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# **White Paper “Housing the world”**

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# Edito

In 2016, for its 27<sup>th</sup> edition, MIPIM put the spotlight on the topic “Housing the World”, which has been made available around some 10 conferences. What should be retained from it? Why is housing becoming an increasingly essential issue in today’s world, and why should it raise the interest of real estate players? This White Paper tries to point out the salient elements of this series of conferences about housing.

# I - Housing: a neglected asset class with potential high added value

As of 2016, housing has never been so topical. Residential, which traditionally has been a relatively low yielding asset class within real estate property types, today looks very attractive in relative terms. This is especially true in countries like **THE UNITED KINGDOM, THE NETHERLANDS, GERMANY AND THE NORDIC COUNTRIES** and in some gateway cities in Europe which are rich in demographics, technology and urbanization. Some twenty years ago, more than half of institutional holdings were in residential, which still was an attractive sector at the time. These holdings are now virtually sold out, and probably represent less than 10% in terms of institutions, because they have just swapped their properties for commercial real estate. But **looking at the last ten years, we see a renewed interest for residential:** in both **GERMANY** and **FRANCE**, for example, it has actually outperformed other properties, like commercial property.

It is clear that the institutional demand is there, but what they are looking for is more stability in income and capital preservation than necessarily rental growth – and **the current stresses on affordability and supply means that there are obviously opportunities for investors and developers.** To take the example of **FRANCE**, the pattern is the same both in the residential sector and in the office sector: the rental situation is not exceptional, but the investment outlook is better despite the fact that rent levels are not growing.

The paradox is that housing doesn't focus the attention and the debates among real estate players, whereas **housing is the main program of almost any new development.** Part of the explanation may be that housing doesn't offer the best return on investment, and that everyone tends to be focused on iconic architecture, whereas the main housing production is seen as uninteresting, not very innovative and mostly in distant and monotonous suburbs.

High-end housing clearly represents a relevant exception to what has been said above, because there is slowing growth but still **significant growth in high net worth investors**, i.e. a quarter of a million people who worth more than USD 30 million, and they have significant purchasing power within the real estate market, with most of them being very keen on real estate. To give some illustrative figures, the high net worth population has increased by 61% in the last 10 years, especially in major cities like **LONDON** or **NEW YORK**. Over the same period, there has been a 71% growth in billionaires in **ASIA PACIFIC**. This sort of buyer is looking for capital growth, more than for yield. As a consequence, new prestigious developments have recently been built: One Hyde Park in **LONDON**, Four Seasons in **MADRID**, the Atlantis in **DUBAI**, etc. **This multiplication of high-end projects tends to drive up prices**, especially in major cities.

## II - Huge housing needs around the world

It is quite essential to raise the interest of real estate players in housing, because **housing needs are growing at a very rapid pace**: according to the UN, we will have 2 billion more people in the next 30 years, and most of them will congregate in cities, because that is where the jobs are. The phenomenon is particularly significant in the developing countries: in **NIGERIA**, the housing deficit is between 10 and 15 million units and mostly concerns low income earners; in **INDIA**, the shortfall is about 30 million residential units – in each major Indian city, each year, there are about one million new arrivals to accommodate.

Developed countries, including Western Europe, are also concerned by the issue. Expected to have an additional million inhabitants in the next ten years, **London needs to build 50,000 homes every year**. The city of **COPENHAGEN** is facing the same problem, with a dramatic increase in the demand for housing: almost 50% in the last 4 years! The big issue for the Danish capital is to build **45,000 housing units** within the inner city in the next 10 years. Luckily enough, there are still vast areas very close to the city centre in order to achieve this, such as the Northern Harbour district.

Besides, the housing issue doesn't concern only the city dwellers: for a city, **its capacity to attract new companies also depends on its capacity to offer enough affordable housing**, and in good condition. It is a real issue in **PARIS**, for instance.

Moreover, the current geopolitical context is making the issue more complex: today, there are 60 million refugees on the run, that is to say the highest number the United Nations High Commissioner for Refugees (UNHCR) has ever recorded, with 50% of them being children. As a consequence, there is an **urgent need for housing for them, particularly temporary and medium-term housing**. For that very specific population, we must think of special structures that could grow in time or that could change after a while in order to accommodate the scalable needs of these inhabitants.

Huge needs for housing units, rapid growth in the global population, increasing share of the urban population, continuing rural exodus, ever-increasing number of refugees: the consequence is a **big difficulty in aligning housing demands with housing offers** – and local authorities do not have all the necessary means to deal with this issue. Generally speaking, demand is increasing while production, especially of affordable housing, is decreasing. Moreover, issues differ from country to country: some countries are confronted with an ageing population (**GERMANY, JAPAN**), others are struggling with gentrification in city centres, other must build a lot of student accommodation etc. In any case, levers must be found so that housing production can be faster and cheaper, but nevertheless valuable for the real estate sector.

### III - How to deal with the particular needs for affordable housing?

What is currently at stake is not only building more housing units: it is also building affordable housing and social housing. As far as mayors and local authorities are concerned, the issue is **to develop business models that address the affordable housing crisis in cities**. But agreement needs to be reached on what “affordable” means, how many of the new projects should be affordable and if the affordable component is mandatory or if it is avoidable with tax penalties.

Most of the time, affordable housing is located in the suburbs and much more rarely in the city centres. However, all parts of the cities need to have diversity, both in functions and in people. The public sector doesn't want the centres to be reserved for the elite, because they do not want gentrification. So there is a **need for strategic leadership by local authorities**, as building affordable housing on a site that is very expensive is a big challenge for developers. Globally, the issue is that affordable housing has to be affordable for developers. **It is not yet affordable for developers to enter into this game** and to try to provide the right solutions.

**CHICAGO** is a good example of this issue: the windy city is confronted with both the real estate boom in the Central Business District (CBD) and the boom of residential developments in the inner city, which are mostly higher-end condominiums. As a consequence, **Chicago is struggling with providing affordable housing**, like most cities around the world.

To take a European example, **COPENHAGEN** recently succeeded in making its centre more attractive and dynamic, but the other side of the coin was that only the high income group was able to pay for housing in the inner city. Today, 20% of all housing units are considered as affordable housing. It has been decided that there should be 20% as well in the future, which means that 20% of the 45,000 planned housing units should be affordable housing. Moreover, Denmark just passed a new law that enables municipalities **to demand affordable housing within new local plans in development sites**.

**LONDON** has a big issue of affordability as well: for each development combining more than 10 homes, the developer should be providing between 30 and 50% in affordable homes, but it does not happen, because developers prefer to pay the penalties rather than building affordable units. The ball is in the court of the public sector, which has to find ways **to prevent developers from getting around the quotas**. Besides, what is called “affordable housing” in London is not really affordable, since it is only around 20% less than the normal price, that is to say still very expensive for many households. The lack of a precise definition of what is “affordable housing” is clearly evident here.

In **FRANCE** too, there are never enough low-priced houses to meet demand, even if social housing is rather well-organized. At the higher end, there are people who can afford to buy their own house or apartment they may not even live in, but it is more complicated for all the other social classes. People in the low-end market are trying to get into the very few affordable units and often wait years for that. But there is also a big problem with the middle class, which is not poor enough to get access to social housing and not rich enough to buy their own apartment. As a consequence, there is a **need for intermediary housing**. Those middle-class households have accepted the fact that more than 50% of their income is going towards housing costs. At the same time, prices are moving aggressively forward and it has become difficult for first time buyers to get on the ladder.

Build affordable housing, but also facilitate home ownership for low-income and middle-class households; give the latter the means to settle in city centres in order to maintain inner city social diversity: such key issues implies **finding ways to build faster, in the city centres as much as in the suburbs, and with contained costs.**

# IV - How to build more housing with limited cost in interesting locations?

## Levers for the public sector, necessary partnerships with the private sector

### The importance of the existing stock

Regenerating the existing stock rather than building new housing can be an interesting solution. Indeed, we seldom speak of the existing fabric, whereas **the most challenging issue may be about existing housing**. However, refurbishment can be quite expensive, and rebuilding the city on itself is even more challenging.

This kind of policy is strongly promoted by cities confronted by an erosion of their population, mainly in the city centre. **MANCHESTER** is a good illustration of this situation. Because of the bombing of the city centre in the mid-90's and of poor city planning, Manchester became a very densely inhabited city, effectively depopulated as a result of public policy. Not so long ago, only a few hundred residents remained in the city centre. Today, thanks to a very active policy based in particular on the refurbishment of the existing stock, **there are 24,000 residents, which is a significant revival** - and the target is to reach 150,000 residents.

The gradual depopulation also affected Manchester's suburbs, where there was mainly social housing. For instance, in the Hulme district, there were 4,000 homes for a population of 2,000 people. As the area needed to be re-densified, part of the solution was to put in more economic activity and better transport links, and another part was to set up programs that provide discounted access to owner-occupation. Public authorities are also trying to make a better use of the existing social housing stock and to encourage better mixes of people.

This thinking about the optimization of the existing stock is rather original, since in the **UNITED KINGDOM**, public investment is **focused on supporting individual households into owner-occupation** - which is traditionally a major preoccupation in that country - rather than on regeneration of the existing stock.

In **BOLOGNA**, which faces the deterioration of its inner city, several interesting initiatives were launched to address this issue. There are incentives to make owners participate in the regeneration, and **a partnership has been set up to improve energy efficiency**: the partnership is held by private funds which are remunerated by the resulting energy savings.

For their part, developing countries are facing the problem of slums and ghettos that need to be redeveloped. In **INDIA** for instance, in certain areas, even the basic facilities such as water and electricity are missing. The renovation of these existing areas is crucial as it is one of the country's biggest problems. So, part of the solution in this configuration for the housing issue is not urban sprawl, but reconstruction of existing areas.



Of course, a lot of differences can be pointed out depending on the countries. In **JAPAN**, new construction is a big portion and refurbishment a smaller one. Compared with other countries, the market of second-hand or refurbished housing is extremely limited in Japan.

## **Policy making: how to make the private sector build affordable housing?**

One thing is quite certain: **committed local governments can help to deliver a proper housing stock**. For the public sector, the motto is often DTU, which means Demographics, Technology and Urbanization - and that means local authorities committing and looking at their master plans and transportation plans. Besides, how can public players contribute to avoiding discrimination and inequity between social classes?

However, local authorities do not have all the resources to answer those issues; that is why a **positive dialogue and collaboration must be sought with the private real estate sector**, to deliver new housing solutions at scale and pace. Establishing a good progressive policy is the role of government, both local and national, but when it comes to executing those policies, everyone heavily depends upon the private sector to be a trustful partner.

As affordable housing does not offer attractive investment opportunities, it requires cajoling by the policy makers, with both incentives and penalties. One interesting incentive can be **to allow the developer an additional density** for the floor area, an additional height or a larger unit count in exchange for providing a certain number of affordable units. But there is still one question: can the latter be off-site or do they have to be in the same location? In that case, where should the “poor door” be built? Would the high-end buyers accept sharing their common facilities with low-income households?

Another incentive concerns land prices. **Land prices** are so high that the only thing the developers can afford to build is luxury condominiums, which do not provide housing stock for the “normal” working population. In **CHICAGO** for instance, the city council needs to work with private developers to build true affordable housing on the land its controls (about 8,000 plots), but in order to do so, **the city is almost giving away the land to developers to keep the land cost as low as possible**. This is a worldwide phenomenon: a lot of companies are now trying to enter into private-public partnerships (PPP), where they are asking the government **to provide land at prices via which they can build affordable housing - the major cost of developing is the land component**, which sometimes amounts to as much as 80% of the total cost! It is true in **NIGERIA** too, where there is a need to give assurance to the private sector that investing in low-income housing can be a good opportunity, whereas it gets the most rent in the high-end market. The government has identified three levers: public-private partnerships, subsidized land or provision of land to the developers and a strengthened mortgage sector.

The other possible strategy for the public sector is penalties. In **CHICAGO** for example, each new residential building in the Central Business District (CBD) must have 10% of affordable units. Otherwise, the penalty is USD 200,000 for each missing unit. This money then flows to a fund which is used to provide new affordable housing throughout the city. **The city has increased the amount of those penalties, because the vast majority of developers are electing to pay the penalties.**

In **FRANCE**, there is a law called SRU (Solidarité et Renouvellement Urbain) which forces every city above a certain population threshold to have 20% of social housing, otherwise they have to pay taxes - but as the taxes are not high enough, there are a lot of “black sheep”. Inversely, there is no such law in the **UNITED KINGDOM**: the country does have national funding programmes, but it is for individual local authorities to decide how they want to access it.

To use the example of a developing country, the Indian government is currently thinking about a new scheme: on every 100,000 square metres built, the developer has to earmark 5 or 10% of the project (depending on the location) for the economically weaker section. With this new law to come, even in a luxurious project, a block must be built in that facility for affordable housing.

## **Densification rather than urban sprawl**

To build more housing units, including affordable ones, without carrying on with the urban sprawl, **densification of existing neighbourhoods is also an interesting solution**. To keep the hearts of the towns beating, we need to house the people that help to achieve that aim, and increasing density can be part of the solution. To take the **GERMAN** example, if all the *Plattenbauten* (apartment blocks) were topped up, the density of the city would be increased in a very cheap way. Another way is **to fill gaps and holes in the urban fabric**, in order to heal the fractured city.

To use limited space in cities effectively is quite a challenge for the public sector. As a consequence, **high-rise buildings are increasing rapidly**: in London in 2015, planning applications for 20-storey towers have gone up by nearly 100%! In Hong-Kong, due to a serious lack of space, there are more people living above the 15th floor than in any other city in the world.

## **Convert and transform buildings to create new housing units**

A lot has been said about the opportunity of transforming the office surplus stock or old factories into housing. There are indeed some office buildings which are no longer suited to welcoming tertiary activities, but it doesn't mean that they can easily be transformed in housing units. Besides, a reconversion can be more expensive than a new build. Nevertheless, the City of **AMSTERDAM**, for example, is exploring this way: **as there are too many office buildings, the authorities are trying to transform them into housing and hotels**. As most local authorities want to reduce the use of cars in city centres, another option is to convert parking spaces, which often have an occupancy rate below 80%, or even former train stations, in order to build housing.

In parallel, **flexibility of building law is also important**: there is a need to deregulate the building standard law so that it will be possible to convert stock, for example offices, into new facilities like hotels or residences.

## **Build more and faster in the developing countries**

Developing countries are currently trying out original ways to address huge housing needs. They are also catching up in terms of construction times, which leads one to expect an increase in the housing units produced each year.

**NIGERIA**, for instance - the most populated country in Africa, with a huge gap between housing demand and supply -, is trying out a very special scheme: instead of getting a totally finished house, **the owner gets a house where he has to do the finishes himself, when he has time and money to do it**, and to his own taste. What makes this scheme interesting is that a major component of the price is the price of finishing.

Since about 2 years, **INDIA** also has had a new building concept: **the whole house is built in factory and then assembled on site**. Coming from the Western countries, this technology is now encouraged in India and this is how the new smart cities are going to be developed. This method has allowed between 2 and 3 million square metres of homes to be built in less than 9 months. This new technology is obviously going to change the entire demographic of homes but will also affect landscapes, civic amenities and the whole infrastructure put into place.

Moreover, housing can be cheaper if the construction materials are locally produced instead of being imported: **NIGERIA** again, which used to import cement, is now a net exporter of cement, which has made the come down considerably.

## **Community spaces and common facilities: the sharing economy applied to real estate**

The unit size available at a price that one can afford is shrinking as prices go up. As a consequence, building affordable units necessarily means building smaller units. **To counterbalance this reduction of living areas, the solution could be to maximize the number of communal facilities**: lounges, leisure facilities - things one would normally expect to find inside one's own property.

From now on, community spaces will be a very important issue. **They are part of a fundamental change in lifestyles, focusing on mutualisation**, sharing and interest in the principles of the social and solidarity economy. A way for both savings and more social interaction, this sharing trend is now found both in workplace management and in housing layout.

This communal trend is coupled with a collaborative one: for more and more public players, it is essential **to design the apartments with the future inhabitants** in order to better meet their needs and expectations. But if people are theoretically wanted to participate in the planning and the building process, consultation does not always allow the inhabitants to make their voices heard.

It looks like what has always been very common for student housing - accommodation with people from different ethnicities, countries and backgrounds sharing a lot of communal spaces, and where the sense of community is very important - now also concerns, proportionally speaking, classical housing developments.

## **The particular case of student housing: a growing asset class which needs to be affordable**

Purpose-built student accommodations (PBSA) are large developments that have been built with students in mind - which is different from the numerous residential buildings that are equally appropriate to the student market, but without having particular planning permission for the student market itself. In the **UNITED STATES** and in the **UNITED KINGDOM**, it is viewed as a **full part asset class**. PBSAs are not on campuses and not in long-term university lease. For instance, 7% of the United Kingdom students live in the PBSA sector, which means **there are still very many opportunities because the large majority is still living in other off-campus options**.

Why are the PBSAs attractive, with investors migrating to them? First of all, it must be said that the core focus of universities is to provide education and tuition, not to be landlords. While there is a bit of on-campus accommodation, **the supply and demand fundamentals are compelling**.

Furthermore, the number of international students is increasing rapidly. From 2000 to 2015, the number of international students increased from 2.1 million to 5.2 million. This is widely predicted to reach 7-8 million by 2025. Of those 5.2 million, 10% come from just five corridors: from China to the United States, the United Kingdom and Australia, and from Korea to the United States and India. There are 196 million higher-education students in the marketplace. According to UNESCO, in 10 years' time, that number will increase to 260 million. The percentage of high-school students going on to take 2 or 4-year courses is 65-70% today, against 47% in 1974. In **MELBOURNE**, only 3.5% of students can live in PBSAs, so they have to look to the residential sector. That's not always convenient, because residential products tend to be unfurnished and to have variable start dates, which are not aligned to the term. **Some of those fundamental things that the PBSA market is built on are not yet present in residential**. In **GERMANY**, only 1% of student accommodation is purpose-built. **Reading these figures, it is easy to understand that PBSA across the vast majority of markets is still undersupplied**.

The final reason that makes PBSA attractive is purely economic: on one hand, the **yields on multi-family housing are becoming very low**; on the other hand, **the demand in PBSA is largely independent of economic cycles**, because in the downturns, there are people who lose their jobs and return to education. That being said, the going-in yields for student housing were about 150 basis points above apartments 10 years ago. Today, there has been so much acceptance of student housing as an asset class that those yields have compressed (a premium of 25 basis points is worth considering, but no more).

Three issues seem to require particular attention. First, **how can an ascending residential path for students be imagined?** There still are, surrounding universities, what are called “students’ slums”, with big security issues. As PBSAs are built, students who were in multi-family accommodation are migrating to them, and the ones who were in “students’ slums” should be able to move into multi-family. In the long term, the idea is, of course, to eliminate the “students’ slums” by ensuring a better offer to each student. Besides, some PBSA players are also providing accommodation for young professionals - and looking after them beyond the student sector is really interesting.

Secondly, **is there a competition with the traditional residential player?** In a way, the answer is yes, because the number of PBSAs is quite insufficient for the moment in most of the markets. But one of the major advantages of living in student accommodation, without speaking about the price and the location, is that people from different ethnicities and countries get together, and the communal space and the community are essential in a student life.

Thirdly, **is online learning a threat?** Online learning makes it possible not to go to university for the first two years of study! To study at home during those two years keeps costs down and then allows you to go to a more prestigious university to finish your studies. However, there is a very strong social element which can’t be forgotten: a lot of people found their best friends or their husbands and wives at university - and that could never be substituted by online learning.

## V - Two crucial steps to keep in mind

### **Transit-oriented development: how to combine housing and mobility policies?**

Every housing policy must be accompanied by a suitable mobility policy: a very important issue is **to think about the future inhabitants' means to access urban resources** (employment hubs, city centres). Some countries, like **JAPAN**, have made a specialty of building transit-oriented policies: the TOD (transport-oriented development) is very important in Japan, where a new development will always be nearby a railway station, as the Japanese are self-defining as a “commuter society”. But regardless of the country, **infrastructure is integral to the future of asset performance.**

In **CHICAGO** too, the public authorities are greatly rewarding developers who take on projects that are built near to transit lines, in allowing them more density and entitlements. In parallel, the city is extending its rail lines, which are very much wanted by the investors.

Conversely, **the lack of infrastructure is an important brake for the development of more housing projects in developing countries.** In **INDIA** for example, the infrastructure of the cities is not up to international standards. It is the same in **NIGERIA**, where there is a huge deficit in infrastructure. Therefore, people tend to concentrate in the bigger cities, beginning with Lagos, where there is a semblance of infrastructure.

In **NIGERIA**, a housing project in an area without infrastructure means that the investor has to provide the roads to the place, the power and the water services. As a consequence, the overall cost of the project becomes too high. That is why **the government is giving priority to the creation of massive infrastructure, so that the cost of development is lower.**

### **The eternal challenge of social mix**

As discussed above, to build affordable housing and make it be built by developers is a big challenge for public authorities; but to ensure their adequate distribution is another one, so that the social and functional mix is preserved. **A city planner has to make the decision about what the best places are to build affordable housing**, since it is not necessarily where the developers would like to get planning consent. **CHICAGO**, for example, deeply cares about avoiding the past mistakes: during several decades, the city believed very much in high-density affordable housing and subsidised housing complexes. But they were built in neighbourhoods that were nowhere near any economic opportunities and did not have good access to public transport. Today, the city is executing a more sensible urban plan and **gives priority to scattered-site affordable housing.**

**MANCHESTER** has inherited the same problem, since the urban policies of the 1960's and 1970's have mainly consisted in building social housing, especially in the suburbs. As a result, Greater Manchester has about 25% of its entire housing stock as social housing, and it is over 45% in the city centre! The city is now struggling with the very low diversity of its housing stock, but considerable efforts have been made **to introduce more density and more diversity in the city centre**. In Hulme, a suburban district where the share of social housing is very high, local authorities are working with programmes that provide discounted access to owner-occupation. They are also trying to make better use of the existing social housing stock and they are encouraging better mixes of people.

For its part, the City of **BOLOGNA**, which has one of the largest city centres in Europe, is very concerned about keeping the social mix in this centre, that is to say **giving means to the lower-income households to stay there**, beginning with the nearly 50,000 immigrants living in some 20,000 housing units. To achieve this aim, local authorities are promoting not only affordable housing but also social housing, which is still the responsibility of the city, even if housing policy is now the responsibility of the regions. As far as senior citizens are concerned, a lot of them are facing the following challenge: they are still autonomous but have insufficient income to stay in the city centre. In reaction to that, the city is trying to develop **a sort of co-location on a shared basis, with young couples hosting senior citizens in exchange for a range of services** (babysitting, etc.).

Regarding the refugee issue, hosting them in small-scale structures implanted in different locations is clearly the best solution: **putting them in different places all over the city helps to integrate them**, because the neighbourhoods are going to have a higher tolerance towards them. Ideally, refugees should be mixed with other kinds of people in the housing systems. In a German city for instance, there is a building where some refugee families are mixed with students, and this is combined with an architecture studio space.

*All countries around the world's needs to find ways to develop and provide housing for everyone. They have their own challenges to face, for example; bring and use innovation and technology in the future projects, elaborate new financing models, reduce energy costs, implement new housing policies and manage a compact city, encourage social integration, demographic changes et population flows...*

*Those diversified and multiple issues have / will have an impact on the Real Estate players and industry to build a livable future according to end-users and citizens' expectations.*



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