to grapple daily with human settlements finance systems, policies and strategies.



Dr. Anna Tibaijuka
Under-Secretary-General and
Executive Director
UN-HABITAT, Nairobi, 2008

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AREA	Agency for Real Estate Affairs
BMA	Bangkok Metropolitan Administration
BMR	Bangkok Metropolitan Region
BIBF	Bangkok International Banking Facility
BOI	Board of Investment
BOT	Bank of Thailand
CIA	Central Intelligence Agency
CODI	Community Organizations Development Institute
CPI	Consumer Price Index
DOPA	Department of Provincial Administration
FTA	Free Trade Area
FDI	Foreign Direct Investment
GHB	Government Housing Bank
GPS	Government Pension Fund
GSB	Government Savings Bank
LTV	Loan to Value Ratio
MBS	Mortgage-backed Securities
MLR	Minimum Lending Rate
MOR	Minimum Overdraft Rate

MRR	Minimum Retail Rate
NHA	National Housing Authority
NESDB	National Economic and Social Development Board
NPLs	Non-performing Loans
NSO	National Statistical Office
PCI	Private Consumption Index
TAT	Tourism Authority of Thailand
UNECE	UN Economic Commission for Europe

CONVERSION

1 US \$ = 40 Baht (approximately during 2001 - present, exact rate available at www.bot.or.th). It was 25 Baht for over 20 years prior to the crisis in 1997. In the worse case in 1998-1999, it went up to 56-60 Baht.

1 meter	3.2808 feet
1 meter	2 wah (Thai measurement)
1 foot	0.3048 meter
1 sw.meter	10.76391505 sq.feet
1 sq.foot	0.092903 sq.meter
1 hectare	10,000 sq.meter
1 acre	4,046.856 sq.meter
1 rai (Thai)	1,600 sq.meter
1 rai (Thai)	400 sq.wah
1 sq.wah	4 sq.meter

CHAPTER ONE

EXECUTIVE SUMMARY

UN-HABITAT undertook a study to evaluate the Housing Finance Mechanisms in Thailand. It looks at Thailand's experience in the low-income housing finance system. The study is an attempt to help people to find and maintain their own homes, which in turn to enable people to house themselves. Thailand's experience will be beneficial to other developing countries.

This study is one of several comprehensive initiatives to evaluate housing strategies and mechanisms. The study attempts to understand the evolution, nature, and scope of the housing problem in Thailand, as well as the conditions, structures, patterns, trends, characteristics, and inducements for housing finance in Thailand. The report reveals the main players in Thailand's housing finance system, and assesses the country's low-income housing programmes and initiatives.

The methodology used in this study was to review literature, websites on housing, housing finance, financial institutions and public finance. Brief face-to-face interviews with Thai experts were conducted.

Recent real estate development in Thailand can be divided into three major periods: the

boom (1990-1996), the bust (1997-2001) and the recovery (2002 onwards). The effects of the market bust were clearly observed in 1996, but the massive bust occurred when the Baht was floated or devalued on July 2, 1997. By 2000, the situation was looking better, but a full recovery was only clear by 2001. The financial crisis was the crux of the real estate market collapse in 1997., Housing development, however, has contributed to the economy and the country. A unique feature of Thailand's housing is that almost all homes are constructed and provided by the private sector.

Bangkok has few street dwellers which means the housing problem is not severe and can be well managed. It should be noted these low-priced units were worth altogether only US\$1.801 billion, while higher-priced units were worth US\$18.262 billion. Forty one percent of the units surveyed, that were lower-priced, were worth only 9% of the total value, suggesting that investment in low-priced housing for low-income groups requires little money and can have a positive effect on the wider society. Formal housing provisions for low-income groups vary. There is rental housing for those without assets, particularly migrants. Rental housing helps house a lot of low-in-

come people. Without proper data, though, this area cannot be properly examined.

Thailand has a total slum population of 1,763,872, who form 3% of the total population. Sub-standard urban housing – that is, slums - does not prevail in Thailand. Of the total slum population, the majority (62%) is concentrated in Bangkok alone. Some 22% are in the Bangkok Metropolitan Region (but excluding the Bangkok Metropolitan Administration). The remaining 16% live in other urban centers of the country. The percentage of people living below the poverty level was 10% nationwide in 2005. Most lived in the rural areas. This implies that most of the slum dwellers were not the poor.

Strategies for low-income housing provision, include: a housing production policy, between 1948-1958; city beautification between 1960-1971; slum improvement in the 1970s; land for housing the poor in the 1980s; recognition / enabling policies in the 1990s and a million housing units in the 2000s.

The housing finance policy was an early initiative in 1953 to establish the Government Housing Bank. In 1972, the National Housing Authority (NHA) was established. The Government Housing Bank has since become a full housing bank with no developer's functions any longer. However, housing finance is still a small sector. Since the mid 1980s, the Government Housing Bank has been the main housing finance institution in Thailand.

Thailand's financial institutions can be divided into two categories: namely, banking and non-banking institutions. Banking

institutions include commercial banks, 18 branches of foreign banks as well as five specialised banks (the Government Housing Bank, the Government Savings Bank (GSB) and the like. Non-banking financial institutions comprise finance companies, credit financier companies, life insurance companies, mutual fund management companies and so on. However, the major financial institutions which offer credit for housing loans, are comprised of all commercial banks and the two specialised banks: namely, the Government Housing Bank and the Government Savings Bank.

The Government Housing Bank is the primary housing finance bank in Thailand. It has 107 main branches, 29 branches in Bangkok and adjacent provinces and 78 branches in provincial areas. It also has 38 sub-branches and 10 financial service counters throughout Thailand. It offers residential mortgage loans as well as loans for housing construction, house expansion renovation. The Government Housing Bank and the Government Savings Bank are two large public enterprises or banks supported or controlled by the Thai government. However, there are other financial institutions, particularly commercial banks, which have full-scale services for housing finance.

Commercial banks are major sources of housing finance in Thailand. On the whole, commercial banks do not emphasise housing loans. Housing loans account for only 10.3% of the total loans to businesses in Thailand. Particularly in the case of foreign banks, the share of housing loans has been only 0.2% in recent years. As mentioned, foreign banks are limited in their roles in Thailand.

The SMC is an unsuccessful lesson for Thailand. It was established in 1998 and it is the sole secondary mortgage outlet in Thailand. However, its operation has not been as successful as expected, as shown by the small number of mortgage loans purchased by the SMC during the 5 years of its operation. The secondary mortgage market in Thailand, operating via the SMC, currently faces an unfavorable environment and various obstacles to its operation.

The government uses the Government Housing Bank and the Government Savings Bank as major apparatuses in the provision of housing finance to people. This can be rollover mortgage loans, mortgages for Thai government officials, and housing finance to support "Baan Eua-Arthorn," a subsidized housing scheme for low-income groups. In addition, there are some innovations in housing finance which can be learned by other developing countries and which can be applied in different financial institutions, like adjustable term mortgages, step-up paybacks, hire-purchasing and mortgage loans.

The major areas of the critiques centre on "Baan Eua-Arthorn" and "Baan Mankong." "Baan Eua-Arthorn" is a housing scheme to build and finance 600,000 units of formal housing for the poor. Meanwhile, "Baan Man Kong" (secured housing) is a slum improvement programme that seeks to help the poor upgrade their own homes.

The housing finance for the units of Baan Eua-Arthorn have not been a success as they are still unaffordable for low-income groups. The aim of the scheme has not

been realised because it has not reached the right target group.

The lessons learnt in the case of Baan Mankong, is that proper policies and plans for low-income housing finance need scrutiny. Thailand also has a lot of good examples and innovations in housing low-income groups.

There are several ways in which to construct effective housing finance systems that would be suitable for the different groups in society.

These are:

Direct Subsidies: This helps low-income groups afford cheap housing.

Subsidies via a financial system: The government establishes a fund or a government bank which offers loans at low interest rates. This recommendation is applicable in any circumstance.

Tax Subsidies; This system applies to the discount or exemption of taxes.

Rent Control: This system is good in cities with a rental market dominated by landlords, and for people with limited opportunities to purchase a house in an open market due to exorbitant prices.

Savings and Bonuses: To encourage people to save money with the view to buying a house, the government establishes a programme to encourage saving for a down payment. When this is achieved, the government gives a bonus to those homebuyers.

Other related recommendations should be considered in establishing a better housing finance system.

Capitalizing on Slum Land: Most slums in Bangkok are located in the inner-city areas. Many of them are in the Central Business District (CBD). The land is valuable for commercial use. The slum dwellers should be relocated somewhere more suitable.

Property Registration Project: A sound and strong basis for good housing finance. Land titles are used as a basis for mortgage and asset capitalization for the poor who occupy them.

Proper Property Maintenance: This involves the maintenance of a house which benefits the entire community.

Any of these good measures used by other countries must be scrutinised: If not, these measures may not be properly applied and land up being a waste in the long-run. Proper application requires time and resources to research. Proper research is critical when planning housing systems for low-income groups.

CHAPTER TWO

THAILAND AND THE ECONOMY

Before 1950, Thailand was an underdeveloped country with an agriculture-based economy. Steady improvement has led to increased industrialization. With this, housing development rapidly expanded in the Bangkok Metropolitan Region. Although a high volume of units were built, the Thai economy was disrupted by the Asian financial crisis of 1997 resulting in a meltdown in the real estate industry. Thailand's economic bases and the results of foreign direct investment, particularly after financial liberalisation, and its effects on real estate markets.

2.1 THAILAND AT A GLANCE¹

Thailand is a unified kingdom established some 800 years ago. 'Siam' was the country's name until 1939 and again between 1945 and 1949. On May 11, 1949, an official proclamation declared the country would henceforth be known as 'Thailand.' The word 'Thai' means 'Free,' and therefore 'Thailand' means 'Land of the Free.

Thailand is located in the middle of Southeast Asia (North 5o30" to 21o and from East 97o30" to 105o 30") with a land area of 514,000 sq. kilometers divided geographically into four natural regions: the mountains and forests to the North; the vast rice fields of the Central Plains; the semi-arid farm land of the Northeast plateau; and the tropical islands and long coastline of the peninsula South. There are 76 provinces, divided into districts, sub-districts and villages. Bangkok is the capital and primary city. It is administered by an autonomous local authority, the Bangkok Metropolitan Administration. The Bangkok Metropolitan Region is a planning term that includes Bangkok and five provinces in the region.

The majority of the 65 million citizens of Thailand are ethnic Thai (80%), along with strong communities whose ethnic origins lie in China (10%), India and other countries. The Bangkok Metropolitan Administration (1,568 sq. kilometers) has some 7 million people, and the Bangkok Metropolitan Region (around 8,000 sq. kilometers) has approximately 10 million inhabitants. Thailand has its own spoken and written language.

¹ Information in this section was based on the Board of Investment (2006), the Central Intelligence Agency (2006) and the Tourism Authority of Thailand (2006).

Most Thais are Buddhists (95%), followed by Muslims (4%) and others (1%).

Thailand has a tropical climate with three distinct seasons: hot and dry (February to May, approximate temperature 34 degrees Celsius); rainy with sunshine (June to October, approximate day temperature 29 degrees Celsius) and cool (November to January, approximate temperature 20-32 degrees Celsius). Much lower temperatures are experienced in the North and Northeast at night. The South has a tropical rainforest climate with temperatures averaging 28 degrees Celsius almost all year round.

Thailand is the third largest country in ASEAN region, after Indonesia and Myanmar. However, it is approximately 1/18 the size of the USA. Alaska alone is double the size

of Thailand. Of the total 10 ASEAN countries, Thailand is the fourth most populous country after Indonesia, the Philippines and Vietnam. In terms of population density per sq. kilometer, Thailand ranks fifth, with 128 persons per sq. kilometer. Singapore has 6,942 persons per sq. kilometer, whereas the USA has only 32 persons. Singapore and Brunei are the two richest but smallest countries in ASEAN. Malaysia and Thailand are similar in terms of per capita income. More developed countries tend to have a smaller proportion of income from the agricultural sector. These two possess good development prospects among ASEAN countries. For the whole region, economic growth is comparatively higher than in many other parts of the world. However, many people still live below the poverty line. In Thailand, it is around 10%.

Fig. 2.1: Map of Thailand and the Bangkok Metropolitan Region (BMR)

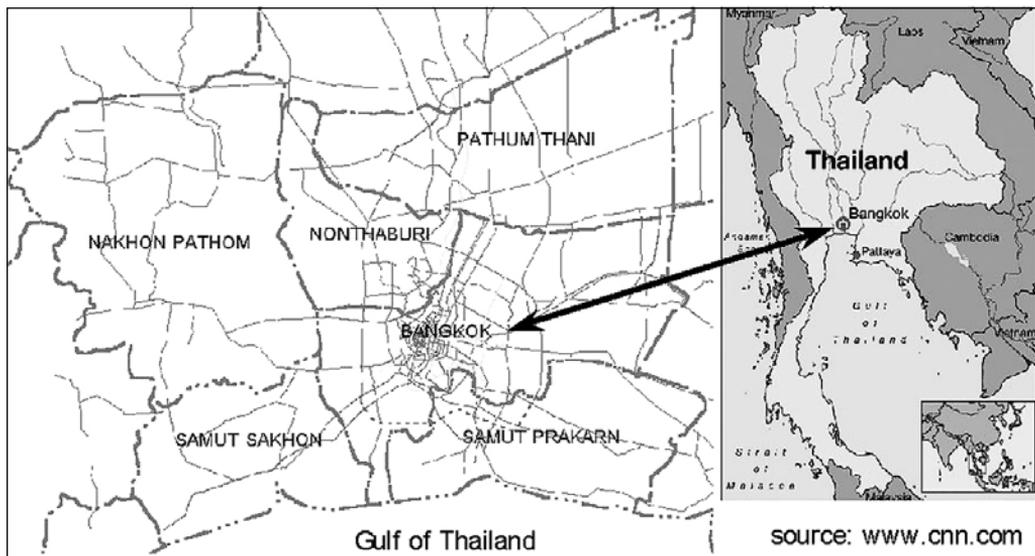


Table 2.1 shows a comparison of Thailand to other ASEAN countries as well as to the United States of America:

Countries	Land Area		Population			GDP			Population below Poverty			
	Excluding water) sq. km.	Compared* Million	Compared* Density (/km ²)	Compared* Billion US\$	Growth per year	Per Cap US\$	Per Cap Compared*	% of Agri Sector		Growth per year		
Thailand	511,770	1.0	65.4	10	128	0.87%	525	8,019	1.0	9.0%	6.1%	10%
Brunei	5,270	0.0	0.4	0.0	71	1.90%	7	18,375	2.3	5.0%	3.2%	NA
Cambodia	176,520	0.3	13.6	0.2	77	1.81%	27	1,984	0.2	35.0%	5.4%	40%
Indonesia	1,826,440	3.6	242.0	3.7	132	1.45%	827	3,419	1.4	14.6%	4.9%	27%
Laos	230,800	0.5	6.2	0.1	27	2.42%	11	1,814	0.2	49.5%	6.0%	40%
Malaysia	328,550	0.6	24.0	0.4	73	1.80%	229	9,573	1.2	7.2%	7.1%	8%
Myanmar	657,740	1.3	42.9	0.7	65	0.42%	74	1,723	0.2	56.6%	-1.3%	25%
Philippines	298,170	0.6	87.9	1.3	295	1.84%	431	4,901	0.6	14.8%	5.9%	40%
Singapore	638	0.0	4.4	0.1	6,942	1.56%	121	27,318	3.4	0.0%	8.1%	NA
Vietnam	325,360	0.6	83.5	1.3	257	1.04%	227	2,720	0.3	21.8%	7.7%	29%
USA	9,158,960	17.9	295.7	4.5	32	0.28%	11,750	39,732	5.0	0.9%	4.4%	12%

Compared* = compares to Thailand; www.cia.gov/cia/publications/factbookas of January 2006

2.2 THAI ECONOMY

A summary of the latest economic report by the Bank of Thailand, issued on January 31, 2006 (2006-1) is outlined below:

On the whole, for the month of December 2005 economic stability remained steady. International reserves were at a satisfactory level. The current account improved, while pressure on headline inflation abated slightly.

For the entire year of 2005, Thailand's economy slowed from previous years in terms of demand and supply; the result of natural disasters, a significant rise in oil prices and a tightening of interest rates. Although the current account balance registered a deficit for the year with a significant deficit in the first half of the year, the latter half of the year registering positive levels. Inflation accelerated following the floating of retail oil prices and the rise in fresh food prices. In addition, the year saw a net inflow of capital, satisfactory levels of international reserves that have risen steadily, and low unemployment rates.

In 2005, the manufacturing sector expanded by 9.2% and was expected to reach 11.5% in 2006. Major product categories are: vehicles, textiles and textile products, leather products, electrical appliances, iron and steel products and electronics. An overall capacity utilisation rate of the manufacturing sector rose to 72.6%, from 70.7% in 2004. Major growth can be seen in paper products and construction materials.

Domestic spending in 2005 saw the Private Consumption Index grow by 0.6% for both durable and non-durable goods, from 3.9%

in 2004. The volume of sales of passenger cars and gasoline declined from the previous year.

The trade balance in 2005 had a deficit of US\$8.578 billion as compared to a surplus of US\$1.460 billion in 2004. Export value grew by 15.0% to US\$109.211 billion, mainly because of the export of high-tech manufactured products. Imports expanded by 26.0% to US\$117.788 billion. Import categories that registered strong growth include: steel, gold, and oil. The services and transfers account recorded a surplus of US\$4.864 billion, decreasing from the previous year's surplus of US\$5.405 billion due to diminished tourist income (the result of the tsunami). Consequently, the current account showed a deficit of US\$3.714 billion due to the trade deficit. The balance of payments was in surplus by US\$5.422 billion.

Other major indicators were the Consumer Price Index, which rose by 4.5% in 2005; money market interest rates which rose continuously following the upwards cycle in the policy rate, which itself was adjusted upwards six times in 2005, from 2.00% to 4.00% per annum. Another indicator was the exchange rate, in which the Baht averaged at 40.29 per US dollar, comparable to 40.28 in 2005. However, on February 10, 2006, it was 39.58 (BOT, 2006-2).

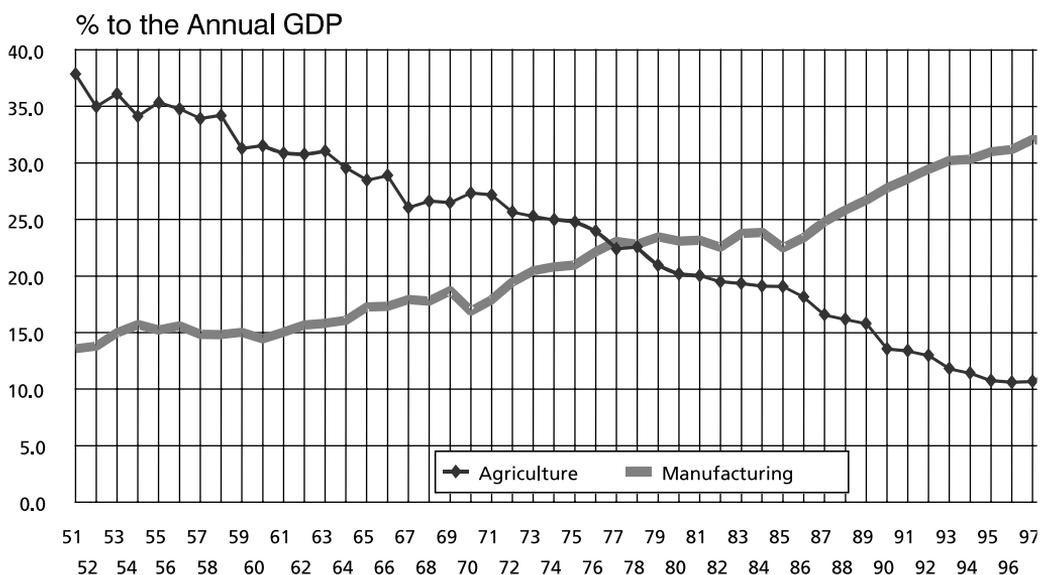
Before 1960, Thailand was an under-developed country with an agriculture-based economy. Since then, the Thai economy has improved steadily except during the period of 1997-2000 when the Asian financial crisis caused a disruption. Prior to that, poverty had also been decreasing steadily (World Bank, 2003). Those improving conditions were

the result of the economic transformation from an agricultural to an industrial base. In 1951, the agricultural sector accounted for 38% of the overall Gross Domestic Product, while the manufacturing sector dropped to a low of 14%. However, at present, the manufacturing sector accounts for 38% of the Gross Domestic Product, while the agricultural sector accounts for only 10% (see Fig 2.2).

The growth of the industrial sector has been due mainly to investments by foreign investors. In the early 1960's, the contribu-

tion came from the USA textile industries; during the 1970s and 1980s, Japanese companies in the manufacturing sector invested heavily in Thailand making Japan the largest foreign investor in the country since 1985 (Thai Embassy in Japan, 2003). Many more countries began investing in Thailand, such as Korea, Taiwan and others. Local entrepreneurs helped boost the growth of the manufacturing sector. Because of foreign and local investment, today major exports of Thailand are no longer agricultural products.

Fig 2.2 The Proportion of Value of Production in Agricultural and Manufacturing



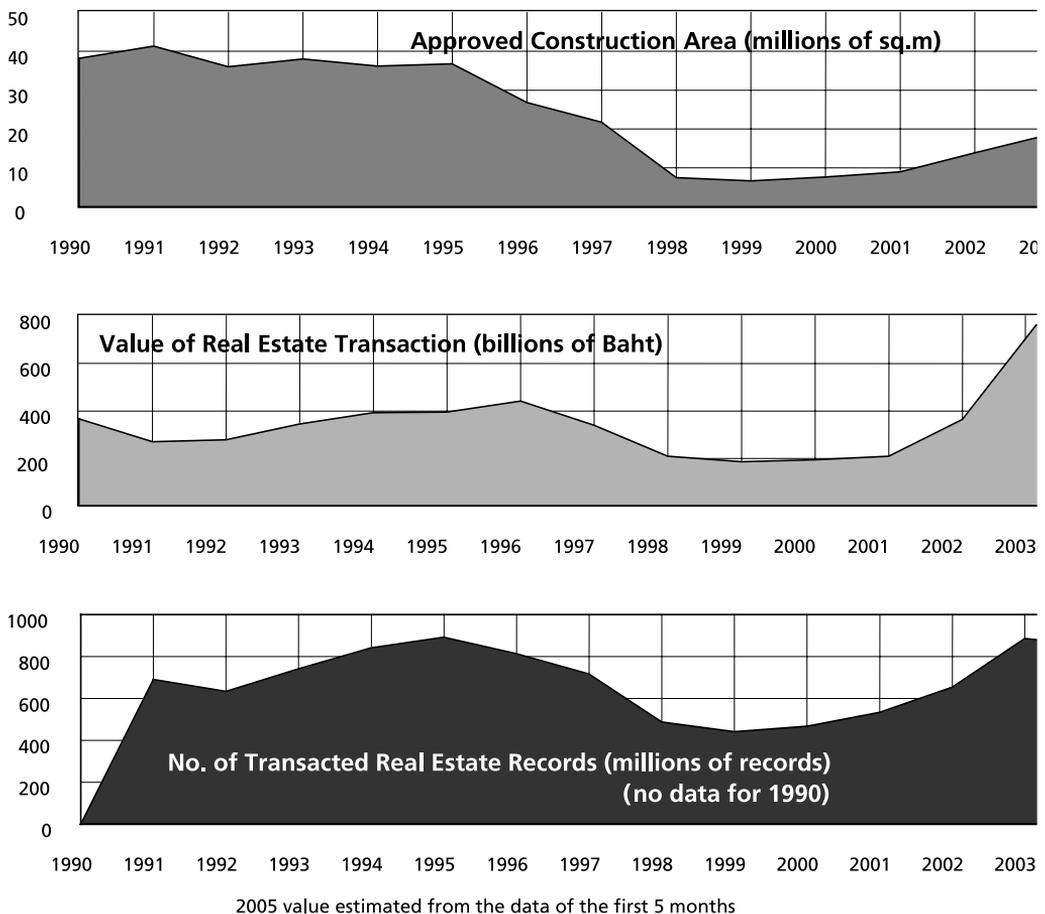
Source: GDP, 1951-1989 from www.nesdb.go.th/data_index/macroeconomic.html
 GDP, 1990-1999 from www.nesdb.go.th/Main_menu/Macro/Macro_data/table1.1.1.xls
 GDP, 1996-2004 from www.bot.or.th/bothomepage/databank/EconData/Thai_Key/Thai_KeyE.as
 GDP, 2005 from <http://www.bot.or.th/bothomepage/databank/EconData/EconFinance/tab86e.asp>

2.3 THAI REAL ESTATE MARKET

According to Fig.2.3, recent real estate development can be divided into three major periods: the boom (1990-1996), the bust (1997-2001) and the recovery (2002 onwards) periods. Effects of the market bust could be clearly observed in 1996, but the massive bust occurred when the Baht was floated or devalued on July 2, 1997. In 2000, the situation looked better, but a clear recovery was observed only in 2001.

According to BOT (2006-3), the approved construction areas were 38.207 million sq. meters in 1990 and these dropped to 6.632 million sq. meters in 1999. In recent years, the figure rose significantly. However, it was not at the same level prior to the crisis because of past over-construction and over-supply. It might take time to use up those inventory areas already built.

Fig 2.2 Thailand's Real Estate Indicators, 1990-2005



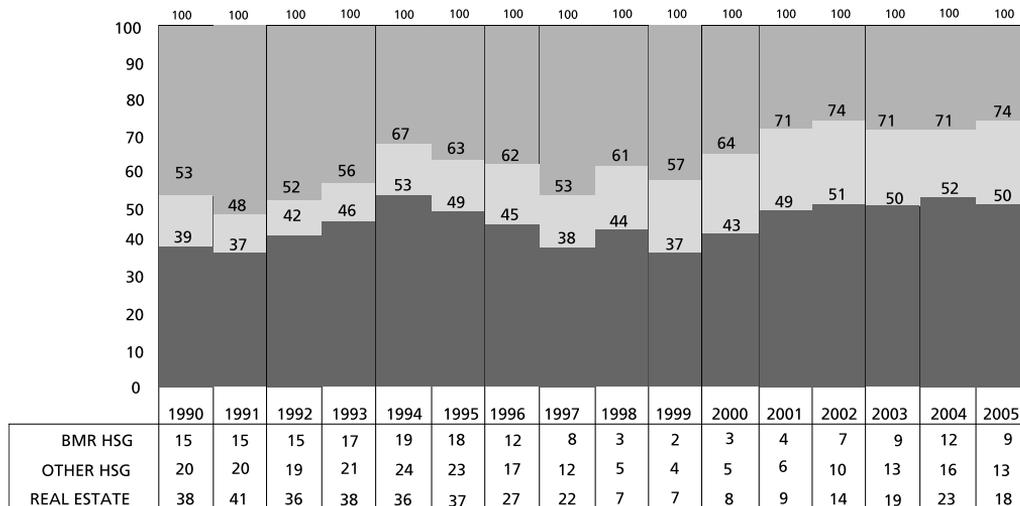
bot.or.th/bothomepage/databank/Econcond/seminar/Other-Article/AgriService-Article/Data/assetV2_2548.pdf

However, in terms of the number and value of real estate transactions nationwide, the volume today is similar to that during the boom period, implying speculation, particularly on vacant land in different locations. The fact that the value of real estate transactions dropped in 2006, implies some slight difficulty during that year due to limited economic growth. The number of real estate transactions remains high, indicating that investors are still looking for investment opportunities.

According to Fig.2.4 housing accounts for some three-fourths of the total real estate developed on a nationwide basis. Housing in the Bangkok Metropolitan Region alone accounts for half of all real estate development because the vast majority of the population is involved in housing. In the Bangkok Metropolitan Region, the trend is for housing to grow significantly. The primacy of Bangkok can be perceived.

Fig.2.3: Housing and Real Estate Construction Approval, 1990-2005

The Numbers on the figure is the proportion of approved construction area of housing in the BMR and upcountry to the total real estate approved construction area.



BMR Housing = Millions of sq. metres of approved construction area for housing in the BMR
 OTHER Housing = Millions of sq. metres of the area for housing in the other provinces upcountry
 REAL ESTATE = Millions of sq. metres of approved construction area of all types of real estate nationwide

2005 value estimated from the data of the first 5 months
bot.or.th/bothomepage/databank/Econcond/seminar/Other-Article/AGRIaSERVICE-aRTICLE/dATA/assetV2_2548.pdf

Fig. 2.5: Locations of Approximately 8,000 Real Estate Projects Launched during 1994 to 2005 in the Bangkok Metropolitan Region (BMR)



Source: (AREA, 2006).

According to the Agency for Real Estate Affairs (2006), approximately 8,000 real estate projects were launched between 1994 and 2005 in the Bangkok Metropolitan Region. The Bangkok Metropolitan Region has a total area of approximately 8,000 sq. kilometers, with the implication that real estate projects exist in each sq. kilometer. Fig.2.5 shows the approximate location of these projects. Here, ribbon development can be observed. A large number of projects are clustered in the hub of the city as well as in some sub centres. Areas where there are few projects are understood to be remote or with poor road access.

2.4 LESSONS LEARNED FROM FINANCE LIBERALIZATION

The real estate crisis occurred during the economic crisis of 1997. Real estate is considered a dependent variable, influenced mainly by the economy and other global variables. The financial crisis of 1997 wiped out not only real estate projects with low development potential but also good projects under construction where most of the planned units were booked (sold in advance). After the crisis, most financial institutions were reluctant to give loans to developers, even those with a good track record. Most projects were stalled. At the same time, contractors and other suppliers were unable to get money out of the developers. They were in trouble as well. Many homebuyers, particularly targeted groups, cancelled their bookings. Eventually, most projects ceased or failed.

2.4.1 THE BOOM PRIOR TO THE CRISIS (1985-1990)

The boom and the bust periods in the Thai economy and the real estate market were caused partly by a trade conflict between the super-powers in the world, namely, the United States of America and particularly Japan. Due to this conflict, the G5 countries signed the 1985 Plaza Accord, an agreement to implement a coordinated programme to weaken the dollar (MarketVolume Analysis: 2003). As a result, the dollar fell and the Yen became strong. In 1985, US\$1 could buy 240 Yen. In 1988, however, US\$1 could only buy 120 Yen (SG Equity Research, 2003). A critical consequence was the influx of foreign direct investment from Japan.

There are several reasons for Japanese foreign direct investment. The strong Yen was a disadvantage for manufacturing in Japan. On the other hand, Japan had greater purchasing power. Most items were considered half-price. The steadily increasing strength of its currency forced Japan to invest abroad. Japanese investors came to invest in Thailand and other Southeast Asian countries, where there was cheap labour, plenty of raw materials, and political stability. Other attractive incentives for investment in Southeast Asia and Thailand were the sound economic fundamentals, that is, a stable macro-economic environment and plentiful human capital (Urata, 2001: 452). These were the reasons for the "Asian Miracle."

Foreign direct investment came not only from Japan but also from other developed countries in Asia, Europe, and America. However, Japan was by far the biggest investor. The growth of the industrial sector

was due mainly to investments by Japanese companies in the manufacturing sector from 1985. (Thai Embassy in Japan, 2003).

2.4.2 THE INFLUX OF FUNDS INTO THE MARKET (1991-1996)

Aggressive foreign direct investment in the manufacturing sector by Japan continued until the Gulf War in 1990. However, the influx of foreign money continued even after that period. There were three main reasons for this:

- i. the Japanese bubble burst; investors were looking for alternative investment destinations; and Bangkok was one of those investment destinations. The Yen was strong, resulting in regular inflows of money from Japan.
- ii. Low interest rates in the USA and Europe.
- iii. High interest rates in Thailand and other countries in the region.

In 1992, the inflow of funds was facilitated by the liberalization of money: the Bangkok International Banking Facility was created as a commercial bank authorised to provide offshore and onshore ending facilities and other international banking business services. In addition, the Baht was more or less fixed to the US Dollar. This gave foreign investors confidence. However, a lot of funds went into the stock market, which fueled the boom. The SET index, 388.7 in 1988, reached its highest level of 1,682.9 in 1993 (Kritayanavaj, 2003: 97).

2.4.3 THE JULY 1997 CRISIS

The economy continued to grow, but at a slower pace from 1996, when exports began to slow down. The biggest decline centered on low wages as well as on labour intensive exports, which were the main sources of export growth since the Japanese investment influx of the mid 1980s (Doner and Ramsay, 1999: 176). The reasons behind the slowdown in exports were varied: a worldwide export downturn (Kittiprapas, 2000: 7) a recession in Japan and the depreciation of the Yen; exports to Japan (Thailand's biggest export destination) became expensive; US/European trade protectionism; competition with other emerging economies (particularly China); and a strong Baht pegged to the US Dollar (Suppakulkittiwattana, 1998: 35). As a result, the economy weakened, with an overvaluation of the Baht. Eventually, the currency was attacked and on July 2, 1997 it was floated.

One question that arose was whether the slump in the economy could have been predicted. The decline in exports indicated a weak economy and was the crux of the crisis. Some might say agreeing with Sideri (1998: 29), that the crisis was unforeseeable or unexpected. However, it was not. There were warning signs, especially the scale of non-performing loans in the financial sector, rapidly increasing short-term capital flows, and expanding the depth of the external debt (Hill and Arndt: 2000: 8). Krugman (2003).

2.4.4 THE BUST PROPAGATED BY THE BOOM

The boom cultivated the bust. The rapid liberalization in 1992 of the Thai financial system encouraged further capital inflows and helped create a bubble in the economy. This liberalization was introduced without preparatory measures or regulations, and was an important factor causing many of Thailand's economic woes (Suppakulkittiwattana, 1998: 28). The crisis was inevitable, due partly to unproductive investments financed by short-term capital flows from abroad (Nidhiprabha, 2000: 67).

Another cause was the fundamental weakness of the banking system (Wong, 1999: 392), and the lack of transparency in the accounting system of financial institutions, which were overlooked during the period of prosperity (Tan, 1999: 4). Financial institutions did not have industrial expertise. They simply lent money (Vines and Warr, 2003: 457). This revealed outdated regulatory rules, a lack of supervision, insider lending, a lack of disclosure, and unsound practices (Renaud, 2000: 195). Yap and Kirinpanu (1999: 12) claim a close relationship existed between and among commercial banks, private companies, finance companies, real estate developers, and politicians.

When the crisis arose in 1997, it was exacerbated by local politics. This slowed down the search for a remedy to the crisis (Jackson, 1999: 11). Mismanagement and inefficient supervision by government was another trigger of the crisis (Unganjanakul, 1999: 64). For example, authorities raised interest rates and tightened market liquidity. This exacerbated the economy after the Baht was floated.

Foreign direct investment is not a disadvantage for Thailand or other developing Asian countries. It in fact, transfers not only the funds for fixed investment but also the technology and managerial know-how (Urata, 2001: 452). Protectionist policies - protecting one's own market - it has been found only deepened the global depression in the 1930's. Developing countries should encourage more foreign direct investment and foreign trade to achieve economic growth by lowering or removing trade barriers (regional liberalization), improving infrastructure (transportation and communication facilities), practicing good public and private governance, and assimilating foreign technology transfers (Urata, 2001: 453-454). It should be mentioned that foreign direct investment is mainly concentrated in the manufacturing and other productive sectors but not in real estate.

2.4.5 REAL ESTATE MARKETS AND THE ECONOMY

Japanese foreign direct investment catapulted not only the overall economy but also the property market and urban development in Thailand in general, and in Bangkok in particular. Industrial development boosted urban development, prompting the real estate market to respond to the increasing demand for residential and commercial properties and services (TDRI, 2003).

Many analysts claim real estate is a bad investment which can precipitate a financial crisis. For example, Roehner (1999: 76) believes that the 1997 financial crisis in Thailand was triggered partly by the burst of the real estate bubble. In fact, this needs to be clarified. When foreign direct investment first started to come in, it changed agricultural land to manufacturing sites. The development potential, as a result was significantly enhanced. After the Plaza Accord, the Yen's value doubled in two years and real estate prices in Japan doubled in four years (Miller, 2003). When a large amount of money was injected into Thailand, sharp price rises were seen in real estate markets.

Another reason for the leapfrog in real estate development was the very limited growth during the bust period prior to 1985 after Thailand devalued its currency in 1983 and 1984. When the economy recovered cumulative demands emerged. It was found in 1987 that the housing supply grew faster than the population (Planning and Development Collaborative International, 1987: 17).

The bubble in real estate prices should have ended after the Gulf War in 1990. However,

due to a continued influx of foreign funds, the real estate market remained buoyant. The Bangkok International Banking Facility made available a lot of cheap loans and many developers were encouraged to borrow to develop real estate projects. Due to the boom in the stock market, "irrational exuberance" appeared and more buying in real estate occurred. However, between 1992 and 1996, land prices increased only 18% (or 4% per annum), which was a lot lower than deposit interest rates at that time (AREA, 1999: 163). This implies that although input into the industry by foreign funds was strong, the output in property prices was not significant because the markets had already experienced its bubble during the 1985-1990 period.

Real estate is not the catalyst for the bust in the economy. Major loans were not given for real estate projects but to stock investors who received over US\$4.8 billion in loans from finance companies (Blustein, 2001: 56-57). According to the Bank of Thailand (2000), real estate-related loans accounted for only 15% of all non-performing loans. In addition, only 24% of impaired assets transferred to the Thai Asset Management Corporation (2000: 28) in 1999, were from real estate projects. The majority came from the manufacturing sector, wholesale and retail trades, and service industries. The commonly referred to "real estate" items were simply collateral for loans made for non-real estate purposes (MacIntire, 2000: 143). Poor real estate investments were not generally owner-occupied housing developments, but luxury residential, commercial and recreational developments. For example, office vacancy rates were almost 30% in 1998 (Jackson: 1999: 11), whereas housing vacancy rates were only 14% (AREA, 1999).

Thailand's housing developments were not the trigger for the bust of the economy.

Real estate developments, particularly housing, helped contribute to the economy. A unique feature of housing in Thailand is that almost all housing is provided by the private sector. This was particularly the case during the boom period. The government did not subsidise housing development. In Singapore, 85% of all housing units are built and subsidised by the Housing Development Board. In the Netherlands and the United Kingdom, subsidised social housing has been built on a massive scale (Golland and Boelhouwer, 2002, 231-251).

Even in the USA, as Grigsby and Bourassa (2003: 975) state, housing is heavily subsidised to improve public health, reduce social injustice, preserve the social order, increase equal opportunities, and accommodate population growth. However, the success of subsidies is dubious. For example, subsidies can create more inequality. The next chapter discusses Thailand's successful private housing developments that have had minimal subsidy from government.

CHAPTER THREE

HOUSING DEVELOPMENT IN BANGKOK

The long period of housing development in Thailand and in Bangkok in particular, has provided a great deal of experience. This chapter collates evidence of a large number of changes in the housing market. The lessons are a reminder to planners as they try to prevent future market crises, and avoid possible market failure in housing development. In this chapter, chronological housing provisions are reviewed, concluding with remarks and lessons learned over a period of time.

3.1 DEVELOPMENT OF THE HOUSING SECTOR

In understanding housing development in Bangkok, it is worthwhile reviewing the chronological changes in housing provisions. Thai housing activities have matured only in the past 50 years. Prior to the 1960s, there were very few private developers.

3.1.1 THE FIRST 150 YEARS OF BANGKOK (1782 - 1932)

Since Bangkok's establishment in 1782, there were few public or private housing provisions for the following 150 years. Housing was not a problem, for Thailand as a formerly agricultural-based country: people housed themselves without any problems. For the first 100 years (since 1782), there was not much development. Roads were constructed on a wide scale between the years 101 and 150. In 150 (A.D. 1932), the Town and Country Planning Act was finally adopted.

In the 1920's, residential land sub-divisions were considered the foremost form of typical housing provision. It was understood that the areas of Sathorn, Wireless, Rachadamri, Ploenchit and Phayathai were residential land sub-divisions initiated during the reign of King Rama VI mostly for his senior officials. Today, some large mansions can still be observed in these areas, particularly in Sathorn (Pornchokchai: 1992, 45).

The Town and Country Planning Act was first adopted in 1932. The Town and Country Planning Office was established only in 1965. In 1933, the Building Construction Control Act was adopted and subsequently amended in 1979. Apart from these, there are few government or legal provisions relating to housing development. The housing market did not even exist at that time.

3.1.2 AFTER WORLD WAR TWO (1940 - 1957)

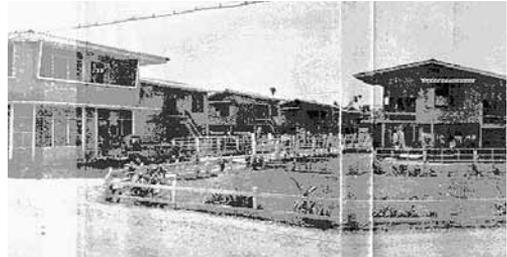
As with many countries after World War Two, reconstruction, and recognition of public housing provisions were among the main tasks of governments. At this time, the private sector still played a limited role in housing development, while the government set up housing development units and a housing bank as its apparatuses for housing provision in Bangkok.

In 1940, the Public Welfare Housing Division was established under the Department of Public Welfare in the Ministry of Interior (National Housing Authority, 2000: 2). It was the first attempt by government to provide housing to the general population. A wide range of its 16 responsibilities appeared in Karnjanaprakorn and Bunnag (1978, 42); however, this Public Welfare Housing Division was concerned mainly with building housing according to rural resettlement schemes.

Although the Public Housing Act was enacted in 1942, actual work only begun in 1950 when the Public Housing Welfare Division started to build urban social housing at Rang Nam Road and then in 1951 at Yommarat and Dindaeng-Huay Kwang. In

1951, another division was established, the Public Housing Office responsible for building rental social housing in Bangkok.

Fig.3.1: Public Housing Built in 1950's



Source: Government Housing Bank, 1957: no page number.

In 1953, the Government Housing Bank was established as a public enterprise under the Ministry of Finance. Its original purpose was to develop housing units for sale on a hire-purchase basis. Between 1953 and 1955, the Bank built 454 housing units. In 1955, the average housing unit price developed by the Bank was Baht 56,000 with a repayment of 15-20 years (Nitaya and Ocharoen (1980, 82).

Later, the main function of the Government Housing Bank was to provide housing loans for owner-occupied housing to the general public.

As an example of housing prices, a plot of land on an housing estate at Piboonwattana off Rama VI Road, nearby the Headquarters of the Ministry of Finance, was sold in 1956 at Baht 561 per sq. wah (or 4 sq. meters or 43.06 sq. feet) (Government Housing Bank: 1957). In 2001, an open market value of land in this housing estate was valued at Baht 80,000, or over 143 times that of 45 years before.

3.1.3 BANGKOK DURING THE INDUSTRIALIZATION PERIOD (1958 TO 1967)

The end of the 1950s can be seen as Thailand's industrialization period. Trade intensified due import-substitution, and the population grew in Bangkok. From 1960 to 1970, the population increased by 3.7% per annum in Bangkok, compared to 2.7% for the population growth nationwide (AREA: 1999, 12).

The government tried, unsuccessfully, to respond to the increasing housing needs in Bangkok. In the private housing sector, private land sub-division prevailed. In 1958, the government hired an American consulting team Litchfield Whiting Browne and Associates, to draft a city structure plan for Bangkok. This was the first attempt by the government to engage in city planning. Unfortunately, the Litchfield Plan, completed in 1960, was never enforced. It was not until 1992 that the 1960 draft was enforced, some 32 years later, and some 60 years after the first Town and Country Planning Act. This delay hampered law enforcement, and influenced some groups who may have benefited.

The government tried to attract investment in response to the high demand for housing in Bangkok. In the 1959 Revolutionary Party Decree No. 49 (B.E.2502), Article 34-37 of the 1954 Land Code was nullified (Aroonakasikorn et. al., 1996: 36). These were Articles that considered the limits of land ownership that were made void to attract agricultural and industrial investment. As a result, land speculation prevailed on the fringes of Bangkok.

One big government effort to develop Bangkok was to lean up the slums. In 1958, it was found that "... there are approximately 740,000 persons (46% of out the 1,600,000 total population) within what is termed 'condensed' or blighted housing areas which should be eliminated" (Litchfield Whiting Browne and Associates et. al., 1960: 84). On the basis of this, the government established the Slum Improvement Office, under the Bangkok Municipality (currently Bangkok Metropolitan Administration) in 1960. One of the largest slums was demolished: It was located in front of the current location of the Department of Highways, involving 1,570 households with 10,195 dwellers (Ministry of Interior and Bangkok Municipality: 1962, 42). Residents were relocated some 20 kilometers from the city. The relocation proved, however, unhelpful in solving the country's slum problems: people migrated back to the cities in search of jobs.

Another government effort was to build social housing in the form of "walk-up" apartments for low-income people. According to Thai building regulations, a building under 5 stories does not require a lift, and thus "walk-up" apartments began. In 1963, the first walk-up apartments of 5 stories was built as a form of social housing on Din Daeng Road (*see Fig. 3.2*). This was the concept of social housing development. These units were aimed specifically at low-income people. However, due to limited budget availability, the concept did not expand.

Fig.3.2: Walk-up Apartments Built in the 1960's



Source: Faculty of Social Administration, 1971: 35.

During this period, private land sub-divisions were the only form of private housing provision. People built their own home on their private serviced plots of land. In the early 1960's, these land sub-division schemes were popular among middle-income groups and in turn induced other similar land sub-divisions among private developers as well as many governmental agencies who bought land and developed their own schemes to sell land to their employees.

During industrialisation in Bangkok, when population growth was very high, land sub-division schemes were very popular. By 1967, it was clear that residential land sub-divisions had become speculative. Not many people who bought serviced plots of land actually moved there. Financial institutions realised that land sub-divisions were a risky business and wanted to halt project finance and loans on them. As a result, the land sub-division business, as a form of housing provision, faded (Rodpai, 1986: 20).

The government played a role in housing provision in Bangkok, while the private sector played a limited role.

3.1.4 EMERGENCE OF PRIVATE HOUSING DEVELOPMENT (1968-1985)

This was the first period of formal and modern housing provision in Bangkok. Turnkey housing appeared: the provision of finished housing units where the buyers could "turn the key" and move directly into the residence. In the early stages of this development, the most common form of turnkey housing was a detached house, or a single house or a bungalow.

The introduction of detached houses came after the shrinkage of land sub-division schemes. Financial institutions felt more comfortable about providing loans for detached houses because of the substantial collateral it provided (land and a house). In turn, building a home of one's own became too expensive for middle-income families. Since detached housing became very popular instead of land sub-divisions, a number of projects emerged.

A survey in 1969 found around 40 housing estates: one- to two-story detached houses catering to middle- and higher-middle income groups. These new developments ended with the first oil shock of 1973 (Rodpai, 1986). However, in 1972, these projects were nourished by long-term loans available to homebuyers offered by commercial banks.

That same year, a Revolutionary Party Decree No. 286 (B.E.2515) on land sub-division was enforced. Due to a large number of private land sub-divisions and turnkey detached housing estates, the government set rules on land sub-division practices. In the beginning, many developers complained about the burden of increased costs. The decree, nevertheless helped set standards for housing development, which later proved beneficial to both the developer and the buyer. On the one hand, the buyer would be assured of quality of products and environment. On the other hand, with standard practices now regulated, developers gained credibility in future developments.

As for government apparatuses, the National Housing Authority, established in 1973 as a public enterprise under the Ministry of Interior, the Public Welfare Housing Division, the Public Housing Office and the Slum Improvement Office (under the Bangkok Municipality) were all merged. The government had two major apparatuses: the Government Housing Bank - as a loan provider particularly for homebuyers - and the National Housing Authority, as a developer.

In 1973, with the first oil shock, building materials increased in price. The cost of labour went up. Purchasing power was diminished, and house prices increased. There were fewer new houses on the market. It was slump time in the housing market and in the Thai economy as a whole. The oil shock and its consequences lasted until 1975.

When the economy eventually adjusted after the first oil shock, new products came on to the market: townhouses and

condominiums. In Thailand, townhouses were one- to two-story barrack-type row houses; condominiums meant multi-story owner-occupied apartments. These new provisions responded to more intensive land uses in the cities. The economy and housing industry in Thailand was very active up until the second oil shock in 1980, and the Baht devaluations of 1983 and 1984.

In 1976, the housing market began to recover. The National Housing Authority announced the construction of as many as 120,000 housing units over the next 5 years. On average, 24,000 units or 3% of the total housing stock were built annually. This helped boost related industries. In addition, after the 1973 oil price crisis, few loans were given to homebuyers. There was excessive liquidity in financial institutions. Housing loans as a secure source of income for financial institutions were then delivered to homebuyers at low interest rates.

Housing growth was seen in 1977, when the Government Housing Bank extended its loan service to housing developers. Its interest rates - relatively cheaper than those of other commercial banks and finance companies - made the bank the main housing bank of Thailand. As a result of exorbitant oil prices, transportation costs increased. Townhouses were built in accessible locations minimising transportation costs and making them more popular than detached houses.

In 1979, the 1933 Building Construction Control Act was amended. According to this new amendment, buildings had to obtain a construction permit from local authorities; otherwise, they could not have a house registration number. Without this

number, these buildings could not obtain public utilities.

After the second oil shock in 1980, construction costs increased again because building materials and labour increased. Developers who used foreign loans at cheaper interests faced some difficulties, such as the unexpected adjustment of high interest rates on these foreign loans.

On the one hand, the high construction costs discouraged housing development and housing supplies suddenly dropped in the market. On the other hand, housing development underwent some adjustments. Formerly, most housing projects were developed within a big phase of development works, and the units were built prior to the sale. The phasing of the development was an innovation, a type of risk management. Also initiated were off-the-plan projects in which only a few houses were built as showrooms. After a certain number of bookings, actual development began. Another adjustment was the construction of townhouses on the fringes of Bangkok, where cheaper land costs made homes more competitive.

In September 1983, the Cabinet approved the first formally-adopted national housing policy, which provided frameworks for the roles of government agencies and private developers in housing provisions. It also specified roles for the National Housing Authority and the Government Housing Bank to respond to this national policy (Haan and Kuilen: 1986, 35).

However, since the 1980 oil shock, housing markets slowed to a halt. The Baht devaluation in 1984 worsened the situation, making the economy fragile. The Bank of

Thailand enforced a policy of a 18% loan limit, which largely affected on-going real estate development projects. Many were never completed, and new real estate projects were curbed.

3.1.5 THE BIG BOOM (1986-1996)

After the bust period between 1980 and 1984, the economy improved. Prior to 1986, Thailand, as a developing country with cheap labour and natural resources, had become an attractive investment destination for foreign investors, particularly Japan, Korea, Taiwan, Singapore and others. At that time, most major industrialists in Japan had manufacturing plants in Thailand. This foreign investment led to the overall economic boom in the country.

It should be pointed out that the economy was strengthened by direct foreign investment, specifically in manufacturing activities. These helped boost other economic activities, supporting local industrialists and other tertiary activities resulting from the growth of the real estate sector. As mentioned in Chapter 1, the contribution by the manufacturing sector to the Gross Domestic Product has been significantly greater than that by the agricultural sector since 1986.

The real estate business began booming. Land, particularly in the fringe areas, originally considered for agricultural use, had higher value because of additional uses as factory sites and the like. Similarly, inner-city land, formerly rented to low-income families, resulting in slum areas, was now enjoying higher, more profitable uses. Consequently, few new slums were formed in Bangkok. The boom was associated with

low interest rates, particularly for housing loans. A decrease in oil prices and electricity costs also helped lower the price of cement and other construction materials. All of this paved the way for a boom period.

Prior to 1986, most detached houses and townhouses catered to middle and high-income groups, but after 1986, there was a down market trend to build cheaper housing units, particularly in the form of low-income townhouses. For example, a one-story townhouse unit of 16 sq. wah (64 sq. meters) was offered at Baht 120,000 (at that time Baht 25 = US\$ 1). Due to an improving economy and cheap housing offers, more people were able to afford housing.

Between 1987 and 1990, the boom exhibited troubling symptoms. A 24-sq. meter low-cost condominium unit was offered at approximately Baht 120,000. Off-the-plan projects were sold very quickly. Prices of housing units increased on a weekly or monthly basis. Many projects were closing sales within one day, one week or one month or a few months. For some quality projects, buyers queued to book a house from 05:00 am in the morning.

Other real estate products also boomed: hobby farm-land sub divisions, golf courses, office buildings and the like. Speculation prevailed on a nationwide basis. A lot of foreigners came to speculate on properties in Thailand, although they were not allowed to own them. Many just came to book units in off-the-plan projects and paid booking fees and down payments. From the date of completion and sale transfer, they could find another buyer to buy their units at a higher price than they originally paid.

The heated real estate market ceased with the 1990 Gulf War. Land prices were stable in most areas except where there were new road proposals. Speculative and extravagant real estate projects faced difficulties, e.g., speculative shop houses in the city, luxury resort condominiums, hobby farms, and golf courses. Prices dropped, and many of these projects were cancelled.

In the period 1991-1993, a paradox appeared. While many new developments ceased due to the Gulf War, two big public companies launched new projects, offering tens of thousands of low-cost and middle-income housing units. These were Bangkok Land Plc and Thanayong Plc. Because other developers felt too uncertain to launch new projects, these two companies were able to launch their projects with little competition. While land and other luxury projects were less popular for speculation due to the drop in prices, people were interested in speculating on housing, particularly low-income condominiums. From 1993 to 1995, interest rates were relatively low as well. Eventually, many new developers followed these two big companies into launching new projects.

In 1993, the Board of Investment helped further boost housing development by awarding a 5-year income tax exemption to developers of low-income housing units (under Baht 600,000). In 1994, the Board of Investment supported some 114 projects of 60,894 units worth Baht 30 billion, indicating the popularity of this scheme (Hiebert, 1995, 27-28). Furthermore, the Board of Investments' efforts in situ encouraged more speculation in the market.

Due to the massive housing speculation that took place in 1995, it was found that half of the 300,000 unoccupied housing units in the Bangkok Metropolitan Region were condominium units (AREA, 1995: 65). Although the figure of 300,000 unoccupied housing units was disclosed in 1995, some 297,347 new housing units were launched between 1995 and 1997. This further exacerbated the situation in the market and helped accelerate the crisis in the real estate market.

3.1.6 AFTER THE DISASTER (1997- 2001)

In 1997, the Baht was floated and significantly devalued. The US Dollar, which had enjoyed a stable exchange rate to the Baht 25 between 1983 and 1997, rose to almost Baht 60 in 1998 (Baht 37 in 1999 and Baht 45 in 2001). Due to the economic bust, the real estate market in Thailand crashed. Developers could no longer run their projects, ending up as non-performing loans. In 1998, some 350,000 unoccupied housing units were found to confirm the validity of the 1995 finding of the 300,000 unoccupied housing units.

In summarising the 1997 financial crisis and its impact, Yap and Kirinpanu (1999) claim that because of an over-investment in real estate and easy access to foreign capital, the economy overheated. Financial institutions faced bad debts, influencing investors to withdraw their money from Thailand. When the country needed to float the currency, the real estate industry fell into disarray as both bad and good projects had no financial support and had ceased.

Renaud (2000: 205) observed that the Thai financial crisis is an example of a real estate crisis interacting with a banking crisis, both of which worsened due to a mismanagement of the currency. He observed that it was not a realistic and long-term solution to suppress the growth of the real estate industry through legal means in order to reduce the vulnerability of the national economy to future crises. The fundamental demand for quality real estate products by local investors still exists. This will help future market recovery.

3.2 CURRENT HOUSING MARKET

A recent study conducted by AREA (2006) shows that the housing market was recovering slowly at the beginning of 2001 and aggressively between 2002 and 2004. In 2005, the number of housing units launched decreased. The following Figure shows that in the bust period of 1998 and 1999, few launches took place. Therefore, the changes in the launching of housing are a very sensible and realistic indicator of the market situation.

3.2.1 RECENT LAUNCHES OF HOUSING UNITS

The number of newly launched units and their value between 2003 and 2005 was as high as the figures prior to the 1997 crisis, implying that in the bust period, the number of launches of housing units suddenly dropped. However, in the boom period, growth was quite significant. From 2000 to 2004, the growth of new projects

in terms of value of a development doubled every year.

New developments after the crisis were somewhat different from those during the previous boom period. The number of units was not as high as in the past, indicating that fewer cheap housing units were built. Since a lot of low-priced housing was still unoccupied or unused, there was little need to build further. Consequently, the average price was higher.

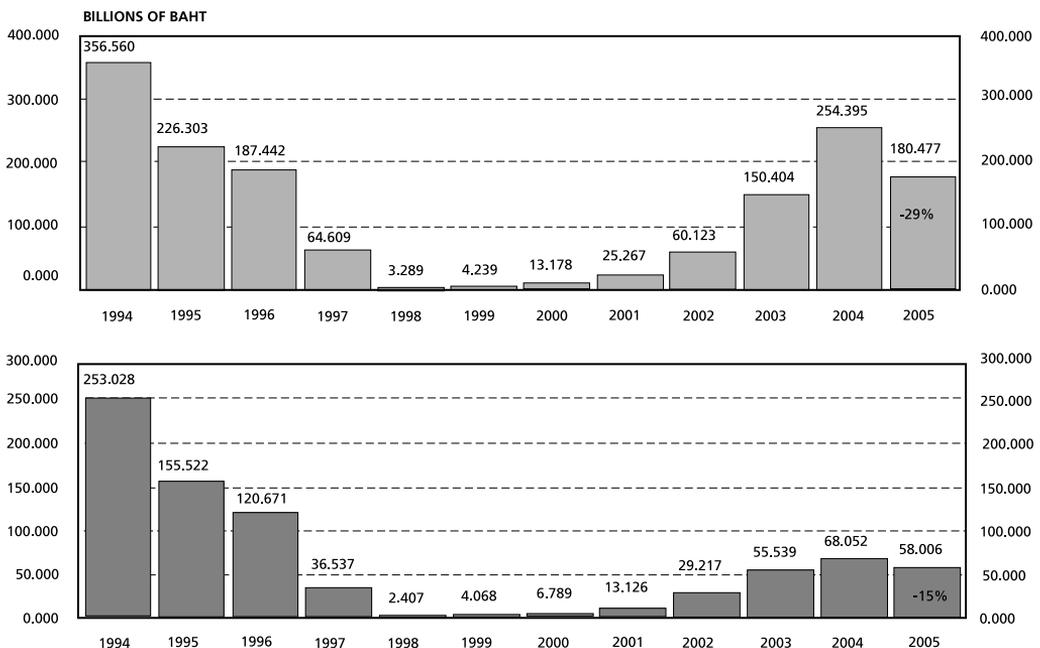
One interesting point was the reason for the drop in value of newly-launched housing units in 2005. The number of high-priced speculative products, such as high-priced condominium units in the central area of Bangkok, dropped. Prior to 2003, a number of these units were launched between 2003 and 2004. Most were bought for investment purposes. Recently, housing develop-

ers have been more careful. They anticipate a possible oversupply. In 2005, fewer units were launched. Unlike the situation in 1997, this is not a bust but a market adjustment. As shown in Fig.3.3, the drop in value from 2004 to 2005 was 29%, and only 15% in terms of the number of units. Because of the listing of some new public companies with low- to middle-income groups as their targets, a considerable number of units were launched.

3.2.2 CHARACTERISTICS OF NEWLY LAUNCHED HOUSING PROJECTS

According to AREA (2006), one major observation is the location. Previously, new projects tended to be built in the suburbs, where land is cheaper, and the price

Fig 3.3 Launching of New Housing Units in the BMR, 1994 - 2005



competitive. However, recently launched projects have tended to be located closer to town and along major new road networks where the potential for development exists. Hence, site selection underwent much more scrutiny than in the past to assure marketability.

Characteristics of newly launched projects were rather smaller. The average number of units in a project was 82 with a total value of Baht 182 million in 2001, 147 with a total value of Baht 460 million in 2005. In turn, an average launched project in 1997 was 257 units with a total value of Baht 392 million. Smaller projects would minimise the risks in housing development.

In the recovery period (2001-2003), most of the new units were detached houses catering to a strong demand from affluent people unaffected by the crisis. In the period 2004-2005, the proportion of detached houses, townhouses and condominiums was similar. These were "higher-income" detached houses priced at Baht 3 million and over. An enabling factor for the emergence of detached houses was the fact that few new supplies were left unoccupied. During the past few years, there have not been many new supplies.

In 2000, no condominium was launched due to an oversupply. In 2001, some condominiums were launched, located mainly in the inner areas of Bangkok targeting specific groups. Another somewhat "unwanted" type of housing was the land sub-division estate. After 2002, luxury condominiums were built and clustered in central areas. Few serviced plots were launched. In the past they were considered speculative products. Many financial

institutions preferred not to give loans for sub-divided plots.

Many units were completed and ready for transaction but the down payment period was shortened to an average 5-8 months from 18-36 months. The ratio of down payment to value was on average 10-15%, down from 20-30%. As observed, many detached housing units were sold on a cash basis.

One final observation is the fact that no new developers entered the market. All the projects were launched by survivors of the crisis. Many were still in debt and needed restructuring. They aimed to clear their debts by selling their projects. Many were developers of public companies who needed to have sales activities to maintain their share value in the stock market.

3.2.3 SALES SITUATION OF NEWLY LAUNCHED PROJECTS

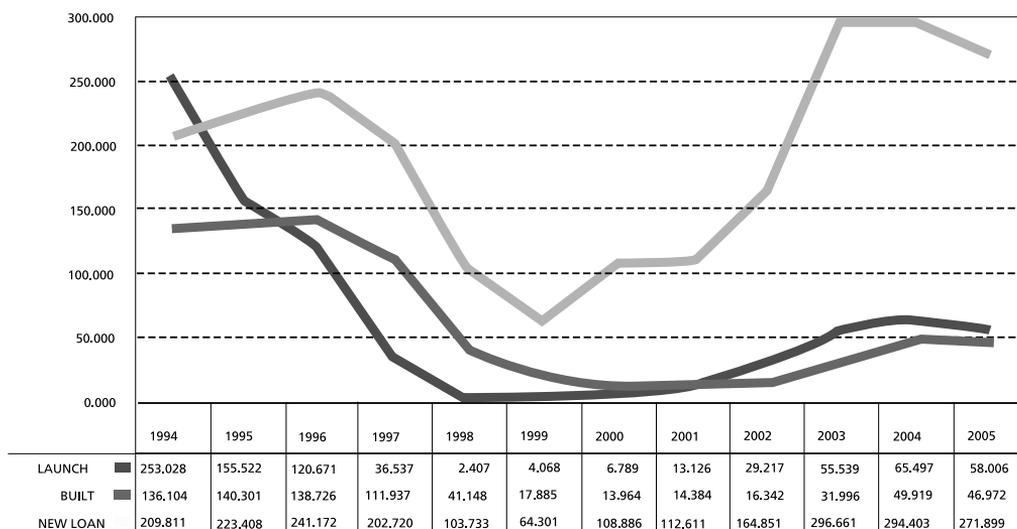
Shortly after the bust bottomed out, good sales records were recorded. Some projects closed their sales shortly after launching. This was the exception that could not be made a norm for several reasons:

- i. only a few supplies entered the market; few competitors appeared;
- ii. the prices offered were attractive and competitive with the existing stock because the debts of many of these projects were successfully restructured;
- iii. the market and financial feasibility of these projects were closely scrutinised prior to the launch.

The reasons for good sales of certain types of housing should be explored, such as for detached houses and condominiums. This type of housing catered to affluent people who were considered a niche market. Recently, these units have not been located far away from the city. Many projects were developed by big developers with a sound reputation. Some units were completed prior to the transaction in order to build the confidence of the buyer. In the case of condominiums, they were very competitive in price. Furthermore, they were located in the inner city areas.

There were also some unsuccessful projects: They were in the wrong location, the pricing was too expensive; and the buildings – shop houses – were in oversupply. Of the total units offered in 2000-2001, only 3% were cancelled. The rest continued. Only 6% needed to bring the price down, while 18% increased their prices. The remaining 74% maintained the same price since their launch.

Fig. 3.4 Launching of New Housing Units in the BMR, 1994 -2005



LAUNCH = from AREA.co.th; 2005 figures are based on the first half of the year
 BUILT = from Ministry of Interior collected by GHB; 2005 figures are based on data Jan -Sep
 LOAN = from the GHB (Government Housing Bank)

Source: AREA (2006)

3.2.4 HOUSING COMPLETION AND COMPARISON

Housing completion means the complete construction of housing units with the formality of registration and house numbers. This may not directly reflect the current market situation because most of the completed units are the result of sales in previous years. These figures provide some hints about the market. As shown in Fig. 3.4, the growth of housing completion was steady from 1987, shortly after the recovery of the economy.

There appears to have been a cycle. Between 1990 and 1997, the number of housing units completed comprised over 100,000 units every year. In the crisis year of 1997, completion was still high because of previous sales. However, after 1998, the number of completed units was similar each year. Between 1996 and 1999, the number of completions was higher than the number of launches. This indicated a market oversupply. From 2002 to 2005, the situation was different. The number of completions was lower than the number of launches. This was a growth period. There is a tendency of oversupply recurring in the future.

The proportion of housing provided by private land developers was 73% to 83% during the period 1993 to 1997 (Kritayanawat, 2003: 82). It was then less than 50% from 2000 to 2002. More recently, it grew again, suggesting a pattern change in housing provision in Bangkok. In the future, the production of new housing by private developers will no longer be the main suppliers to the market. Supplies will exist mainly

as housing stock, which will be put up for resale.

The recovery of the market in the past few years has been due largely to the steady low interest rates over time. The deposit interest rates in mid-2003 was slightly lower than 1%, reducing people's investment choices. Buying a house is a choice. Rents, as a return on investment, was still as high as 4% - 8% per year. In 2003, the next wave of housing growth was obvious. Low interest rates allowed for speculation on luxury and then medium-priced condominiums which then slowed down in 2005.

New loans, referring to first-time borrowers financing their first homes, were a lot larger than the number of housing completions and launches. Some homes might even have been located upcountry. However, most were housing, particularly in the Bangkok Metropolitan Region. Some homebuyers bought a house with cash. If it was assumed that all of those newly built housing units by developers were financed by financial institutions as new loans, the majority of those new loans were for second-hand or used housing units. This means that the new housing market was a lot smaller than the second-hand one.

3.3 OVERALL PICTURE OF THE BMR HOUSING MARKET

On the whole, real estate development in Thailand was mostly housing, particularly in the Bangkok Metropolitan Region. Which accounted for 70% of the total housing stock. Some 20% of the developments were housing projects in 70 other provinces. The other 10% were different types of

development: commercial, industrial and recreational properties (AREA, 1999: 29).

According to Table 3.1, the total number of people living in the Bangkok Metropolitan Region in 2006 was 11,235,063. There were 3,907,274 housing units, whereas there were some 3,564,735 households. The number of housing units was estimated to be 3,394,986. Therefore, there were some 512,288 units still unoccupied, which has accounted for 13% of the total. In other words, the ratio of unoccupied housing units is 1: 8 (one unoccupied unit in every group of 8 units). There is no physical shortage of housing supplies in the Bangkok Metropolitan Region.

In Bangkok, the number of home-owners accounted for 58%, while renters accounted for 42%. Bangkok is the primary city: it accommodates many temporary migrants looking for jobs (Pornchokchai, 1998: 426-429). Some do consider settling

down in Bangkok. There are few surveys on this matter. Most of the supplies are small land-owners in different locations, such as the areas adjacent to manufacturing plants, business centers for example. There was no large landlord owning apartments in different locations for rent.

It should also be noted that the number of housing units provided by the National Housing Authority) was very small. From 1976 to 2007, the total number of public housing units for sale or to lease to the public numbered 139,980 (NHA, 2006-3), which is only 0.7% of the total number of housing units of 19,016,784 units nationally (DOPA, 2005). It was some 3.6% of the total number of housing units in the Bangkok Metropolitan Region (3,907,274 units in Table 4.1). The contribution of public housing to the overall housing market in the Bangkok Metropolitan Region and in Thailand generally is insignificant.

Table 3.1 Population, Housing, Household in the BMR 2006

1	Item	Figures	%	Remarks
2	No. of Population	11,235,063		Computed from 1990-2000 Census*
3	No. of Housing units	3,907,274		http://www.dopa.go.th/upstat_m.htm
4	No. of households	3,564,735		Computed from 1990-2000 Census*
5	Households of home owners	2,080,633	58%	Line 6/ Line 5
6	Households of home renters	1,484,103	42%	Line 7/ Line 5
7	No. of housing units resided	3,394,986		Rough estimate at 1.05 households/units
8	No. of housing units unoccupied	512,288	13%	No. = Line 4- Line 8 . %=Line 9/ Line 4

*http://web.nso.go.th/eng/en/pop2000/pop_e2000.htm

is varied. In 1982, Bangkok celebrated its bicentennial. At this time, there were approximately 1 million housing units. The number of housing units in 2006 is estimated at some 3,787,355 (DOPA, 2006). Most of these units are provided in the form of formal housing by the private sector at affordable prices. Low-priced units are also provided by the private sector.

4.1.1 HOUSING PROVISIONS FOR LOW-INCOME HOUSEHOLDS

Conventionally, low-income housing is most prominent in the slum areas. There are believed to be other alternatives. Please see the following Figure.

Unlike cities in many developing countries, there are relatively few street dwellers in Bangkok. Based on field observations at night, street dwellers can be classified into four categories: juvenile delinquents, temporary migrants, the abnormal (mentally ill) and the truly nomadic. The truly nomadic are considered the lowest income group, who rarely find decent shelter. They are the homeless. Juvenile delinquents roam the city. Some groups are gangsters. Most come from broken families. The abnormal are another group of street dwellers. Some stay near markets or communities where they can get access to food. Both juvenile delinquents and the abnormal do not need housing per se, but an asylum that will care for them and give them treatment.

Workers' housing encompasses a large group of low-income housing such as itinerant construction worker's site quarters, maids' living quarters and factory workers' accommodation. Problems resulting from such accommodation are not considered a

housing problem. A housing problem is one where people cannot afford decent housing and are forced to stay in sub-standard accommodation or worse to become nomadic.

There are also some rental-housing compounds. Often these are hidden in other forms of housing such as slums. There is also rental housing compounds such as wooden row houses and apartments for low-income people.

Housing developers' projects are defined as owner-occupied housing provided by private or public developers in an open market. It allows certain groups of low-income people access to formal housing arrangements and includes serviced land sub-divisions and low-cost turnkey residential condominiums or townhouses.

The provision of housing to low-income groups is quite varied.

4.1.2 LATEST LOW-PRICED HOUSING PROVISION IN 2005

A market survey in 2005, in the Bangkok Metropolitan Region, revealed that some 41% of housing units were priced at no more than US\$25,000, which is considered low-priced for low- and middle-income groups. Currently there are a number of housing units being offered to low-income groups. There is no shortage of affordable housing. On average, a low-priced unit is offered at only US\$ 3,513.

These lower-priced units are worth altogether only US\$1.801 billion, while higher-priced units are worth US\$18.262 billion. Forty-one percent of the units surveyed for the lower-priced end were worth only 9%

of the total value, indicating that investment in lower-priced housing for low-income groups does not require much money but can have a significant impact on society.

In addition, a lower-priced unit is worth on average US\$13,513, while a higher-priced unit is worth US\$96,452. Constructing a higher-priced unit requires a lot of resources.

Formal housing for low-income groups is varied. In addition, there is also rental housing for those who have no assets in the city, particularly for migrants. Rental housing assists in accomodating a lot of low-income people. However, without proper data, this area cannot be properly explored.

Total No. of units in All the Projects Surveyed

Price Range	Detached	Duplex	Town house	Shop house	Condo	Land Subdv.	Total	%
<US \$ 25,001	3,224	2,332	40,800	288	84,766	1,860	133,270	41
>US \$ 25000	102,763	8,833	31,423	8,483	35,662	2,171	189,335	59
Overall>US \$	105,987	11,165	72,223	8,771	120,428	4,031	322,605	100
Development Value (mil.US \$)								
<US \$ 25,001	67	53	753	6	900	22	1,801	9
>US \$ 25000	11,850	466	1,563	583	3,628	172	18,262	91
Overall	11,917	519	2,316	589	4,528	193	20,063	100
Average Unit Price (US \$)11,91711,85067								
<US \$ 25,001	20,735	22,876	18,445	22,280	10,616	11,716	13,513	N.A
>US \$ 25000	115,317	52,771	49,749	68,720	101,726	79,013	96,452	N.A
Overall	112,440	46,527	32,065	67,177	37,596	47,960	62,189	N.A

Detached: Single houses, typically 1-2 storeys

Duplex: Semi-detached houses, typically 1-2 storeys

Town house: Barrack-typed rowhouses, typically 1-2 storeys

Shop house: rowhouses, ground floor for commercial uses, typically 3-4 storeys

Condo: Condominiums or owner-occupied apartments

Land Subdv.: Subdivided and serviced land plots for residential purposes, minimum 200 sq.m.

Note: Price < US \$ 25,001 = Low priced housing; otherwise = non low-priced housing

Source: AREA (2006:39)

4.2 SLUMS AND SQUATTER SETTLEMENTS IN THAILAND

Apart from formal housing provision, it is worth exploring informal provisions, particularly conventional slums and squatter settlements.

4.2.1 THE MAGNITUDE OF SLUMS

There are no recent surveys of the slums, but the assumption is that the situation has not changed much. In 1990, Thailand had a total slum population of 1,763,872, or some 3% of the total Thai population. This suggests that sub-standard urban housing in the form of slums is not prevalent in Thailand. Of the total slum population, most (62%) are concentrated in Bangkok. Some 22% are in the Bangkok Metropolitan Region (excluding the Bangkok Metropolitan Administration). The remaining 16% are in other urban centers of the country.

One reason for the concentration of slums in the Bangkok area is the pull of the capital city, where all socio-economic and political activities are concentrated. Bangkok is one of the oldest urban centers in the country. Other urban centers are either very small or more recently developed.

In the case of Bangkok's adjacent provinces, the urbanisation of Bangkok initially intruded into Nonthaburi and Samut Prakan (which are located very close to Bangkok) and then expanded to Pathum Thani, Samut Sakhon and Nakhon Pathom via highways or other development corridors. As a result, there are many more slums in these five provinces than in the other 70 provinces in

Thailand, where only 16% of the total slum population can be found.

4.2.2 MAIN FEATURE OF SLUMS IN THAILAND

Squatter settlements are major problems in many countries. In Latin and South America, a whole hill can house squatter camps. Slums can be full of political land grabbers. In the case of Thailand, only a small proportion of slums (18%) are considered squatter settlements. Even in Bangkok, only 16% of slums are squatter settlements (Pornchokchai, 2003). In the case of the five adjacent provinces of Bangkok that form the Bangkok Metropolitan Region, the proportion of slums that are squatter settlements is relatively low. An exception is Pathum Thani, where there are a large number of public irrigation canals. Along these canals, a large number of people have squatted on public land.

In provincial cities, one-third of slums are considered squatter settlements. In these remote urban centers, where the land is of little use the land has not been well cared for, particularly the public lands, including that owned by the State Railway Authority of Thailand and the Treasury Department. Squatters on these public lands are prevalent. The number of settlements in all provincial cities is as small as 112, whereas it is 125 in Bangkok alone (but constituting only 16% of Bangkok's slums).

A few squatter settlements in Bangkok implies several things:

- i. the problem of squatters is not as serious in Thailand as in other Third World countries.

- ii. There are few street dwellers or homeless people.
- iii. People have typically found a way to house themselves through formal channels on the open market. Opportunities to alleviate housing problems are more available in Thailand.

House registration numbers, 89% available
 Electricity supply, 99%, available
 Water supply, 97% available
 Garbage disposal, 58% available
 Drainage, 52% available
 Concrete walkways, (69%) available
 Fire brigades, (69%) available

In terms of utilities and services in Bangkok's slums, the availability is as follows (NSO, 1994):

A	B	C	D	E	F	G	H	I	J	K	L
Line											
3	Urban Centres	Communities			Housing Units	House holds					
4		Total	Squatters								
5			No.	Sq.							
6	Bangkok	796	125	16%	137,806	196,354	1,099,575	8.0	5.6	5,680,380	19%
7	Nonthaburi	60	10	17%	4,712	6,994	34,970	7.4	5.0	859,607	4%
8	Pathum Thani	93	28	30%	10,637	17,099	85,498	8.0	5.0	654,701	13%
9	Samut Prakan	207	13	6%	29,792	41,456	207,280	7.0	5.0	995,838	21%
10	Samut Sakhon	62	4	6%	5,490	8,838	44,190	8.0	5.0	428,814	10%
11	Nakhon Pathom	30	1	3%	2,653	3,038	15,190	5.7	5.0	781,138	2%
12	BMR Total	1,248	181	15%	191,090	273,779	1,486,700	7.8	5.4	9,400,478	16%
13	Provincial cities	341	112	33%	52,312	62,673	277,172	5.3	4.4	52,478,268	1%
14	Thailand Total	1,589	293	18%	243,402	336,452	1,763,872	7.2	5.2	61,878,746	3%
	C6, D6	www.geocities.com/khwandaw2000/slum02.html									
	F6..H6	Tabulated from www.nhanet.or.th/chs/homenow2.html									
	Line 7-11	National Housing Authority (2000a-e)									
	Line 13	Agency for Real Estate Affairs (1996a)									

Day-care centers, 19% available
 Community committees, 71% available

4.2.3 SLUM DWELLERS AND THE POOR

Pornchokchai (2003) in an extensive study on slums in Thailand, claimed that 57% of the total population in Thailand in 1962 were considered below the poverty line. In 1996, only 11% of the population was considered to be living below the poverty level. This figure rose to 16% in 2000 before falling again. According to the National Economic and Social Development Board, the percentage of people below the poverty line was 10% by the end 2005 (see Table 3.1). It should be noted that most of the poor live in the rural areas.

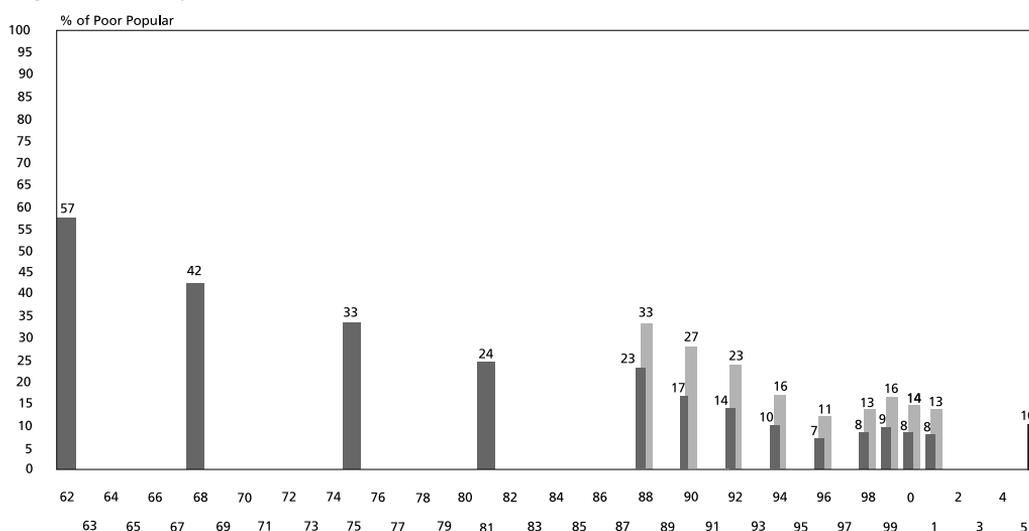
According to the National Economic and Social Development Board, only 0.6% of

the Bangkok Metropolitan Region population was considered poor in 1996. If the situation worsened in 2000, the proportion probably rose to 1%. This means that some 94,000 people in the Bangkok Metropolitan Region were considered poor, while the total number of slum dwellers was 1,486,700 in 2000. If all urban poor lived in slums, which accounts for only 6% of the total housing stock (which is not the case), this would imply that most slum dwellers are not poor.

4.2.4 MIGRATION, LITTLE EFFECT ON SLUM GROWTH

Convention dictates that urbanisation, particularly in terms of in-migration, causes slums. As we know, in African countries, few care to live in rural areas due to drought. Therefore, the influx of in-migrants occurs over time. Bangkok's situation is not the same. At the beginning of the industrialisa-

Fig 4.2 Poverty in Thailand, 1962 -2005



Source: adjusted from www.thaitopic.com/mag/poorkanok.htm
<http://www.nesdb.go.th/national%20agenda/data/paper/exsum.pdf>

Note: there are two different series with similar pattern of changes

The last figure of 2005 from <http://www.cia.gov/cia/publications/factbook> as of January 2006

tion of Bangkok in the 1960s, migration may have played an integral role in urban growth but the situation has changed over time.

According to data gathered by the National Statistical Office (Pornchokchai, 1998: 426-429), migration is not the major cause of slum formation. Most migrants are rural-to-rural. Most rural-to-urban migration is not into Bangkok. Most Bangkok immigrants are not poor. Slums are not the major destination for most poor immigrants. Most poor migrants in slums come on a temporary basis. In addition, most slum dwellers (65.3%) are themselves born in slums.

4.2.5 GRADUAL SHRINKAGE OF BANGKOK SLUMS

In 1985, a thorough survey of the slums (Pornchokchai, 1985) was conducted in Bangkok and adjacent provinces (Nonthaburi and Samut Prakan). It was found that Bangkok had 943 slums, Nonthaburi about 32, and Samut Prakan 45. In 2000 in the same areas, the figures dropped to 796 (Bangkok), 26 (Nonthaburi) and 44 (Samut Prakan) (National Housing Authority, 2000a-e). Altogether, the number of slums decreased from 1,020 to 866 or by 15%. The author, who keeps his eye on developments in Bangkok, believes that the actual number to date is smaller.

The growth in the real estate market over the past decade has made land valuable with more profitable uses. As the infrastructure improved in the city, many slums were demolished. Few new slums are able to establish themselves because land rent is not a good return for landowners anymore. Landowners take better care of their land,

which they consider their property, which means opportunities for squatting have become more limited in Bangkok.

There was a massive decrease in the number of people living in slums. In 1958, 46% of the Bangkok population lived in slums. According to Litchfield Whiting Browne and Associates (1960: 84), "of the total Bangkok Population of 1,626,000 in 1958, there were approximately 740,000 persons living in 'condensed' or blighted housing areas which should be demolished." In 2000, the number of slum dwellers grew to over 1,000,000, but it has decreased in proportion substantially.

In 1974, 24% of all housing stock in Bangkok was considered slums. In 1994, it was estimated at only 6% (AREA, 1999: 15). The number has shrunk very substantially during the last 10-15 years due mostly to massive real estate development of formal housing in an open market.

The increase in housing stock in the formal sector is gigantic. In 1982, when Bangkok celebrated its bicentennial, there were 1,036,411 housing units including the slums (AREA, 1999: 37). The number grew to 3,787,355 in 2006 (DOPA, 2006), indicating that the number increased almost four-fold during the past three decades - faster than in the first 200 years after the bicentennial. Most of the new units were built by private developers. According to Table 5.2, the number of slum housing units is 191,090, only 5.1% of the total Bangkok Metropolitan Region housing stock of 2006 (there are no comprehensive surveys on slum areas after 2001).

With this massive development in formal housing, there were as many as 350,000 newly completed unoccupied housing units in the Bangkok Metropolitan Region (Agency for Real Estate Affairs, 1999: 39). Since this situation brought rents down and helped provide alternative housing, slums are no longer the only destination for rural migrants. The following figure shows the abandoned housing and cheap owner-occupied walk-up apartments in Bangkok.

4.3 STRATEGIES ON LOW-INCOME HOUSING PROVISIONS

The following provides a chronological sequence of strategies on low-income housing provision since 1948 to illustrate changes in policies towards housing provision.

4.3.1 HOUSING PRODUCTION POLICY, 1948-1958

After the WW2, social welfare policy was introduced into Thailand. At this time, the government constructed housing for an urban population. The Government Housing Bank was established in 1953. During this period, 3,462 housing units were built, of which 3,264 were apartments and detached houses, 198 were owner-occupied, 56 were hire-purchased and 142 were financed through housing loans (Litchfield Whiting Browne and Associate, 1960: 84-85).

The government could not build a large number of housing units in response to the needs of Bangkok households because of the high subsidy requirements. This policy, adopted from western countries, did not work well (Pornchokchai 1998: 441).

4.3.2 CITY BEAUTIFICATION, 1960-1971

A group of American consultants who drafted the first city structural plan for Bangkok in 1960-90 suggested in 1958 the relocation of some 740,000 persons in blighted housing areas (slums) (Litchfield Whiting Browne and Associate, 1960: 84). Slum clearance, relocation and the construction of walk-up apartments were actions taken under the city beautification policy. From 1963-71, 5,120 housing units were built, of which 4,158 were rental apartment units and 962 were hire-purchase units. Housing applications were as high as 72,192 but only 7% of these were met (Sakornpan, 1975: 20).

Housing unit construction was a mistake. The government was following the experience of developed countries by building social housing for the poor as the first priority, even though Thailand at that time had not yet developed and could not afford social housing. The concept helped generate a boom in housing in the post-war reconstruction period in developed countries, but this was foreign to Thailand's situation in the 1960s.

Had the government first built walk-up apartments for middle-income groups what would have happened? First, the housing needs of middle-income households could have been met. Second, this would have enabled a housing filtering process. When households with a better economic standing moved out, low-income groups could move in by renting or buying. This would have saved a lot of effort in providing housing in the city. Third, walk-up apartments would have had a good image. Until

recently, they were seen as “less-privileged” simply because they were known as places where low-income groups lived. If at the beginning however they had been built for high-income groups, they would have had a better image. Fourth, revolving funds for further development could have been generated. And fifth, a well-planned Bangkok might have been possible. If walk-up apartments were widely accepted, housing would have gone vertically with intensive land use. Instead there developed the urban sprawl of today.

4.3.3 SLUM IMPROVEMENT, 1970’S

With loans and influence from international organisations, the government adopted a policy of slum improvement partly because of the failure to build social housing. Slum improvement was cheaper and would help win more popular support. The policy could then be questioned about its sustainable effectiveness. Although it solved the immediate needs of dwellers, economic improvement depended on the efforts of individuals. Community organisations were dominated by upper-income groups while the poor found it difficult to participate in community activities.

From 1976 to 2001, only 175,656 slum housing units were under the improvement program of the National Housing Authority (Krityanavaj, 2001:22). This policy came to an end for several reasons. It required a gradual process where consent of land-owners was needed. It was also limited mainly to informal housing. Improvements were mainly physical while socio-economic improvements were not tangible.

4.3.4 LAND FOR HOUSING THE POOR, 1980S

This policy arose from the belief that land tenure was the crux of the problem (Angel, 2000: viii). The proposition was that when slum dwellers owned a plot of land, they would be provided with security. Then they could develop their home and community. A few land-sharing programmes were launched. Most of them failed because the dwellers could not pay for their mortgage loans (Pornchokchai, 1992: 93).

The limitation of this policy was finance. It was too costly to allocate land to the poor. When the economy improved, land became more valuable. As a result, the cost of land was too high for the poor. Few landowners wanted to participate in land-sharing projects. It threw equality into doubt. While lower-middle and middle-income households had to buy a house in the open market on the fringes of Bangkok, some slum dwellers could enjoy land-sharing schemes in the center of the city.

4.3.5 RECOGNITION / ENABLING POLICIES, 1990’S

In an attempt by government to recognise the participation of urban dwellers in economic improvement, in July 1992 the Urban Community Development Office - with an initial fund of 1.25 million Baht - was established. The Office helped support the development of savings groups and generated loans for urban residents to undertake their own self-help development. Private developers were encouraged to be leaders in housing provision.

One shortcoming of this policy was its late arrival in an environment of high competition. Speculation was involved in housing transactions, since housing was considered not only shelter but also an investment. Housing was over-built, resulting in hundreds of thousands of unoccupied units and incomplete constructions.

4.3.6 BAAN EUA-ARTHORN, A MILLION HOUSING UNITS, 2000S

The government initiated this program in late 2002, when the Prime Minister observed the massive construction of social housing in Russian cities (Thai Rath, 2002: 8). A target of a million subsidised housing units was announced. In the first booking in early 2003, almost 200,000 applications were made; half applied for only 477 detached housing units. The rest were walk-up apartments that the private sector could build at more competitive prices. Housing units offered later attracted fewer numbers of applicants (AREA, 2003: 77-100).

This million house scheme was later divided into two separate schemes. The first was called "Baan Eua-Arthorn" (home with care). It aimed to provide affordable homes to low-income groups. The target was set to 600,000 subsidised low-cost housing units. The second scheme comprised 400,000 units used as part of the slum improvement program and named "Baan Man Kong" (secured housing).

The capacity of the National Housing Authority to build a huge number of new units of "Baan Eua-Arthorn" was doubtful. According to records, since the establishment of the authority almost two decades

ago, only 139,980 housing units were built for sale or for rent to the general public (National Housing Authority, 2006-3).

If the National Housing Authority planned to complete some 600,000 units over 5 years, it meant that each year some 125,000 units would need to be built. Another concern was an oversupply in the market. As of December 2005, only 13,277 units had been completed (National Housing Authority, 2005: 4-5). It would then become 52,211 units in 2007 (National Housing Authority, 2006-3).

4.4 FINANCING LOW- INCOME HOUSING

Ways in which to finance different types of low-income housing are as follows:

4.4.1 In the case of slum improvements and upgrading, it was a subsidy effort conducted by the National Housing Authority, the Bangkok Metropolitan Administration or local authorities with the cooperation of the National Housing Authority.

4.4.2 In the case of public walk-up apartments for rent, it was mainly subsidised by the National Housing Authority, and rent paid by the occupants.

4.4.3 In the case of public housing for sale, there was with little subsidy. Most of these projects were quite successful in sales.

4.4.4 In the case of Baan Eur-Arthorn, the government subsidised Baht 80,000 per unit in order to materialise financially these low-priced housing projects.

4.4.5 In the case of private housing developments, there was no subsidy from the government. The private sector had more success in helping house the poor.

4.4.6 In the case of private rented accommodation, there was no subsidy from the government. Most landlords had their own land held at a low price in the past. Some borrowed money from financial institutions to build apartments or flats to rent.

This Chapter is an overview of the development and performance of housing finance in Thailand. It elaborates on the magnitude of housing finance, its provisions, the sources of funds, and practices of mortgage lending in Thailand.

CHAPTER FIVE

HOUSING FINANCE IN THAILAND

5.1 THE EVOLUTION OF HOUSING FINANCE

Financial institutions act as entrepreneurs between savers and lenders on the one hand, and borrowers and investors on the other. A successful financial system depends largely on the efficiency and effectiveness of resource allocation and competitiveness.

Housing finance is the provision of financial resources for home ownership. Homebuyers intending to buy a house can use their money by borrowing from financial institutions and paying back both capital and interest.

In Thailand, there were few real estate and housing development in the past. An early initiative was the establishment of the Government Housing Bank in 1953. The major role of the Bank was to be a housing developer, providing serviced land plots in land sub-division projects or building a few housing projects in Bangkok.

After the establishment of the National Housing Authority in 1972, the Government Housing Bank became a full housing bank. Housing finance was still a small sector. In 1981, it was found that the total outstanding home mortgage loans were insignificant,

and accounted for 3% of the total credit outstanding. It grew slowly to 4% in 1985 and 7% in 1990. After the success of the Government Housing Bank, many other commercial banks came into the business with a belief that housing loans were particularly secure compared to other types of loans.

5.2 THE MAGNITUDE OF HOUSING FINANCE

Housing finance in Thailand has grown remarkably during the past two decades. The following shows the rise of the housing finance industry in Thailand.

Prior to the crisis in 1997, interest rates increased sharply to cool down the market. This was not a successful tactic. Shortly after the crisis, interest rates began to increase due to the instability of the economy at that time. Then, after the recovery in 2000, interest rates steadily dropped. There were fewer but selective investments.

There was also little need for capital. Before 2003 and 2004, it was the period of historically low interest rates. This in turn stimulated investment in real estate because the return on those investments turned out

higher than putting money in the bank. In addition, people expect a return on investments because the expected selling price was expected to grow more than money in a bank.

In 2005, some Baht 271.897 billion or approximately US\$ 6.797 billion was lent to homebuyers nationwide (see Fig. 5.2). If a house was worth Baht 2.488 million (AREA, 2006: 39), this involved some 109,283 units. Cumulative loans taken out by homebuyers, was worth Baht 1,458.9 billion or US\$ 36.5 billion in 2004 (see Fig.5.3).

5.3 THE PORTRAIT OF HOUSING FINANCE PROVISION

This section focuses on home loans and real estate developers, including the bond markets relating to the real estate market.

5.3.1 LOANS TO HOMEBUYERS

New housing loans in Thailand increased over time except during the crisis when there was a sudden and sharp drop. The situation recovered quickly. Between 2003 and 2005, the highest number of home loans was recorded in Thailand.

Fig. 5.1: Loan Interest Rates, 1981-2005

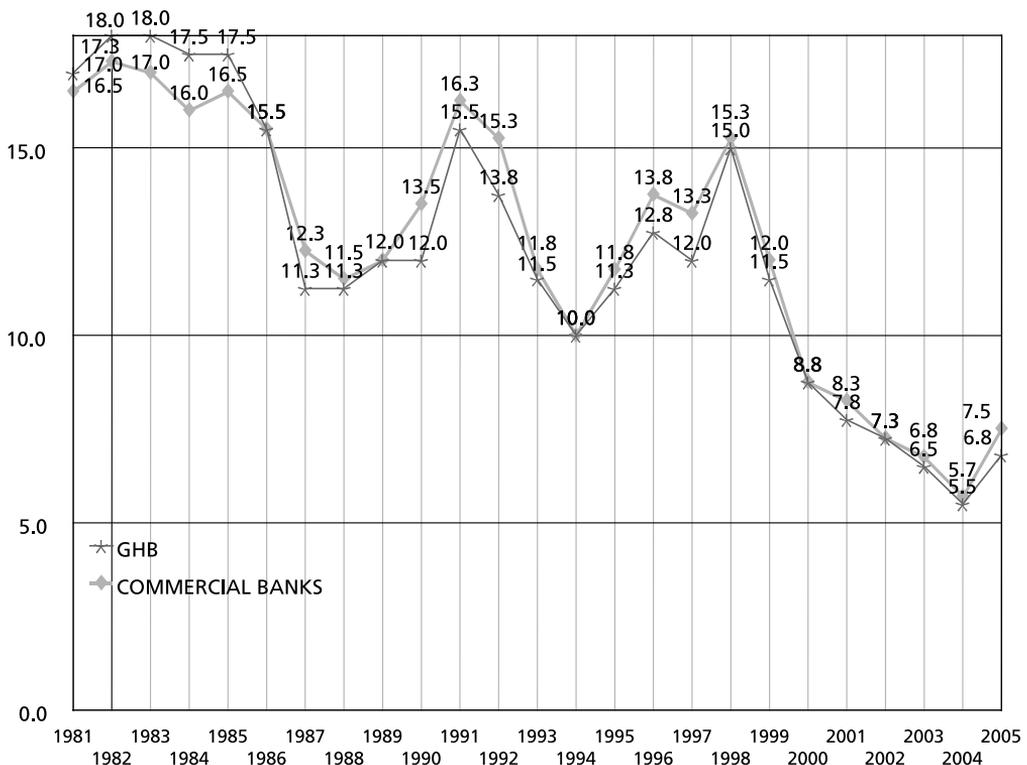
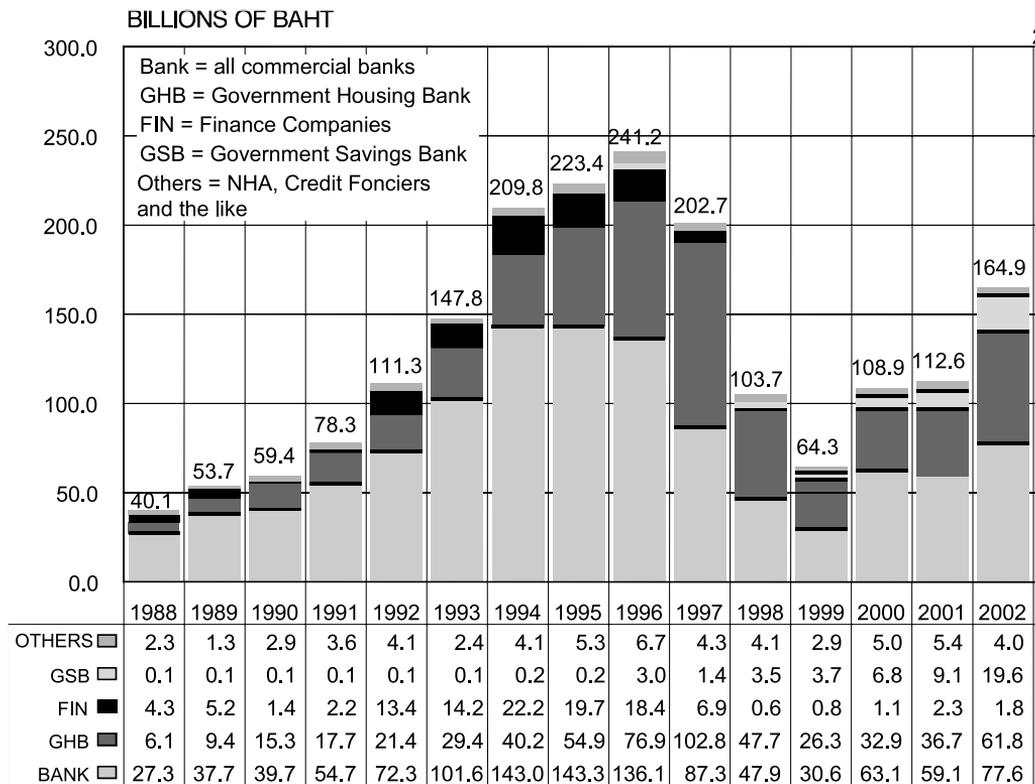


Fig. 5.2 New Loans For Home Buyers Each Year, 1988 - 2005



Data compiled from the Government Housing Bank

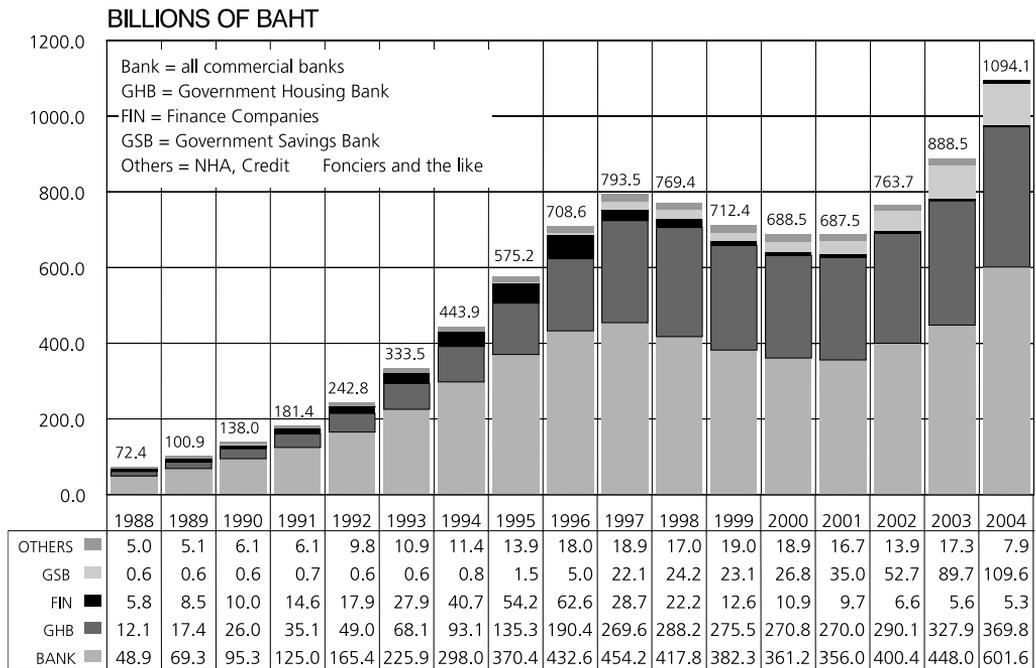
There was a slight decrease in home loans due to some market adjustment, resulting in a decline in speculative products. Compared with the past, there are still a lot of activity in the housing markets. It appears the home loan market will remain promising in the near future.

The share of the Government Housing Bank and the Government Savings Bank in housing finance has increased over time. It had over half of the total market (56%) in 2005. This is attributable to an effective public awareness about housing finance. More incentives in housing development are expected to come from government and the

share of the two institutions is most likely to expand.

The Cumulative loans of homebuyers have increased over time. The only period of shrinkage was during the bust period (1998-2001). Prior to the crisis, the increase was very sharp. During 2002 and 2004, the amount of accumulated loans was large. If there is an economic crisis in the future, real estate markets would be in trouble again.

Fig 5.3 The cumulated Existing Loans for Home Buyers, 1988 -2004



Data compiled from the Government Housing Bank

5.3.2 LOANS TO DEVELOPERS

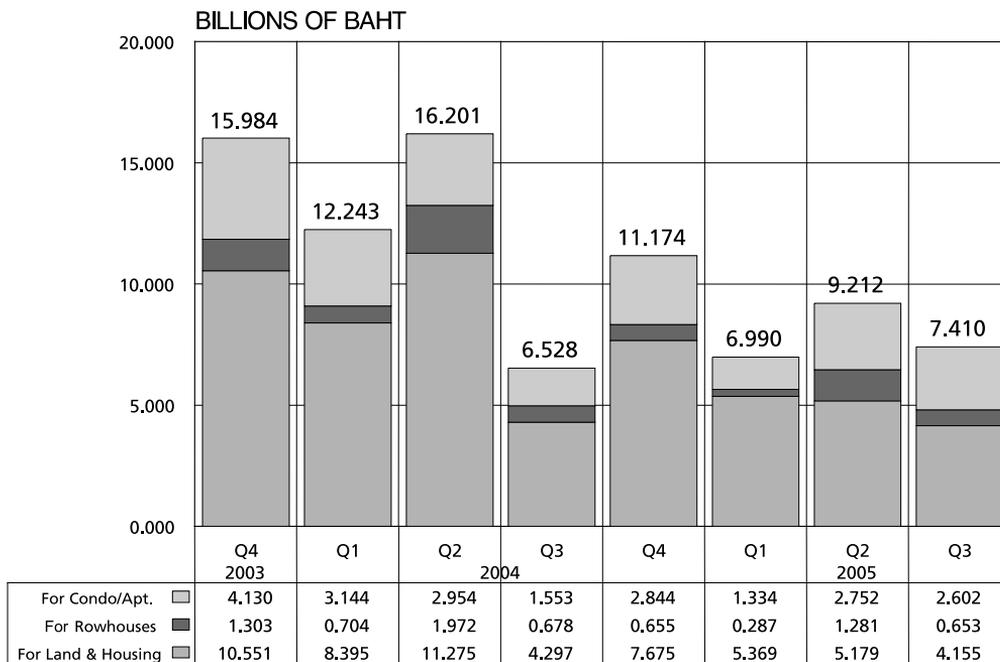
Developers need loans to develop housing. Housing finance is not only for buyers but also for developers.

After the crisis of 2000, real estate loans were more carefully screened by financial institutions. The chance of any losses would be lower than in the past.

There is no lack of loans for developers in Thailand. Due to an adjustment in the market recently, the number of loans was smaller in 2005 compared to 2004.

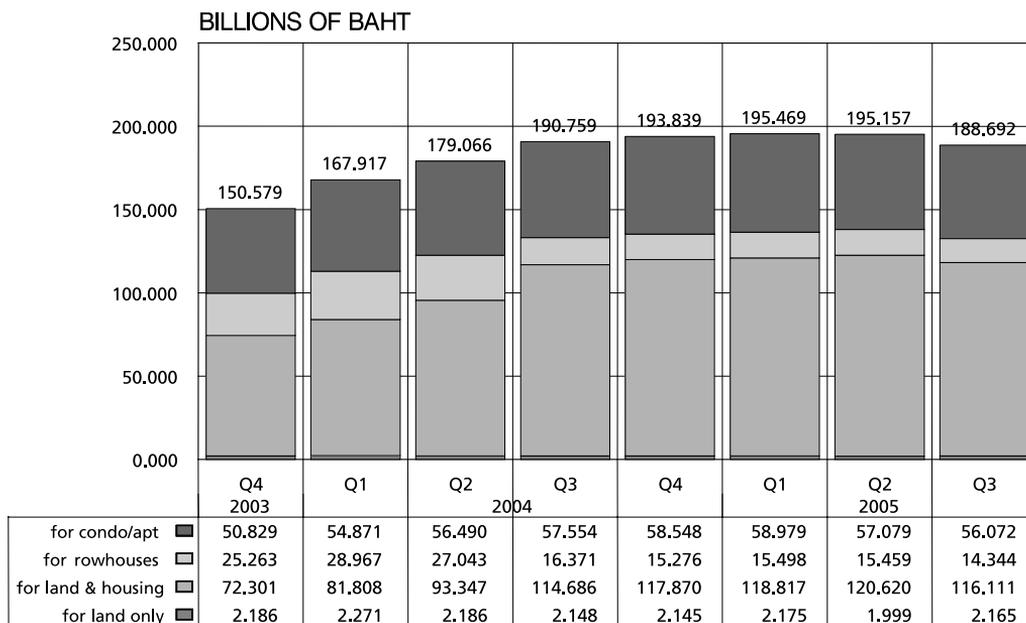
Fig.5.5 shows that the net accumulation of loans to developers did not increase significantly during the last few years. The market has not yet overheated, although there are some signs of speculation going on in the market.

Fig 5.4 Loans for Real Estate Developers Nationwide, 2003 -2005



Government Housing Bannk's Rel Estate Information Center: http://www.reic.or.th/index/7_1_1loan.asp

Fig 5.5 Current total amount of Loans for Real Estates Developers Nationwaide, 2003 -2005



Government Housing Bannk's Rel Estate Information Center: http://www.reic.or.th/index/7_1_1loan.asp

5.4 SOURCES OF FUNDS FOR HOUSING FINANCE

In most cases, funds for housing finance come basically from local sources, particularly deposits. The following is an example of the Government Housing Bank.

Even in the case of the Government Housing Bank, deposits and promissory notes are a major and expanding source of funds. On the other hand, bond issuance constitutes a small source of funding. There is only a small amount of offshore borrowing in Thailand for housing finance.

Table 5.1: Source of Funds of the GHB

Items	1999	2000	2001	2002	2003
1. Deposits & Promissory Notes	62%	69%	75%	80%	84%
2. Domestic Borrowing	2%	2%	2%	1%	2%
3. Offshore Borrowing	7%	6%	3%	3%	2%
4. Bond Issuance	28%	23%	20%	16%	12%

Source: Prachuabmoh

Table 5.2: Debenture (Bond Market) in Thailand

Date	Overall	Real Estate	
	Millions of Baht		
2004, Q.1	17,574	6,050	34%
2004, Q.2	43,264	3,400	8%
2004, Q.3	9,774	1,950	20%
2004, Q.4	69,807	4,000	6%
2004, Q.1	23,431	0	0%
2005, Q.1	69,830	7,000	10%
2005, Q.2	25,549	3,000	12%
2005, Q.3	259,229	25,400	10%

http://www.reic.or.th/index/7_3_1_loan.asp

Regarding Table 5.2, the bond market may be considered another source of funding of housing finance; but it is minimal. In the past two years, bonds for real estate were as small as 10% of the total bond market in Thailand. In the future, this market has the possibility of growing as an international market trend.

5.5 PRACTICES OF MORTGAGE LENDING IN THAILAND

Generally, mortgage-lending practices vary from one financial institution to another. The factors governing lending centre around the immediate and overall economic situation, the financial markets, the housing market, competitiveness, the market environment and lending policy as well as the financial strength of a particular institution. This part of the report was synthesised from work by Kritayanavaj (2003), Aphimeteetamrong and Kritayanavaj (1998).

Current practices and operations are elaborated as follows:

5.5.1 AMOUNT OF LOAN

Most mortgage lenders do not have any definite limits on the amount they will lend. It depends largely on borrower demand as well as on the lending policies and underwriting criteria of the respective financial institution. Most commercial banks and finance companies tend to concentrate their lending on the medium to high-income groups, whereas the two public enterprises, the Government Housing Bank and the Government Savings Bank, deliver loans to all income groups, but particularly to medium- and low-income groups.

5.5.2 LOANS AND PAYMENTS

The maximum loan-to-value ratio depends on the type of property and the situation of each market as well as the competitive environment of the mortgage market at that time. The typical ratio is 80% of land and building appraised value, or its selling price, whichever is lower (75% for a condominium unit and 70% for a residential land plot as well as shophouses).

In certain cases, some financial institutions may lend up to 90-100% of the appraised value of the land and house if the employer and employee agree to monthly deductions from the borrower's salary to pay the loan installments. Nowadays, due to the high liquidity in the financial system, and the fierce competition in the mortgage markets, most banks offer loans of more than 80% of the Loan To Value Ratio to ordinary borrowers.

The maximum loan amount is ascertained by the income of the borrower. In most cases, it varies between 15 and 35 times the monthly income of the borrower, depending largely upon the credit of the borrower. Financial institutions use a conventional scoring system to analyse the credit of borrowers. Factors involved are, savings, employment, number of co-borrowers, current debts and assets as well as the credit bureau's records of the borrowers, etc.

The monthly installment payment of households to income ratio is 25-40% but most likely should not be over one-third of monthly income. However, this ratio can be adjusted higher for higher income groups of borrowers, typically with careful analysis of the financial institutions.

5.5.3 FIXED OR FLOATING MORTGAGE RATES

Financial institutions in Thailand traditionally offer only floating rates for housing mortgage loans. Currently the rates are adjustable, renewable and variable. The fixed rates of mortgages are normally offered for short periods of 1-5 years. After the end of the fixed rate, it will switch to the floating rate. In the USA fixed rates can be maintained for as long as 38 years. In the market today, most Thai borrowers prefer fixed rates of 2 or 3 years, which are now considerably lower than the floating rates, which fluctuate with the money market. Information on rate changes is normally available from various services, such as banks' web sites, brochures or property magazines.

Interest rates for mortgage loans offered to borrowers vary from institution to institution, depending on various factors, such as liquidity in the financial market, the different cost of funds of the financial institutions, loan risk exposure, size, or the immediate lending policy of each institution. It should be mentioned that the rates charged by the Government Housing Bank have been typically the lowest in the market for more than a decade. However, it has been challenged by intensive competition from other commercial banks and recently the Government Savings Bank.

5.5.4 LOAN REPAYMENT

The repayment period for most financial institutions is normally between 15 and 20 years. Since 1998, the government has encouraged the Government Housing Bank as well as other banks to extend this repayment period to up to 30 years to ease the borrower's financial burden and to increase affordability for homebuyers. Most Thai borrowers prefer to borrow for a term of between 15-20 years because the extension of the period does not help decrease the amount of payment significantly.

Considering the maximum repayment period relative to the age of the borrower, in the case of the Government Housing Bank, the period of loan repayment plus the borrowers' age should not exceed 65 years. After the crisis, the Government Housing Bank as well as some other banks extended the period to 70 years or more to attract more borrowers.

For monthly installment payments, typically loans are repaid through the constant amortisation method. Fixed monthly installment payments consist of both interest and principal, and the portion attributable to principal gradually increases over the life of the loan, resulting in a declining principal balance and eventual payment in full.

However, the Government Housing Bank for instance, calculates the monthly installment payment at 1-2% higher than the actual interest rate charged.

This is executed particularly for the low interest rate environment so that the installment amounts remain stable and do not have to change in the event of small interest rate increases. The bank thus reduces considerable expenses, and borrowers are spared any confusion. This practice also helps prevent the financial institution from “the payment shock problem,” in which the monthly payment rises sharply when interest rates increase after the early years of the mortgage contract. However, if the floating mortgage rates become steady or decline, the over-payment of monthly payment will cause the loan to be fully paid off earlier than the specified date (the original terms of the loan contract).

Borrowers can repay their monthly installments directly into any of the bank's branches in cash or by cheque. For some mortgage lenders that do not have many branches, such as the Government Housing Bank, finance companies or life insurance companies, borrowers can repay the loans through any branch of the commercial banks that have agreement contracts with them. Furthermore, many banks, including the Government Housing Bank, have been offering borrowers more channels for loan installment payments, like at the post office or through private counter service providers at convenient stores.

5.5.5 BORROWING EXPENSES

A borrower will have certain expenses in borrowing money from a financial institution:

Valuation fee: Property used as collateral for a loan, is valued by either the bank's internal valuers (who are staff members

of the bank) or an outsourced valuer (from an independent valuer firm accredited by the bank). Mortgage lenders normally charge borrowers a valuation fee, which varies from institution to institution. The Government Housing Bank and the Government Savings Bank, for example, charge Baht 1,700 for loans less than Baht 500,000, and Baht 2,100 for loans over Baht 500,000. Others charge more but at a range of Baht 2,200-2,500.

Application fee: Most mortgage lenders in Thailand charge borrowers an application fee (sometimes called front-end fee, loan processing fee, origination fee, or underwriting fee) to cover the cost of handling the loan application, documentation, and credit investigation and analysis. The fee varies from institution to institution. It may be charged as a fixed amount, from Baht 500, 1,000, or 2,500, or as a percentage of the loan amount. Some estate enterprises, such as Krung Thai Bank and the Government Housing Bank, tend to waive this fee.

i. Mortgage registration fee: By law, mortgages must be registered at the Department of Land. All mortgage lenders require registration of the first mortgage in order to secure a loan. Borrowers must pay, at a branch office of the Department of Land, a mortgage registration fee of 1% of the loan amount but not exceeding a maximum of Baht 200,000. After the economic crisis in 1997, the government reduced the mortgage registration fee to only 0.01% in order to promote homeownership and stimulate the real estate sector. But now, it is back to 1% again.

Insurance on the collateral: Mortgage lenders require fire insurance coverage for all mortgaged property, so that if there is an accident such as fire, the loan is covered.

Mortgage life Insurance: Mortgage lenders tend to offer mortgage life insurance to their borrowers. Under insurance protection, the insuring company guarantees full repayment of the remaining balance of the mortgage loan to the lenders in the event of death or disability of the borrower. This insurance helps protect borrowers and their family from losing the property because of their inability to continue loan repayments, and protects the lending bank as the mortgagee against default risk. It is a win-win option. Mortgage Life Insurance was initiated by the Government Housing Bank over 10 years ago, as an alternative and additional service to mortgage borrowers. In practice, the life insurance premium is paid by the borrower as a lump sum through the bank, which then passes it over to life insurance companies accredited by the Government Housing Bank. In terms of payment methods, borrowers have the choice of paying the insurance premium as a one-off cash payment or by adding it to the loan amount to be repaid on a monthly basis). The latter method helps borrower afford the repayment of the insurance premium.

Penalty for arrears: Most mortgage lenders apply a penalty for arrears payment on a mortgage beyond a negotiable period of about 2 months. The penalty of arrears is normally calculated as

a percentage of the loan repayment per month (2%-5%), varying from bank to bank. If the arrears continues up to 3 or 5 months, the interest charge may be increased to the maximum chargeable rate (13.5%, in the case of the Government Housing Bank).

Prepayment penalty: Since most mortgage lenders like to keep the loan for a minimum period of 3 years to garner interest, they charge a prepayment penalty for the privilege of paying off the loan prior to its maturity. For loan clearance within the first three years, borrowers generally are subject to a penalty of about 2% of the original loan amount. The intent is to compensate the lender for loss of income in future years as well as to discourage borrowing for speculative purposes and refinancing (re-mortgaging) at another financial institution.

5.6 CONTEMPORARY HOUSING LOANS

In practice, banks and other financial institutions are competing in housing loans. Table 5.3 shows the loan interest rates.

The rates seem to be somewhat different. The real differences are not significant when other conditions (such as the period of fixed rates, insurance and the qualification of borrowers) are considered.

Table 5.3: Interest Rates Offered by Different Banks in Thailand, 2006

No.	Banks	Interest Rates
1	Bangkok Bank	4.50%
2	Bak of Ayudha	4.50%
3	Bank Thai	3.25%
4	Government Housing Bank (GHB)	6.25%
5	Government Saving Bank	5.00%
6	Kasikom Bank	5.00%
7	Krung Thai Bank	4.75%
8	Siam City Bank	6.00%
9	Siam Commercial Bank	4.50%
10	Siam City Bank	5.25%
11	ThanachartBank	5.00%
12	Tisco Bank	8.00%
13	UOB Bank	3.25%

Source:<http://www.home.co.th/selths.asp?Prockey=creditloan>

Taking the Government Housing Bank as an example, the rates for borrowing of money are as follows:

5.6.1 FOR INDIVIDUAL BUYERS

As of December 2006, a loan must not be more than 85% of the property value and/or market value. For Commercial Building loans, it cannot be more than 75% of the appraised and/or market value. Homebuyers can borrow no more than 40 times their monthly salary and 15 times other income. A self-employed person can borrow no more than 40 times his or her monthly income. The maximum loan term is 30 years. The borrower's age plus borrowing terms must not exceed 70 years.

Documents required to apply for a loan application: a photocopy of the house registration, a photocopy of one's personal ID, a photocopy of the marriage certificate, a divorce or death certificate, a photocopy of name change (if any), financial documents, collateral documents, and a map showing the approximate collateral location. In the case of co-borrowers, each must submit his or her application and all required personal and financial documents

In the case of interest, it will be the Minimum Retail Rate, which is approximately 7.75%. In the case of a fixed rate for the first three years, it would be Minimum Retail Rate -1.5%, Minimum Retail Rate -1.25% and

Minimum Retail Rate -1.0%, respectively. In other words, the fixed rate for the first 5 years for loans below Baht 1,000,000 are 6.25% during the first three years and Minimum Retail Rate-0.5% afterwards.

5.6.2 FOR HOUSING DEVELOPERS

The borrowing by housing developers and investors for walk-up rental apartments or flats follow similar procedures. The interest rate is flat and approximately 8.0% - the Minimum Lending Rate. In the case of the Minimum Overdraft Rate, it is 10.0% per annum. Generally, the lending amount of money will be withdrawn in accordance with the progress of the construction.

5.7 AFFORDABILITY OF HOUSING FINANCE

In Bangkok, the minimum wage is Baht 184 or US\$ 4.6 per day (Labour, 2006). If a man worked 25 days per month, he would earn Baht 4,600. Normally, a minimum dormitory for workers in industrial zones could cost Baht 1,200. This implies that he has to spend one-fourth of his income on housing. In addition, this implies that people can afford to rent.

However, to buy a house, people need a higher income level. An explanation is as follows:

According to the survey of the Author, who is a project leader of a regular, comprehensive housing survey project in Thailand, a condominium unit can be, on average, Baht 300,000 in industrial areas.

If a down-payment of 20% is needed, the total repayment will be Baht 240,000.

If a period of payment is 15 years at an average interest rate of 10%, the payment would be Baht 2,579 $\{240,000 \times (10\%/12)/(1-(1/(1+(10\%/12))^{(15*12)}))\}$

If it is assumed that the payment for housing should not exceed 25%, a household would have to have an income of Baht 10,316.

Therefore, if a man on a minimum wage wants to buy a house, he will need to be married and do overtime work to supplement his income. This is common practice in Bangkok. A lot of people, this way, can afford to buy a house in Bangkok.

In 1993, Pornchokchai (1998: 435) found that only 50% of households in Bangkok could afford a house in the open market. Today, the situation should be even better because house prices have not significantly increased, whereas minimum wages have increased substantially.

CHAPTER SIX

HOUSING FINANCE MECHANISMS

Housing Finance Mechanisms are indicators that make available efficient and effective housing finance to the general public, particularly to low-income groups. This chapter explores these mechanisms, which can be used as examples and lessons for other developing countries.

Financial institutions in Thailand are divided into two categories: banking and non-banking institutions. Banking institutions include 13 local banks, 18 branches of foreign banks as well as five specialized banks: the Government Housing Bank, the Government Savings Bank, the Bank for Agriculture and Agricultural Cooperatives, the Export-Import Bank of Thailand and the SME Development Bank of Thailand.

The non-banking financial institutions comprise finance companies, credit foncier companies, life insurance companies, mutual fund management companies, agriculture cooperatives and savings cooperatives and specialised organisations such as the Small Industry Credit Guarantee Corporation and Social Security Fund. The major financial institutions which currently offer credit for housing loans comprise all commercial banks and two specialized banks: the Government Housing Bank and the Government Savings

Bank, finance companies and credit foncier companies.

6.1 THE GOVERNMENT HOUSING BANK (GHB)

The Government Housing Bank is the first apparatus of housing finance in Thailand. Details of this bank are available on its website (www.ghb.co.th).

6.1.1 THE DEVELOPMENT

This Bank is a financial institution under the Ministry of Finance and was established by the Government Housing Bank Act, BE 2496 (AD.1953). In 2006 the Bank had its 50 year anniversary. It was established in September 24, 1953.

In 1940, the Public Welfare Housing Division was established within the Department of Public Welfare, Ministry of Interior (National Housing Authority, 2000: 2). It was the first attempt by government to engage in housing provision. A detailed account of its 16 responsibilities was recorded by Karnjanaprakorn and Bunnag (1978, 42). The division's main task was to build housing in rural resettlement schemes.

Although the Public Housing Act was enacted in 1942, actual work was only started in 1950 when the Public Housing Welfare Division started to build urban public housing on Rang Nam Road and then in 1951 at Yommarat and Dindaeng-Huay Kwang. In 1951, another division was established, the Public Housing Office, to build public rental housing in Bangkok.

In 1953, the Government Housing Bank was established as a public enterprise under the Ministry of Finance. Its original purpose was to develop housing units for sale on a hire purchase basis. Between 1953 and 1955, the Government Housing Bank built 454 housing units. In 1955, the average price of a housing units developed by the Government Housing Bank was 56,000 Baht. The repayment period was 15-20 years (Nitaya and Ocharoen: 1980, 82). Later, the main function of the Government Housing Bank was to provide loans for owner-occupied housing units to the general public.

In terms of house prices, a plot of land in the housing estate of Piboonwattana off Rama VI Road near the Headquarters of the Ministry of Finance was sold in 1956 at 561 Baht per sq. wah (4 sq. meters or 43 sq. feet) (Government Housing Bank: 1957). In 2001, the open market value of this piece of land was appraised at 80,000 Baht, an increase of over 143 times in 45 years.

6.1.2 THE FEATURES AND MAIN BUSINESS

The growth of the Government Housing Bank was rapid between 1988 and 1996 (prior to the Asian financial crisis). At that time, its growth, lending activities, market share and net profits were at an all time high.

On the other hand, during the crisis, lending activities slowed. The Government Housing Bank has since recovered as it played a vital role in formulating government policies to help boost the Thai economy. Several financial campaigns were introduced to attract more borrowers. At present, the overall market share of the Government Housing Bank is approximately 38% of the total housing loans in Thailand.

One of the Government Housing Bank's main function is to mobilize funds and then on-lending these funds as affordable mortgages to homebuyers. The Government Housing Bank's primary objective is to provide housing finance to the general public with a special focus on providing residential financing to low- and medium-income borrowers.

The Government Housing Bank currently has 107 main branches: 29 branches in Bangkok and adjacent provinces, and 78 branches in provincial areas. It also has 38 sub-branches and 10 financial service counters throughout Thailand. It offers residential mortgage loans as well as loans for house construction, house expansion or for renovation of existing housing units. In 2004, loans for housing totalled Baht 388,236 trillion. The total asset was Baht 448,437 trillion. The BIS Ratio or risk-based capital was 10.82%. On the whole, the net profit in 2004 was 4.644 billion. The ROA was 1.04% and the ROE was 20.32%. As of January 31, 2006, there were 9,266 staff members in this Bank.

Currently, the Government Housing Bank provides loans to general home buyers (land and house loans, home construction, expansion or repair loans, and condomini-

um purchase loans, refinancing loans from other financial institutions), government-welfare project loans, loans to developers (loans to construct flats for rent, housing project development loans, and rental home loans).

Table 7.1 shows the locations of the branches of the Government Housing Bank. The branches in the Bangkok Metropolitan Region are one-third of the total. This is because most customers live in the metropolitan areas. Other branches are mainly in major regional cities. The Government Housing Bank plans to open more branches in the future.

6.1.3 THE OBSERVATION

This Bank has been performing successfully. In 1996, it won an award for best practice by the United Nations (2006). The acknowledgement is quoted as follows:

“The Government Housing Bank has played a key role in the development of Thailand’s housing sector. The Government Housing Bank has brought together the private sector, lending institutions, governments and homebuyers to improve housing affordability in Thailand. It fostered partnerships which created interdependence among

Table 6.1 Branches of the Government Housing Bank

Region	Branches	Sub - Branches	Officesite Banking Counters	Others	Total
Bangkok Metropolitan Region	30		10	1	40
Nothern	7	8			16
Northeastern	10	10			20
Central	10	7			17
South	8	8		1	17
Eastern	7	3		2	12
Total	72	36	10	4	122

stakeholders to deliver a home to buyers. This created demand which led to a decrease in housing prices. The Government Housing Bank has been able to break away from traditional practices and initiated a new savings deposit scheme with higher interest rates resulting in a substantial in-flow of funds. In offering low- interest loans to homebuyers and developers alike the GHB has provided less restrictive access to borrowers and, as a result, forced commercial lenders to follow suit."

In addition, it won the 2005 Dubai International Award for one of the Best Practices to Improve the Living Environment (Diabp) (GHB, 2006).

6.2 THE GOVERNMENT SAVINGS BANK

The Government Savings Bank has been in existence for 93 years (since 1913) and it has 632 branches. Lending activities for housing purposes became more active after the 1997 crisis. This was because the government wanted the Government Savings Bank to help promote housing loans to help boost the economy.

6.2.1 THE DEVELOPMENT

This discussion of the development of the Government Savings Bank was summarised from the website of the Government Savings Bank (www.gsb.or.th). The history of the Government Savings Bank started with the Savings Treasury. Saving activities were initiated in 1913 during the reign of King Rama VI to promote savings among the people. Savings activities operated under the Ministry of Finance and the savings Treasury, which ran the savings activi-

ties established under the Savings Treasury Act of 1913.

In 1929, the Savings Treasury was moved to the Post and Telegram Department because the transfer of money needed the services of this department. After World War II, the Government Savings Bank Act of 1946 was legislated and its operation was put under the Ministry of Finance from April 1, 1947. At present, the Government Savings Bank has 586 branches throughout Thailand.

6.2.2 THE FEATURES AND MAIN BUSINESS

According to the monthly report of the Government Savings Bank, as of January 31, 2006 (Government Housing Bank, 2006), total deposits were Baht 572.571 trillion, a 7.77% of the total share (the eighth largest bank in Thailand). Total loans were Baht 372,948 trillion or 5.61% of the total share (the 9th largest in loan provisions). Total assets were Baht 670,639 trillion.

The BIS Ratio or risk-based capital was 25.47%. On the whole, its net profit in 2004 was 1.597 billion. The ROA (return on assets) was 1.68% and the ROE (return on equity) was 14.17%. As of January 31, 2006, there were 9,266 staff members in this bank.

Apart from the usual loan and deposit services, the Government Savings Bank offers additional services. It has an Islamic banking system: all savings and investments are conducted in accordance with Islamic principles: there is no interest involved. The Government Savings Bank also has the Government Savings Bank lottery where buyers have a chance to win prizes. Those

who hold lottery tickets keep them as a deposit where they can earn interest on an annual basis.

6.2.3 THE OBSERVATION

The Government Savings Bank offered its services in housing finance in early 2000. Formerly, it was a savings bank. Due to a lack of experience compared with the Government Housing Bank, its performance was less efficient. Today, it has shown significant growth since offering housing finance services. Housing loans are limited to Baht 5 million and loans can be up to 85% of the market value of the collateral.

The above are two large public enterprises or banks supported or controlled by government. There are other financial institutions, particularly commercial banks, which offer full-scale services in housing finance.

6.3 COMMERCIAL BANKS

The commercial banking system has been in existence for over 100 years. They are a major source of housing finance in Thailand.

6.3.1 THE DEVELOPMENT

According to the Thai Bankers' Association (2006), the commercial bank business in Thailand began with the establishment of a branch of the Hong Kong and Shanghai Bank in 1888 during the modernisation period of King Rama V (Chulalongkorn). In subsequent years, more European and business banks opened up branches, making foreign banks the dominant players in the local banking industry. In 1906, the first

Thai bank was established. It was the Siam Commercial Bank, which was established to counter the dominance of foreign banks.

During World War II, most foreign banks were closed down, while several Thai banks filled the gap. These banks largely financed trade with Asian countries. As a result of the implementation of consecutive economic and social development plans in 1960, there have been massive investments in infrastructure throughout the country. This has led to a rapid expansion of banks in provincial cities. The number of branches throughout Thailand now totals over 3,000.

After World War II, the Royal Thai Government adjusted a protective policy to promote the growth of Thai banks by allowing foreign banks to open only their headquarters or one branch in Thailand. Due to this restriction, foreign banks have been relatively small players in the Thai banking industry, concentrating mostly on wholesale banking markets, executing much of their business offshore. In the future, after the establishment of the Free Trade Area, there is likely to be strong competition between Thai and foreign banks.

Prior to November 1997, Thai law restricted foreign ownership and control of banks, permitting foreign investors to hold no more than 25 percent of shares sold. This was to protect the Thai banking business. This ruling has since been liberalised - in November 1997 - to permit 100 percent foreign shareholding for a period of 10 years. After the 10 year period, they will not be required to divest their shares but if they hold more than 49 percent of shares sold they are not permitted to acquire any

additional shares. This liberalisation in the banking system has encouraged an influx of foreign investment into Thailand, particularly in terms of money capital.

6.3.2 THE FEATURES AND MAIN BUSINESS

On the whole, commercial banks do not emphasise housing. Housing loans account for only 10.3% of total loans to businesses in Thailand. Particularly in the case of foreign banks, the share of housing loans is only 0.2%. As mentioned, foreign banks are limited in their activities in Thailand.

Major areas for loans go to "Production" (26.8%), retail and the wholesale trades (16.6%) and Financial Intermediation (12.5%).

6.3.3 THE OBSERVATION

Since housing loans are not a major business for commercial banks, they do not play major roles in the housing finance system

in Thailand. During the boom period in the real estate markets, the interest in financing housing projects may increase. Actually, housing loans are considered secure for financial institutions because they tend to give loans at some 70-80% of the value of the collateral.

Of the overall banks shown in Table 6.3, those with shading are government banks, where the Royal Thai Government is the major shareholder. The BAAC, (Bank of Agriculture and Agricultural Cooperatives), the Government Savings Bank and the Government Housing Bank are offer specialised services. Krung Thai Bank is considered a commercial bank with full commercial functions. Banks No.1-9 were all established long ago and survived the 1997 financial crisis. Banks No. 10-16 are newly established banks. They have fewer branches but the number of branches are expected to increase over time, particularly during this competitive period today.

Table 6.2 Outstanding Housing Credits of December 2005

Types of business	Commercial registered in Thailand		Foreign Bank Branches		Total	
	Milo of Baht	%	Milo of Baht	%	Milo of Baht	%
Provide for dwelling	585,689	11.5%	1,240	0.2%	586,909	10.3%
Others	4,515,484	88.5%	579,058	99.8%	5,094,542	89.7%
Total	5,101,153	100.0%	580,298	100.0%	5,681,451	100.0%

http://www.bot.or.th/bothomepage/data/Financial_Institutions/New_Fin_Data/CB/cb_t7E.asp

Table 6.3: Branches of Major Banks in Thailand

No.	Banks	Branches
1	Bankfor Agriculture and Agricultural Cooperatives (BAAC)	628
2	Government Saving Bank (GSB)	607
3	Bank of Ayudhya	537
4	Bangkok Bank	519
5	Siam Commercial Bank	431
6	Kasikom Bank	404
7	Krung Thai Bank	385
8	Thai Millitary Bank	357
9	Siam City Bank	307
10	UOB Bank	136
11	Bank Thai	121
12	Government Housing Bank (GHB)	73
13	Thanachart Bank	64
14	Standard chatered bank	32
15	Kiatnakin	18
16	Tisco Bank	14
Total		4,633

Figures may be different from the announcement of some banks. Counting from the website of each bank as of December 3,2006 Shading for banks mainly held by the royal Thai Government

6.4 SECONDARY MORTGAGE CORPORATION

The Secondary Mortgage Corporation is a lesson for Thailand: it is elaborated on extensively in this Section. The Secondary Mortgage Corporation was established in 1998 and is the only secondary mortgage mechanism in Thailand.

6.4.1 DEVELOPMENT

Securitisation is a process of aggregating similar instruments such as loans and mortgages, into negotiable securities (investor words: 2006). Risk is based mainly on the features of the asset pool instead of on the credit standing of the originator of the asset (financial institutions). By and large, investors look to future cash flows and credit enhancements rather than to the originators. The originators normally transfer their assets, which are the rights to receive payments, to a special purpose (financial) vehicle. This vehicle structures and issues securities that often are rated by reliable authorities. Some form of enhancement is usually added to the structure so as to improve credit quality and to satisfy investor preferences at the same time.

The secondary mortgage market (particularly the securitisation technique of packaging pools of mortgage loans into mortgage-backed securities) has been proposed in Thailand for nearly two decades as an alternative and supplementary funding strategy to mobilise funds for the Government Housing Bank, which is considered a state bank and a public enterprise. Circumstances have not allowed the development of mortgage securitisation. For decades, the securitisation concept was

discussed from time to time in financial and housing circles. Gradually, it was widely accepted by the authorities and finally appeared in the Seventh National Economic and Social Development Plan (1992-1996) as an instrument for long-term savings and capital market development. According to this Plan, the Government Housing Bank was designated to play a role in the securitisation of mortgage assets. Since long-term funds for housing can come from huge banking deposits, secondary mortgages have not been that popular.

Kritayanavaj (2003-2) reports that in response to the national policy of promoting securitisation and the secondary mortgage market, a Working Group at the Government Housing Bank was established in 1992 to study the feasibility of operating a secondary mortgage market in Thailand. Since its creation it has involved many financial institutions and regulatory organisations, leading to the Finance Minister deciding to set up the Secondary Mortgage Development Committee in 1993, with the objective of creating and promoting a secondary mortgage market and securitisation in Thailand. The main benefits are stability in the residential mortgage market and an increase in funds made available for housing loans on a regular basis.

6.4.2 LEGAL AND INSTITUTIONAL FRAMEWORK

To establish a secondary mortgage market (a mortgage securitisation system), many factors needed to be taken into account: such as, market potential, legal and regulatory frameworks, the quality of assets to be securitised, the design and pricing of securities, taxation issues, and the types of

secondary market institutions to be set up. Of all of these factors, the legal framework was considered the most critical issue because legal matters always determine the choice of structure, affect the cost of transactions, and influence the planning and performance of a successful securitisation programme. All parties involved need to work with a clear legal and regulatory framework. Nine years after setting up the Secondary Mortgage Corporation in Thailand, the Government has enacted two laws regarding securitisation in June 28, 1997. The first is the "1976 Emergency Decree on Special-Purposed Vehicle for Asset Securitization," and the second is the "1998 Emergency Decree on Secondary Mortgage Corporation."

6.4.3 FEATURES OF THE SMC

According to the 1997 Emergency Decree on Secondary Mortgage Corporation B.E 2540 (1997), the Secondary Mortgage Corporation was legally established in early 1998. The Secondary Mortgage Corporation was established as a government apparatus with the status of a state enterprise. It is one of the specific-purpose financial institutions solely owned by the government and under the supervision of the Ministry of Finance.

The initial 100% government ownership of the Secondary Mortgage Corporation is expected to facilitate significantly and quickly its recognition and acceptance by the market. Its legal status as a government agency will enable the Secondary Mortgage Corporation to raise funds at more favorable cost and allow the corporation to operate profitably under prudent principles.

The Secondary Mortgage Corporation's main purpose is to run a business that promotes secondary mortgage market facilities in residential mortgage loans. Under the Secondary Mortgage Corporation Law, the government guarantees loans up to 4 times the initial capital (Baht 4 billion). The initial capital of the Secondary Mortgage Corporation is Baht one billion, and has been fully paid by the Bank of Thailand since February 1998. An increase in capital is affected by allocation from the national budget or other sources as approved by the Cabinet from time to time. Considering allowable assets to be bought and securitised, only residential mortgage loans can be bought and securitised by the Secondary Mortgage Corporation.

In general, the Secondary Mortgage Corporation is administered by a Board of Directors, known as "the Secondary Mortgage Corporation Board," which is composed of not more than 10 directors. Five come from the public sector (the Director-General of the Fiscal Policy Office acting as the Chairman, the Director-General of the Department of Land, and representatives from the Bank of Thailand, the Government Housing Bank and the Office of Securities and Exchange Commission). Five other directors, (including the Managing Director), are appointed by the Minister of Finance with the consent of the Cabinet. Directors serve for a term of three years and are eligible to serve for not more than two consecutive terms. The managing director is appointed and removed by the Secondary Mortgage Corporation Board of Directors with the consent of the Minister of Finance.

In addition, the Secondary Mortgage Corporation enjoys privileges and benefits in the same way as the Special Purpose Vehicle (SPV). For example, the notification to the debtors (mortgagors) in the process of the assignment of mortgage assets from the originator to the Secondary Mortgage Corporation is waived in the case where the originator is also appointed as the servicing agent.

6.4.4 THE SMC'S MAIN BUSINESSES

To begin with, the Secondary Mortgage Corporation needs technical support from foreign experts in planning because the business is new and the staff are not sufficiently experienced. **Fannie Mae, the largest secondary mortgage market institution in the United States of America, and Merrill Lynch, a well-known United States financial institution, were engaged in providing technical advisory services to the Secondary Mortgage Corporation. In addition, Fannie Mae has provided assistance in establishing operating guidelines and procedures for Secondary Mortgage Corporation's initial stages of operation, and Merrill Lynch provided financial advisory services.

The Secondary Mortgage Corporation intends to operate in a similar way to Fannie Mae or **Freddie Mac in the United States of America, or the Hong Kong Mortgage Corporation, which was established a few years earlier. In practice, the Secondary Mortgage Corporation purchases pools of residential mortgage loans from primary market lending institutions and hold the loans in its own portfolio. The Secondary Mortgage Corporation funds its mortgage purchases through its initial capital and then through the issuance of bonds or other

unsecured debt securities. The Secondary Mortgage Corporation earns income from the spread between the yield earned on the purchased mortgage loans and the costs of funds, including administrative costs .

The Secondary Mortgage Corporation packages the mortgage loans from its own portfolio or from loan originators and then structures them into mortgage-backed securities for sale to investors in the capital market. The Secondary Mortgage Corporation, or a third party, high credit-rated organization, can guarantee the investor the timely payment of the principal and interest on these securities.

6.4.5 MORTGAGE PURCHASES

The Secondary Mortgage Corporation purchased the first lot of residential mortgage loans valued at Baht 600 million from the National Finance Public Company in 1999. The Government Housing Bank sold a total of Baht 400 million of its mortgage loans to the Secondary Mortgage Corporation in 1999 as its pilot program. The Secondary Mortgage Corporation agreed in principle to purchase total mortgage loans of Baht 30,100 million from 5 originators. It is now in the transaction process. Since its inception in 1998, the Secondary Mortgage Corporation has bought only Baht 2,156 million home loans, which is marginal compared to the total mortgage loans outstanding of about Baht 700,000 million in the Thai financial system. Although the Secondary Mortgage Corporation currently plans to carry on its operations by purchasing mortgage loans from financial institutions, its long-term objective is to securitise mortgages and sell them to investors.

6.4.6 PROBLEMS OF THE SMC

Kritayanavaj (2003-2) discusses several interesting issues. The Royal Thai government has provided strong support for the development of the secondary mortgage market in Thailand. Proof of this has been the enactment of two supplementary laws on asset securitisation and the Secondary Mortgage Corporation in 1997. Its operation has not been as successful as hoped, given the small amount of mortgage loans purchased by the Secondary Mortgage Corporation over the past five years of its operation. The secondary mortgage market in Thailand, operating via the Secondary Mortgage Corporation, currently faces an unfavorable environment, and various obstacles in its operation. Some of the obstacles and the current impediments are as follows:

Excess Liquidity in the Banking Sector: Since 2000, the Thai economy has stabilised and is beginning to recover. The financial sector has largely been reformed and has become more stable. Many financial institutions have been successfully recapitalised and internationalised (or colonized). The high ratio of non-performing loans has declined. In addition, a large number of non-performing loans has been removed from the banks' books. Consequently, the financial markets have reversed from massive tight liquidity to huge excess liquidity, causing a sharp drop in deposit rates to 1.75 - 2.00% in July 2002, further down to about 1% in July 2003 (the lowest rates ever recorded). Most financial institutions have tried to provide more home loans to relieve their huge excess liquid-

ity, because home loans are considered less risky than any other loans. With the current excess liquidity, nearly all mortgage lenders have little incentive to sell their mortgage loans to the Secondary Mortgage Corporation.

High Proportion of non-performing loans: The non-performing loans of mortgage loans of all financial institutions increased significantly after the crisis of 1997. The non-performing loans ratio in the banking sector reduced remarkably from a peak of about 37% in 1999 to about 23% in 2002 (Government Housing Bank's non-performing loans peaked in 1999 at 28% and gradually declined to 17% of the outstanding loans, or about Baht 48,000 million at the end of 2002) and to 10% in 2005. Therefore, prior to 2004, non-performing loans were the big problem. With a persistently high ratio of non-performing loans, most banks declined to sell their performing mortgage loans to the Secondary Mortgage Corporation for fear that their non-performing loans ratio would be pushed even higher.

Limitation of the Secondary Mortgage Corporation's Function: According to law, the Secondary Mortgage Corporation is empowered to buy only mortgage loans. When the housing finance market is not in a favorable state, the Secondary Mortgage Corporation has no flexibility to purchase any other debts, such as automobile hire purchase and leasing debts.

Scandals of the Secondary Mortgage Corporation: From 2005 to 2006,

scandals emerged regarding Secondary Mortgage Corporation loans as well as the valuation of properties. The managing director and other top executives were accused of being responsible for these scandals (Than Settakit, 2006). These scandals have affected the role of the Secondary Mortgage Corporation to this day.

6.4.7 STRATEGIES FOR THE SMC

The Secondary Mortgage Corporation is unlikely to operate successfully in the near future. For it to be successful, the Secondary Mortgage Corporation and the sustainable growth of the domestic securitisation market, needs to make more effort. Various policy support and innovative strategies need to be introduced to strengthen the Secondary Mortgage Corporation and a well-functioning secondary mortgage market. Some strategies worth considering are as follows:

Diversity of the Secondary Mortgage Corporation's functions: It has been suggested that the Secondary Mortgage Corporation should diversify from purchasing only one product (mortgage loans) to covering the purchase of a variety of loans, which could include industrial loans, automobile hire-purchase and leasing loans. To expand the Secondary Mortgage Corporation's functions, the Secondary Mortgage Corporation's laws need amending.

Business Partners: The capacity to acquire a steady stream of mortgage loans from originators is essential for the Secondary Mortgage Corporation to achieve its objective in developing secondary mortgag-

es and securitisation. To gain this capacity, the Secondary Mortgage Corporation must foster good relationships and create business partnerships with a wide range of existing mortgage lenders, such as commercial banks, Government Housing Bank, financial institutions, and the National Housing Authority as well as housing developers.

Partnership and Strategic Alliances: In the future, the Secondary Mortgage Corporation may be forced to privatise, giving shareholders of other financial institutions more leverage to resources and help improve efficiency in similar ways to the Korea Mortgage Corporation and Cagamas in Malaysia. The Secondary Mortgage Corporation may need to build strategic alliances either with domestic firms or well-known international investors like the Asian Development Bank, the International Finance Corporation, etc. This proper alliance would give the Secondary Mortgage Corporation access to markets, technology, technical know-how and other resources. For this strategy to be employed, the Secondary Mortgage Corporation's laws need to be amended and the current Board structure needs to be revised accordingly to help broaden the perspective of the Corporation.

Creation of New Mortgage Originators: To have an enduring source of mortgage loan acquisition, the Secondary Mortgage Corporation may have to consider creating or promoting the formation of non-bank specialised mortgage companies as mortgage originators and

to become their permanent mortgage supplier. These mortgage companies would be established under the Civil and Commercial Code and would not be allowed to receive deposits from the general public.

Innovative Purchasing Programs: Due to the reluctance by mortgage originators to sell mortgage loans under the excess liquidity situation in the banking system, as well as the persistently high non-performing loans ratios, the Secondary Mortgage Corporation could acquire mortgage loans or housing hire purchases from non-bank originators, such as the National Housing Authority and large housing developers. The Secondary Mortgage Corporation could introduce innovative mortgage purchasing programmes that suit the needs of loan originators under the present circumstances, taking the risks into account. The programmes could include purchasing sub-standard loans or non-performing loans from other banks.

6.5 OTHER FINANCIAL INSTITUTIONS

In Thailand, there are also other financial institutions, some of whom play a significant role in the financial system. There are finance companies and credit foncier companies that have been authorised by the Acts on the Undertaking of Finance, Securities Business and Credit Foncier Business of 1979.

6.5.1 FINANCE COMPANIES

In general, finance companies are established to deal with specialised financing issues which might be more specialised than typical banks and other institutions. This business is mainly related to the raising of funds and the distribution of these funds to nourish businesses in the following categories:

- to finance commercial activities which tends to consist of short-term loans;

- to finance production particularly for medium- and long-term periods for industrial, agricultural and commercial entities;

- to finance deposition and consumption, including financing for durable goods on hire-purchase; and

- to finance housing loans.

6.5.2 CREDIT FONCIER COMPANIES

Credit foncier companies finance the purchase of real estate (land, housing units, condominiums). The finance of these credit foncier companies works the following way:

- It lends money on the security of mortgages on real estates or any form of immovable properties.

- It buys properties under contract of sale with the right of redemption;

Credit foncier companies provide finance for any activity involving land use. Their loans, in all cases, are secured by collateral. A major source of funds on credit foncier companies is promissory notes. In practice, the main purpose of credit is personal consumption and housing.

6.5.3 LIFE INSURANCE COMPANIES

Insurance companies are also involved in housing finance. These companies have to meet the claims on its policies. An insurance company's ability to attract funds and its principle operating obligations are determined by the nature of its commitment to its shareholders. It has to select loans and investments that produce the cash flow needed to meet expected claims and allow adequate liquidity to handle unexpected claims.

According to the 1989 amendment to the 1967 Life Insurance Act, insurance companies are allowed to invest their funds in different business activities. They can also deliver loans. The loan periods can be as long as 15 to 20 years where land and residential buildings are used as collateral. However, insurance companies still have a relatively small share in the housing finance market.

6.6 INDUCEMENT OF HOUSING FINANCE AND MARKET SHARES

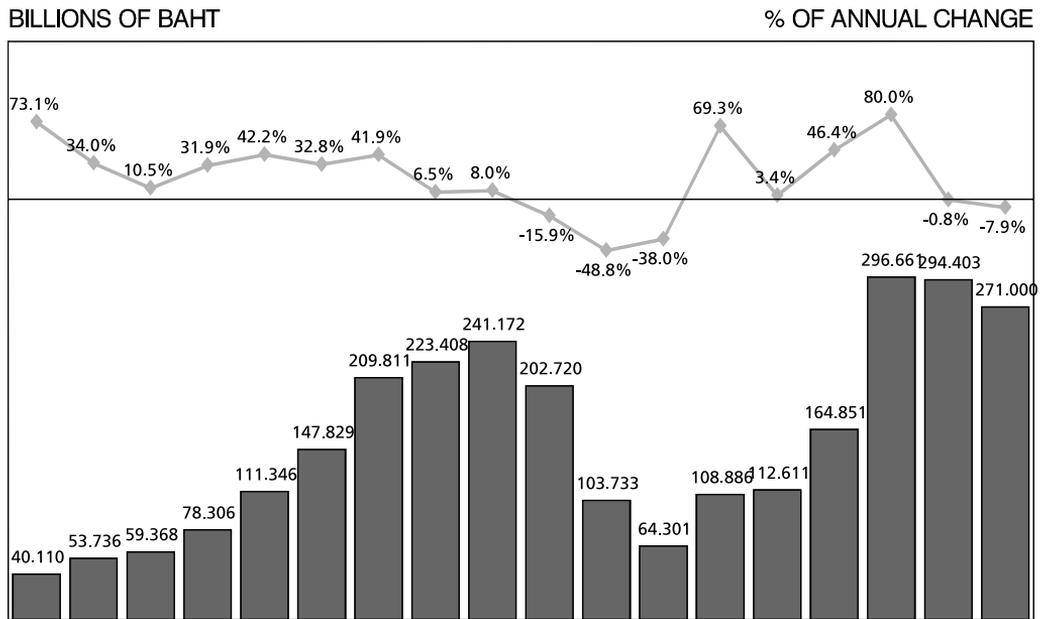
The above section clearly shows that housing loans for all income groups are attractive. Although housing loans are not the major loans delivered by most financial institutions, they are secure sources of income. In other words, housing loans can be considered the "bread and butter" for most financial institutions.

6.6.1 NEW AND CUMULATIVE HOUSING LOANS

On the whole, the following figures show the chronological changes and market shares of housing loans in Thailand. According to Fig.6.1, new housing loans increased substantially and peaked in 1996, with a total value of Baht 241.172 billion. A decrease can be observed between 1997 and 1999, which was the period of the economic bust. The peak period started in 2003 and over the past two years, there has been a slight decrease, implying a slowing down of economic growth.

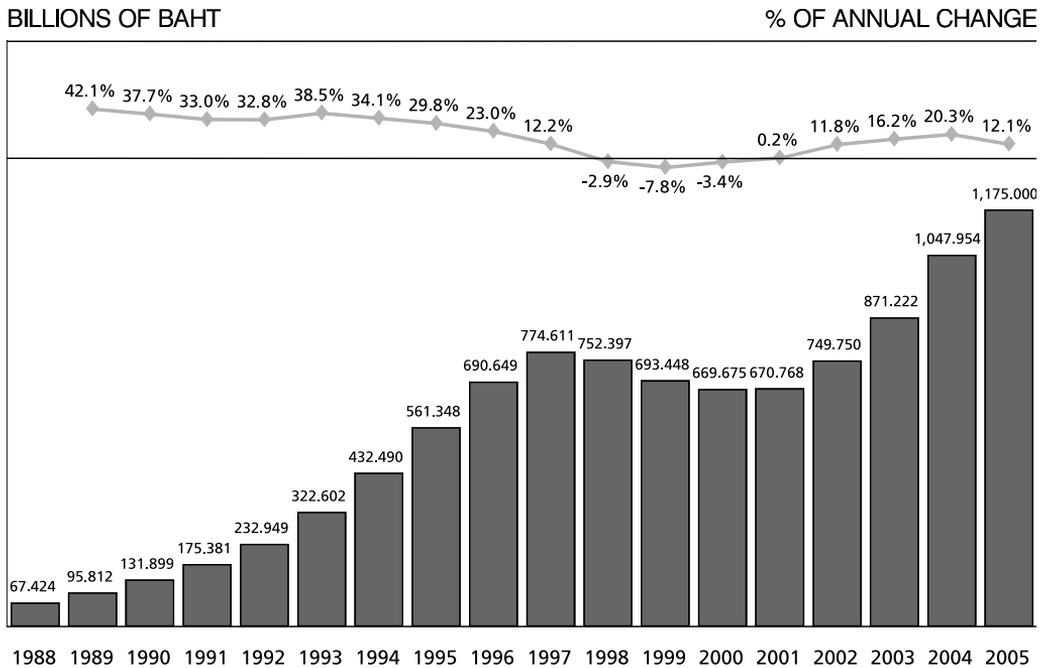
Fig. 6.2 shows the cumulative housing loans in Thailand from 1988 to 2005. These loans in the market were as high as Baht 1,175 billion. There appeared a sharp increase from 2001. The number of borrowers who completely repaid their loans was smaller than the number of new borrowers.

Fig. 6.1: New Housing Loans in Thailand, 1988-2005



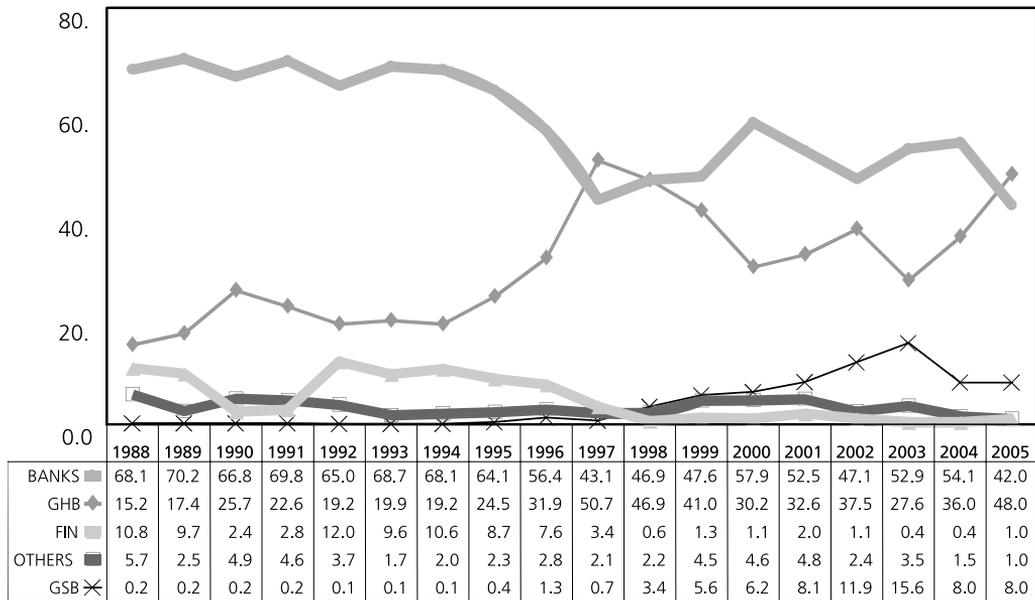
Housing Finance Association (2006: 22)

Fig. 6.2: Cumulative Housing Loans in Thailand, 1988-2005



Housing Finance Association (2006: 22)

Fig. 6.4: Market Share of Cumulative Housing Loans, 1998-2005



BANKS = Commercial banks, GHB = Government Housing Bank, FIN = Finance Companies
 Others = Credit Fonciers and the like, GSB = Government Savings Bank

Housing Finance Association (2006: 22)

6.6.2 MARKET SHARE OF HOUSING LOANS

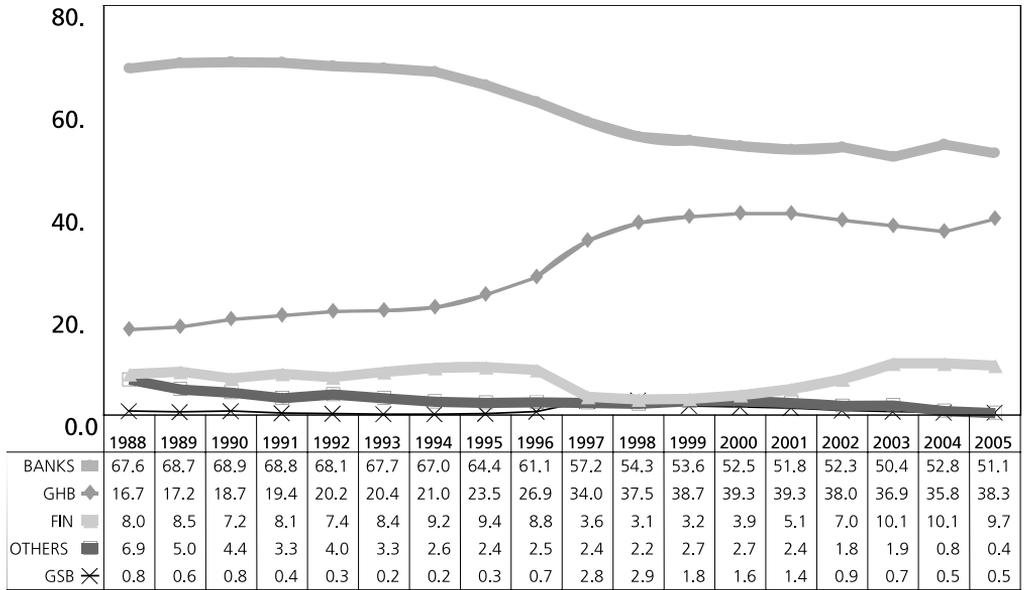
According to Fig.6.3, although most loans from commercial banks do not go to housing finance, their share in the market is dominant. From 1997, the role of the Government Housing Bank, which is considered a public enterprise, has increased substantially. Its role in the public sector increasing over time, while the role of commercial banks increased only gradually.

In cumulative terms, the role of commercial banks is still predominant and they control over half of the total housing financial markets. Their share decreased over time, from two-thirds to only half of the market.

In sum, housing finance in Thailand prevails. Most commercial banks, public banks and other financial institutions, deliver a great number of housing loans. There is no lack of funds for housing finance. This has helped people to buy a house in the open market. Subsequently, housing subsidies are barely needed even for the low-income groups.

On the whole, the provision of housing in general and low-priced ones in particular, has had no subsidy from government. The provision from the public sector has been very small compared to the predominance of the private sector.

Fig. 6.3: Market Share of New Housing Loans, 1998-2005



BANKS = Commercial banks, GHB = Government Housing Bank, FIN = Finance Companies
 Others = Credit Fonciers and the like, GSB = Government Savings Bank

Housing Finance Association (2006: 22)

CHAPTER SEVEN

LOW-INCOME HOUSING FINANCE

This chapter looks at housing finance for low-income households. In the beginning of this study, the provisions of low-income housing finance were discussed. In this section the study looks at various subsidies and the types of initiatives taken to provide low-income housing finance, followed by a critique of the system.

7.1 PROVISIONS OF LOW-INCOME HOUSING FINANCE

In this section, Prachuabmoh (2004-2) discusses this matter extensively. Since the Government Housing Bank is the main institution of the Thai Government in providing housing finance, new programmes have been delivered through the Bank.

7.1.1 ROLLOVER MORTGAGE LOAN PROGRAM

According to Prachuabmoh (2004-2), prior to 1999, the common residential mortgage offered in Thailand was based either on a floating interest rate for the entire payment term of the mortgage or it had a short-term fixed interest rate. This fixed rate was similar to the floating rate because the interest was fixed for the first few years, followed by a floating rate.

In 1999, the Government Housing Bank introduced a housing finance programme with new interest rate structures. The loan relied mainly on bond finance instead of short-term deposits, and this helped to prevent a mismatch in maturity between long-term mortgages and short-term deposits. Prachuabmoh (2004-2) claims that a rollover mortgage system was adopted, under which borrowers could enter a mortgage for up to 30 years. Borrowers could select a revolving period of time for three or five years, during which the mortgage interest rate is fixed at 250 basis points over the cost of the Government Housing Bank bond secured by the Ministry of Finance. On the rollover date, borrowers could select another revolving period, again from either three or five years of fixed rate, or else they could switch to the ordinary floating rate. This programme applied the 90-100% loan to value offer to the borrower. From the start of this programme in 1999, to the end of 2001, the Government Housing Bank was able to extend rollover mortgages to 48,414 borrowers worth USD 612 million (Baht 25.486 billion).

7.1.2 MORTGAGES FOR THAI GOVERNMENT OFFICIALS

This is a Program of Affordable Housing Mortgages for Thai Government Officials which was initiated in 2001. The Government Housing Bank found that there are a large number of government officials who do not own a house. They were seen as potential homebuyers because they had stable and secure incomes. Most of them did not have enough savings for a down payment. This was a barrier. The Government Housing Bank cooperated with the Government Pension Fund and other agencies to help overcome these barriers.

In practice, the Government Housing Bank eased its lending conditions by providing a higher loan to value ratio up to 100%. Meanwhile, the Government Pension Fund helped deduct money/payments from the salaries of government officials. Under this programme, they could borrow up to 65 times their gross monthly income (compared with 30-35 times as typically applied). The monthly installment criterion was as high as 50% of the gross monthly salary (compared with the usual limit of 30% of the net monthly salary).

Prachuabmoh (2004-2) reports that this programme was phenomenally successful. It realised its objectives beyond the original target where the initial base amount of US\$ 120 million (Baht 5 billion) (an estimated 10,000 loans) was increased to US\$ 1.056 billion (Baht 44 billion).

A detailed operation of the Government Housing Bank (2006-2) is that the Government Pension Fund carried out a home loan programme to stimulate the

real estate sector and the country's overall economy. This, it was hoped, would enhance the purchasing power of government officials in acquiring their own homes and reduce the monthly installment burdens on government officials. The loan amount could not exceed 100% of the market value. It could not exceed 65 times the borrower's monthly income. In addition, the loan could not exceed the mortgage amount of a previous financial institution. The loan terms could not exceed 30 years and the age of the borrower plus the number of borrowing years could not exceed 65 years. The 3-year fixed rates would apply, while the floating rate would be the Minimum Retail Rate minus 2.25%.

7.1.3 HOUSING FINANCE TO SUPPORT "BAAN EUA-ARTHORN"

In 2003, the government introduced "Baan Eua-Arthorn Scheme" (home with care – a massive housing production scheme). It was aimed at providing affordable home ownership to low-income groups. Initially, the target was to provide 1,000,000 housing units but it decreased to 600,000 subsidised low-cost housing units. Another 400,000 units would be for a slum improvement programme, named "Baan Man Kong" (secured housing) and was implemented by the Community Organization Development Institute.

This scheme of Baan Uur Ar-torn lasted a period of 5 years (during 2003–2007). The National Housing Authority was responsible for implementing the scheme and the Government Housing Bank was appointed to support it by financing the construction for the National Housing Authority as well as

providing affordable housing mortgages to buyers. The maturity of the mortgage loans for this scheme was up to 30 years with the loan to value ratio up to 100% (no down payment). The interest rates were fixed for 5 years at 4% for the first 3 years, 5% for years 4 to 5 and floating afterwards.

7.2 LOW-INCOME HOUSING FINANCE PROGRAMS AND INITIATIVES

In Thailand, there are some innovations in housing finance that can be applied to other developing countries, and ones that can be applied to different financial institutions. The details are as follows:

7.2.1 ADJUSTABLE TERM MORTGAGE

This implies that the mortgage term automatically can be adjusted in accordance with the economic situation. For example, if the interest rate is increased substantially, it will affect affordability and monthly payments by the homebuyers, and the terms of payment will be extended. With an extension of the payment terms, the amount of payment can be kept somewhat the same. This will help keep homebuyers save against economic fluctuations.

7.2.2 STEP-UP PAYBACK

Conventionally, the payment by homebuyers will be set at the same amount throughout the entire payment period. This step-up payback attempts to ease the burden on the buyer by allowing them to pay less in the beginning. However, the payment is stepped up over time. It is assumed that buyers will earn more over time. In other

words the buyers affordability will increase in the future.

Under this programme, the decision to buy a house is made easier. It helps boost the economy as a whole because there are more active property transactions taking place in the market.

However, this system does not exist in practice. One implication is where interest rates are stepped up and applied every year. For example, the interest between year 1 to year 5 would be 6.5%, 6.75%, 7.0%, 7.25% and 7.5%, respectively. Interest rates in years 6-10 would be 7.5%. But the rate would be that of the minimum retail rate at the time (Government Housing Bank, 2006-3). The actual step-up in payment amounts was prepared by the Government Housing Bank, but after the Coup D'Etat and changes of government on September 19, 2006, nothing has materialised. It is possible that it might be considered in the future.

7.2.3 HIRE-PURCHASING AND MORTGAGE

This is a hire-purchasing programme prior to the home mortgage programme. The programme aimed to assist low-income groups and those with poor creditworthiness, such as the self-employed or those with an irregular income. These people normally could not afford down payments. But under this programme, they were able to become homeowners by obtaining access to mortgage credit.

Under this programme, homebuyers are allowed to be financed through hire-purchase for a period of approximately 3 - 5 years. If they fail to prove their creditworthiness, their house can be seized. They had to be aware of this risk. On the other hand, if they could prove their creditworthiness through the ability to pay the hire-purchase monthly installments regularly, they were then made eligible to be a mortgager. They could own a house and change their status from a hire-purchaser to a mortgager.

The above initiative was worked out from the Bangkok experience in housing finance and lessons from other countries. This initiative now exists and has become one instrument in assisting low-income people to buy a house on the open market.

7.3 MAJOR CRITICISMS OF CURRENT PROVISIONS

The main are of critique centres on "Baan Eua-Arthorn" and "Baan Mankong". "Baan Eua-Arthorn" (home with care) a housing scheme to build and finance 600,000 units of formal housing for the poor. Meanwhile, "Baan Man Kong" (secured housing) is a slum improvement programme via financing the poor to upgrade their own homes.

7.3.1 BAAN EUA-ARTHORN: A WASTE

Baan Eua-Arthorn is a recent housing finance scheme introduced in 2003 (NHA, 2006-1). A lot of criticism can be attributed to this scheme:

It was an imitation without scrutiny. The Prime Minister went to Russia in late

October 2002 and found that some four million sq.metres of apartments were built for low-income groups (Thairath, 2002). The government requested the National Housing Authority to develop a similar scheme and let the people book their homes in early 2003. In practice, careful scrutiny over time was critical in ensuring proper planning procedures took place.

In Russia, social housing is not popular anymore. Most housing developments are constructed by the private sector, i.e. 20% is private housing, 80% multi-flat blocks (50% privatised and 50% rental units owned by municipalities) (UN Economic Commission for Europe, 2006). A brief visit to Moscow is not an adequate way to construct a good housing development scheme in Thailand.

In Thailand, the government has rarely needed to subsidize housing for the poor. From 1990 to 1998, developers in the private sector have built low-priced townhouses (priced at no more than Baht 600,000) and condominiums (priced at no more than Baht 400,000) for over 226,810 units with a total building area of over 6-7 million sq. metres in the Bangkok Metropolitan Region (AREA, 1998: 39). Because of the success in private housing provision, Thailand has been classified as a model for low-income housing (finance) provision in the world (Pornchokchai, 2002-1: 9). In addition, rental housing in the formal sector is very cheap. The rent paid is approximately Baht 500 – 2,000 per month. Please see the following photographs.

Considering the negative effects of this scheme, this investment in Baan Eua-Arthorn may not be a cost effective project. This is because there are still a lot of un-occupied housing units, once estimated to be 340,000 units (AREA, 1998). The scheme could destroy the existing housing system through the private sector without proper subsidy. In addition, it would be a sub-standard development because for typical detached houses, a plot size of 200 sq. metres is needed. But in the case of this scheme, a detached house can be on a land area as small as 100 sq. metres.

A main criticism is the subsidy of Baht 80,000 per unit. In an open market, there is no need for a subsidy. The private sector can provide housing for low-income groups privately. In the market, there are a large number of private housing units offered for sale at prices cheaper or equivalent to the Eua-Arthorn scheme. There is no reason why the government needs to sanction a market that is already good for consumers except that it would be a good opportunity for construction contractors, particularly large foreign ones who would find more jobs in Thailand.

That the National Housing Authority built a few hundred detached housing units in the Bangkok Metropolitan Region is an exception, and one that cannot be made the norm. First, the cost of the construction was out of control. This is why the government can build only a few hundred units, as showcases. Most of the units built were condominiums.

Secondly, in comparison, prices per sq. metre of townhouses built by the private sector nearby, are considered cheaper. Therefore, people who bought these Baan Eua-Arthorn units did not get good products.

The reasons given to support the scheme were dubious from the start. According to a newspaper ((Krungthep Turakij, 2003: 10), report there would be some 5,000 squatter settlements throughout Thailand with households of 1.6 million. This was misleading. According to a field survey, there were only 1,589 slums in Thailand with a total population of 1.8 million or 3% of the total population (Pornchokchai, 2003: 5). Most of the slums were land rental slums. Very few were squatter settlements. In addition, most of the slum population consisted of non-poor or people not below the poverty line (CIA, 2006). It was believed that this misleading information was used to support this scheme of Baan Eua-Arthorn.

In addition, government used a similar approach over the past 30 years by building walk-up apartments for people in slums. However, this proved to be an unsuccessful approach. Many slum dwellers who were allocated an apartment unit sold their right to stay in the units or leased it out and moved back to the slums.

According to the invitation of the National Housing Authority, quite a few domestic and foreign developers were interested in this mass construction of Baan Eua-Arthorn (NHA, 2006-2). Another big

question is whether the 600,000 units under this scheme were beneficial to big foreign contractors or to the low-income households that needed to buy a house.

Last but not least, if the 600,000 units could be built, the number of unoccupied housing units might increase substantially. These developments would be considered a waste. The number of people who would actually move in would be fewer than the units built. For those who stayed, their incomes may turn out higher than Baht 15,000 per month as stipulated and if this happened the scheme would be missing the original target group of low-income households.

7.3.2 BAAN MANKONG: ONLY A DREAM

According to the Baan Mankong Scheme (CODI, 2006), a developer participating in this scheme in a slum community may require some replotting or readjustment. Subsidies of Baht 25,000 per family were available to communities to upgrade their infrastructure; Baht 45,000 was allocated for reblocking and Baht 65,000 is allocated for relocating a housing unit in the physical adjustment scheme of the community plan. Families could draw on low-interest loans from the Community Organisations Development Institute or housing banks where there is a grant equal to 5 percent of the total infrastructure subsidy to help fund the management costs of the local organisation or network. This type of housing finance would simply be an immediate face-lift and is unrealistic in the long-run.

Most of the slums are on rental land. Normally, when land-owners want their land back, they just tell the slum dwellers and pay them some compensation. The dwellers simply leave. In the past 50 years land may not have had enough commercial value. However, at present, the owners have alternative land uses with better returns. Therefore, there should be few land-owners who want to allow dwellers to rent land cheaply or who want to sell their land below the market value for the Baan Mankong Scheme.

There may be some land-owners who are kind and want to offer assistance with the project or some who may be forced to accept the idea of selling their land at one-fourth the market value so that the scheme can develop. However, this action is an exception, and not the norm.

As discussed earlier, not all slum dwellers are poor. If we give privileges to slum dwellers over other urban residents, some disparities will emerge. This is a strategy used only by politicians to win votes by bribing the dwellers.

The poorer people are those house renters living in the slums. This sort of Baan Mankong Scheme may not affect them positively at all. For house renters there are alternative formal types of housing for them to rent outside the slums. This scheme would not help them much.

According to the invitation of the National Housing Authority, a few large local and foreign developers were interested in this mass construction of Baan Eua-Arthorn (NHA, 2006-2). A big question is whether the 600,000 units under this scheme

would be beneficial to big foreign contractors or the lower-income households who may need to buy a house.

In principle, slum dwellers should not be considered static in housing themselves. Their houses will be relative to their economic status. If they are better off, they will have a better house and vice versa.. To give slum dwellers security of tenureship for the whole community is unrealistic.

Land sharing in the past followed a similar concept of promoting land tenureship to slum dwellers. In the past, there were numerous land-sharing projects; however, most of them failed (Pornchokchai, 1992: 93). If anyone visited the land sharing projects today, only a few original slum dwellers are to be found. Many of them have moved out and a lot of house renters simply moved in later.

In summary, the lessons from Thailand dictate that proper policies and plans for low-income housing finance need scrutiny. Otherwise, they may not respond to the needs of the low-income groups. In turn, Thailand has a lot of good examples and innovative ideas in housing low-income groups that can be studied, learned from and adjusted to by other countries.

CHAPTER EIGHT

CONCLUSIONS AND RECOMMENDATIONS

This Chapter summarises the points in this study and focuses on the recommendations for a viable housing finance system.

8.1 CONCLUDING REMARKS

The evaluation of housing finance mechanisms in Thailand explores different aspects of the development in Bangkok and can be summarised as follows:

8.1.1 THAILAND AND THE ECONOMY

Thailand is a newly industrialized country. It has a total population of 65 million people on a land area of 514,000 sq. kilometres. It is the third largest country in ASEAN, after Indonesia and Myanmar. It is 1/18 the size of the United States of America. Of the total 10 ASEAN countries, Thailand is the fourth most populous country after Indonesia, the Philippines and Vietnam. In terms of population density per sq. kilometer, Thailand ranks fifth, with 128 persons per sq. kilometer. For the region as a whole, economic growth is comparatively higher than in many other parts of the world. Its Gross Domestic Product stands at US\$525 billion. However, some 10% of the population still live below the poverty line.

Before 1960, Thailand was an underdeveloped country with an agriculture-based economy. Since then, the Thai economy has steadily improved, except during the period between 1997 and 2000 when the Asian financial crisis caused led to a disruption. Prior to that, poverty had been steadily decreasing (World Bank, 2003). Improving conditions were the results of an economic transformation from an agricultural to an industrial base. In 1951, the agricultural sector accounted for 38% of the overall Gross Domestic Product, while the manufacturing sector was as low as 14%. Currently, the manufacturing sector accounts for 38% of the Gross Domestic Product, while the agricultural sector only 10%.

Real estate development has been divided into three major periods: the boom (1990-1996), the bust (1997-2001) and the recovery (2002 onwards) periods. The effects of the market bust were clearly observed in 1996, but the massive bust occurred when the Baht was floated or devalued on July 2, 1997. In 2000, the situation looked better but a clear recovery was observed only in 2001.

Approximately 8,000 real estate projects were launched between 1994 and 2005 in the Bangkok Metropolitan Region, which covers a total area of approximately 8,000 sq. kilometers. A ribbon development could be observed. A large number of projects were clustered in the hub of the city as well as in some of the sub-centres. Areas where there were few projects were understood to be remote areas or ones with improper road access.

The financial crisis was the crux of the real estate market collapse in 1997. It wiped out not only real estate projects with low development potential, but good projects already under construction, where most of the planned units had been booked. At the end of the economic crisis, most financial institutions were reluctant to give loans to developers, even those with a good track record. Any problems that resulted from this situation were passed on to contractors and suppliers and eventually to the home-buyer.

Housing development has helped contribute to the overall wellbeing of the economy. A unique feature of housing in Thailand is that it is provided, mostly by the private sector. Even if the government did not subsidise housing development, the market would still perform well with the private sector taking the lead in this particular sector.

8.1.2 OVERVIEW OF HOUSING IN THAILAND

In 2001, the housing market was recovering slowly but aggressively from 2002 to 2004. In 2005, the number of housing units launched decreased. The recovery of the market in the past few years is largely

due to a steady low interest rate over time. The deposit interest rate in mid 2003 was slightly lower than 1%, reducing peoples' investment choices. Buying a house is a choice. At least rental as a return on investment is still as high as 4% - 8% per annum. In 2003, the next wave of growth in the housing market took an obvious route: low interest rates, speculation on luxury and then medium-priced condominiums prevailed but then slowed down in 2005.

New loans, - that is, to first-time borrowers - for first time buyers, were a lot larger than the number of housing completions and launches. Some homes may have been located upcountry. Most were housing, particularly in the Bangkok Metropolitan Region. If it was assumed that all those newly built housing units by developers were financed by financial institutions as new loans, the majority of those new loans were for second-hand or used housing units. This suggests that the new housing market was a lot smaller than the second-hand one.

8.1.3 LOW-INCOME HOUSING PROVISIONS

In Bangkok, there are relatively few street dwellers. This is a sign of hope that housing problems are not as severe and that they can be managed. Considering the market situation in the Bangkok Metropolitan Region, in 2005, some 41% of housing units surveyed were priced at no more than US\$25,000, which is considered low-priced for low-income and lower middle-income groups. Currently there are a number of housing units offered to low-income groups. There is no shortage of affordable housing supplies.

These low-priced units are worth altogether only US\$1.801 billion, while higher-priced units are worth US\$18.262 billion. Forty-one percent of the units surveyed which are lower-priced represent only 9% of the total value, indicating that investment in low-priced housing for low-income groups do not require much money but can have a wide effect on society.

Formal housing provision for low-income groups are varied. There is rental accommodation for those who have no assets in the city, particularly migrants. Rental housing helps accommodate a lot of low-income people. Without proper data, this area cannot be properly explored.

Thailand has a total slum population of 1,763,872, or some 3% of the total Thai population. This means that sub-standard urban housing in the form of slums does not prevail in Thailand. Of the total slum population, the majority (62%) are living in Bangkok alone. Some 22% are in the Bangkok Metropolitan Region (excluding Bangkok Metropolitan Administration). The remaining 16% are in other urban centers of the country. The percentage of people living below the poverty line was 10% nationwide in 2005. Most of them lived in rural areas. This means that most of the slum dwellers were not the very poor.

Considering strategies on low-income housing provision, the following provides a chronological sequence of strategies adopted on low-income housing provision since 1948, to illustrate changes in policies towards housing provision:

Housing Production Policy, 1948-1958
(imitating western countries on public housing provision)

City Beautification, 1960-1971 (slum clearance and large-scale city planning)

Slum Improvement, 1970s (in accordance with a limited budget for slums)

Land for Housing the Poor, 1980s (in order to promote a sense of belonging)

Recognition / Enabling policies, 1990s (allowing private developers and local initiatives to work)

A Million Housing Units, 2000s (a campaign of subsidised housing expected to boost the economy).

8.1.4 HOUSING FINANCE IN THAILAND

Evidence of an early housing finance initiative was the establishment of the Government Housing Bank in 1953. The major role of the Bank at that time was to be a housing developer, providing mainly serviced land plots in land sub-division projects or building a few housing developments in Bangkok.

In 1972, the National Housing Authority was established. The Government Housing Bank then became a fully fledged housing bank with no developer functions any longer. Housing finance remained a small sector. In 1981, it was found that the total number of outstanding home mortgage loans was insignificant and accounted for only 3% of the total credit outstanding. After the success of the Government Housing Bank, many other commercial banks came into this business with a belief that housing loans were particularly secure compared to other types of loans. In 2005, some Baht 271.897 billion was lent to homebuyers nationwide.

8.1.5 HOUSING FINANCE MECHANISMS

Housing Finance Mechanisms are indicators that materialise efficient and effective housing finance to the general public, particularly to low-income groups. This chapter explores these mechanisms, which are examples for, and lessons to, other developing countries.

The financial institutions in Thailand can be divided into two categories: banking and non-banking institutions. Banking institutions include 13 local banks, 18 branches of foreign banks as well as five specialized banks (the Government Housing Bank, the Government Savings Bank).

Non-banking financial institutions comprise finance companies, credit foncier companies, life insurance companies, mutual fund management companies. However, the major financial institutions which currently offer credit for housing loans comprised all commercial banks and two specialized banks: the Government Housing Bank and the Government Savings Bank, finance companies and credit foncier companies.

The Government Housing Bank is the main housing finance bank. It has 107 main branches—29 branches in Bangkok and adjacent provinces and 78 branches in provincial areas. It has 38 sub-branches and 10 financial service counters throughout Thailand. It offers residential mortgage loans as well as loans for house construction, house expansion or for renovation of existing housing units.

The Government Savings Bank has been in existence for 93 years. Its total deposit is Baht 572.571 trillion which was 7.77% of

the total share (the eighth largest bank in Thailand). The overall loan is Baht 372,948 trillion or 5.61% of the total share (the 9th largest in loan provisions). Total assets are Baht 670,639 trillion. The BIS Ratio or risk-based capital was 25.47%. On the whole, the net profit in 2004 was 1.597 billion. The ROA was 1.68% and the ROE was 14.17%. As of January 31, 2006, there were 9,266 staff members in this bank.

The above are two large public enterprises or banks supported or controlled by the government. There are other financial institutions, particularly commercial banks, which offer full-scale housing finance services.

The commercial banking system has been around for over 100 years. Commercial banks are major sources of housing finance in Thailand. On the whole, commercial banks do not emphasise housing loans or are identified by the Bank of Thailand as “Providing for Dwelling “ Housing loans accounted for only 10.3% of the total loan business in Thailand. Particularly in the case of foreign banks, the share of home loans was only 0.2%. As discussed, foreign banks are limited in their role in Thailand.

The Secondary Mortgage Corporation is a lesson for Thailand. It was established in 1998 and was the only secondary mortgage mechanism in Thailand. Its operation has not been as successful as expected, as shown by the very small number of mortgage loans purchased by the Secondary Mortgage Corporation during the 5 years of its operation. The secondary mortgage market in Thailand, operating via the Secondary Mortgage Corporation, currently faces an unfavorable environment and various obstacles in its operation.

Most commercial banks, public banks and other financial institutions, deliver a substantial number of housing loans. There is no lack of funds for housing finance enabling people to afford a house on the open market. Consequently, subsidy is barely needed for public housing, not even for the low-income groups.

8.1.6 LOW-INCOME HOUSING FINANCE

The government uses the Government Housing Bank and Government Savings Bank as major apparatuses for the provision of housing finance.

Rollover Mortgage Loan Program: This programme was adopted so that borrowers could enter a mortgage for up to 30 years. Borrowers could select a revolving period of time, three or five years, during which time the mortgage interest rate was fixed at 250 basis points over the cost of the Government Housing Bank bond secured by the Ministry of Finance.

Mortgages for Thai Government Officials: In practice, these borrowers could borrow up to 100% of the market value on housing units. They could borrow up to 65 times their gross monthly income. In addition, the monthly installment criteria allowed was as high as 50% of the gross monthly salary.

Housing Finance to Support "Baan Eua-Arthorn," which is a subsidised housing scheme for low-income groups.

In Thailand, there are some innovations in housing finance that could be useful

for other developing countries. These innovations can be applied to different financial institutions. The details are as follows:

Adjustable term mortgage: This implies that the mortgage term can automatically be adjusted in accordance with the economic situation.

Step-up Payback: The payment will be stepped up over time. It is assumed that buyers will earn more in the future. Therefore, their affordability will increase in the future. With this program, the decision to buy a house is made much easier.

Hire-purchasing and Mortgage: This is a hire-purchasing prior to home mortgage programme. The programme aims at assisting low-income groups and those with poor evidence of creditworthiness, such as those who are self-employed or who have irregular incomes.

Major areas of criticisms focus on "Baan Eua-Arthorn" and "Baan Mankong." "Baan Eua-Arthorn" is a housing scheme to build and finance 600,000 units of formal housing for the poor. Meanwhile, "Baan Man Kong" (secured housing) is a slum improvement program via financing the poor to upgrade their homes.

The housing finance for these units of Baan Eua-Arthorn may not be a success story. Low-income groups may not be able to repay their loans, and higher income groups could afford the housing but. the aim of the scheme was not to reach this higher income group and it looked set to miss its target group.

The case of Baan Mankong: In sum, the lessons from Thailand are that proper policies and plans for low-income housing finance need careful scrutiny. Otherwise, they may not respond properly to the needs of the low-income groups. In turn, Thailand can provide many good examples and innovative ideas in housing low-income groups.

8.2 RECOMMENDATIONS FOR A VIABLE HOUSING FINANCE SYSTEM

There are many ways to construct effective housing finance systems which would be suitable for different societies, such as:

8.2.1 DIRECT SUBSIDIES

This would help low-income groups purchase a house at a cheap price. For example, if the cheapest possible house on the open market is Baht 500,000 per unit, the government could subsidise some Baht 80,000 per unit for the buyer. This would help people buy a house. Thailand's Eua-Arthorn Housing Scheme is an example, where the government subsidises Baht 80,000 to the developer (the NHA). However, this type of subsidy pays the buyer directly so that they can choose any housing project in the market.

This subsidy helps buyers directly and quickly; the government needs to have adequate funds to do this. In addition, it should be introduced with scrutiny because it might be a sanction for an existing market that is able to function well on its own.

8.2.2 SUBSIDIES VIA A FINANCIAL SYSTEM

The government establishes a fund or a government bank that offers loans at lower interest rates. The establishment of the Government Housing Bank in Thailand is one such example. This bank, as a state enterprise, has delivered loans at interest rates much lower than those of commercial banks. This is an effort on the part of the government to try to house lower income groups more effectively. However, government banks in many countries may typically be requiring some modernisation and good governance.

The recommendation should be applicable to any circumstance.

8.2.3 TAX SUBSIDIES

These sorts of financial subsidies are applicable to the discount or exemption of taxes. For example, as seen in Section 4.1.5, the Board of Investment of Thailand helps support low-priced housing projects by discounting taxes on housing developers so that they can build housing units inexpensively for low-income groups. This tax discount or exemption is applicable to buyers as well. For example, there were some discounts on tax transactions and exemptions on transfer fees during the bust period of Thailand in order to boost the economy at large.

This recommendation is good in a market where house prices increase sharply and low-income groups cannot afford to buy a house easily without this kind of subsidy.

8.2.4 RENT CONTROLS

There is a lot of rental accommodation at affordable prices to low-income groups on the market. There is no need for rent control. In some countries, rent control is applied. For those who cannot afford rented accommodation, such as, street dwellers, helping them to rent a shelter is an alternative to housing finance in this case.

This measure may be good for cities with a rental market dominated by landlords and where individuals have limited opportunities to buy a house in an open market due to exorbitant prices.

8.2.5 SAVINGS AND BONUS

In order to encourage people to save money for a house, the government could establish a programme to encourage saving for a down payment. When the target is reached, the government could give a bonus to homebuyers in the programme. For example, if a housing unit is worth Baht 400,000, a 20% down-payment of Baht 80,000 is required. If those in the programme can save up to Baht 50,000, the government could deliver another Baht 30,000 to them to help pay for the down-payment as a subsidy. In this way people can afford to pay their installments themselves.

This recommendation is good in an environment in which house prices are not increasing substantially in the short-term.

8.3 OTHER RECOMMENDATIONS

There are other related recommendations which can be considered to improve the housing finance system.

8.3.1 CAPITALIZING SLUM LAND

Most slums in Bangkok are located in the inner-city areas. Many of them are in the Central Business District. The land is valuable for commercial use, so slum dwellers are relocated to a place more suitable for them. This can be considered as follows:

The land where slums are located in a prime location in the inner-city may be worth Baht 40,000 per sq. metre. For example, if a slum of 400 housing units is located on a land area of approximately 56,000 sq. metres, this means that this land is worth, in an open market, Baht 2.240 billion.

If a slum house is rented at Baht 4,000 per unit, the gross rent for all 400 units must be Baht 19.2 million. The net rent after expenses will be 80% or approximately Baht 15.36 million.

The gross return on this piece of land for slum use is only 0.69% per annum (Baht 15.36 million / Baht 2.240 billion). This implies that the land use is not lucrative.

Considering the net rent of Baht 15.36 million, if a 10% capitalization rate is applied, the worth of these housing units would be Baht 153.6 million or Baht 384,000 per unit.

If the land owner compensates slum dwellers at Baht 384,000 per unit, they would be more than happy to move out. Normally the compensation is very little and people sometimes refuse to move out.

The land owner may even offer a higher compensation because the compensa-

tion of Baht 153.6 million is only 6.9% of the total value of Baht 2,240 billion). This 6.9% is minimal compared to the opportunity of earning approximately 10% per year.

8.3.2 PROPERTY REGISTRATION PROJECT

This can be a sound and strong basis for good housing finance. In Thailand, there has been land registration with land title deeds for over a hundred years. There is no dispute about tribal land or other unidentified land. Land titles are the basis for mortgages and asset capitalisation for the poor who occupy them. In addition, there is a system for construction approval in Thailand. Anyone who constructs a building must get approval by the local authority in advance. This all helps regulate and formalise house planning in Thailand.

8.3.3 PROPER PROPERTY MAINTENANCE

In order to realize and maintain the value of a house, proper maintenance must be carried out. If not, the resale price tends to go down and major repairs are needed. People need to be educated about proper maintenance. Apart from a house, the whole housing project has to be well maintained, and professional property managers should be employed to plan for better maintenance. Consequently, when people need to sell their house, the price does not depreciate too much due to poor maintenance.

Apart from all the above recommendations, one observation about Thailand's experience is that any positive measures taken from other different countries must be scru-

tinised. Obviously adopted ideas may be incorrectly applied and result in a waste of effort and resources in the long run. Proper application requires time and resources for research, into good planning for housing the poor.

8.4 CONCLUSIONS

This final section highlights the policies, instruments and mechanisms that are considered effective or ineffective and looks at what measures can be taken in the future to promote affordable housing finance mechanisms.

8.4.1 Conventional approaches to housing the poor are ineffective. There are slum relocations, slum improvements, land sharing and most types of subsidised housing programmes. One main reason for the failure is the management of the project on a community base instead of on an individual base. Within a slum, there are households at different affordability levels and they should not be treated the same. Alternative housing arrangements must be provided for different groups.

8.4.2 Subsidies can be made available for solving immediate needs but not in the case of providing housing to the poor. In other words, in a very poor country where household income is too low to allow people to buy a house in an open market, the government can help finance relief programmes such as slum improvement.

8.4.3 Although slums are an eyesore and should be solved over time to help improve the living conditions of the public, they should not be considered the first priority inasmuch as the government does not have

adequate resource to deal with the huge problem of slums, with millions of people living there. Any effort to tackle the problem of slums at the beginning can fail due to limited resources.

8.4.4 A formal housing finance system should be created in developing countries to provide affordable housing to middle- and lower-middle income households as a first priority. This group can afford a house on the open market. In this case the government should not subsidise this group. Indirect subsidies, such as tax incentives and the provision of development sites can be made available under the concept of enabling the private sector to be an efficient mechanism in helping house the poor.

8.4.5 Finance should not depend solely on the government because in poorer countries, capital resources are generally limited. The private sector should step in to fill the gap. Capital should be made available through the capitalisation of slum land. Public investment in infrastructure could help new prime development locations to emerge, where land prices increase significantly.

The management of land prior to and after the construction of infrastructure could make more sites available for housing the poor. This could also create more capital for public housing finance when a government sells or leases land at a good price for commercial use.

The success of housing finance in providing decent and affordable housing to the general public in developing countries, depends largely on proper research and careful study. A thorough understanding of a country's finances and financial management system is a requirement for ensuring that any scheme or measure is properly planned and managed on a professional basis.

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