

Ensuring the affordability of socialized housing: Towards liveable and sustainable homes for the poor¹

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The lack of affordability is a persistent problem in socialized housing programs in the Philippines. Affordability is a critical component of the right to adequate housing. Without access to affordable housing, the poor are forced to create homes in unsafe spaces and in slums.

This policy brief tackles the issue of affordability of socialized housing within a human rights framework. It particularly highlights the problem of affordable housing for the poorest 30% of Filipino families. It also marks the challenges and limits of the dominant approach to socialized housing in light of the implementation of two codes that govern socialized housing for more than 25 years, the forthcoming creation of a Department of Human Settlements and Urban Development (DHSUD), and efforts to shift to a federal form of government.

The current dominant approach to socialized housing—private production of off-city resettlement—barely address the affordability issues as these focus on lowering housing prices and fail to account for livelihood displacement, living costs, and social service inaccessibility. Even as some cities find creative ways to provide in-

city housing to preserve beneficiary livelihood and social service access, the high cost of land put these out of the reach of the poorest of the poor. The substantial gap between the prices that private shelter producers find economically feasible and the actual capacities of the poor to pay for housing highlights that the housing crisis is a problem of low incomes.

For the poorest of the poor whose incomes barely allow access to basic needs, an income-based housing subsidy, combined with urban land reform to regulate land prices and a transport-oriented and inclusive urban planning, is critical to ensure affordable in-city socialized housing. The challenge to the proposed DHSUD and Metro Manila federal government is to re-center affordable and adequate socialized housing into city planning and development.

When is housing affordable?: Housing affordability within a human rights framework

The United Nations Human Settlements Program defines housing as affordable when “adequate in

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quality and location and does not cost so much that it prohibits its occupants meeting other basic living costs or threatens their enjoyment of basic human rights” (UN-HABITAT 2011, 10). Affordability of housing is instrumental in ensuring adequate access to other basic needs and services. It helps create stable home environments that contribute to improved education, health, and economic security and build better communities.

In marketized socialized housing programs, affordability depends on both costs of production and occupancy, which are in turn affected by location. The high cost of land remains the greatest impediment for inexpensive socialized housing provision. At the demand side, access to secure and sustainable livelihood and essential social services, including efficient public transport, defines the capacity to pay. Income levels are higher in-city, where better livelihood opportunities are available. In these areas, however, land costs are often prohibitive for housing the Filipino poor.

While there is no agreed definition of affordability globally, a house is often considered affordable in reference to cost and income levels (UN-HABITAT 2011). In Canada, Europe, and the United States, housing is mostly considered affordable when 30% or less of gross family income is spent on mortgages or rental payments and direct occupancy expenses (including taxes and insurance) (Kneebone and Wilkins 2016). On the other hand, a family is considered to be “severely cost burdened” if more than 50% of its gross income is paid for their housing and utilities (*ibid.*). UN-HABITAT (2011) includes livelihood and non-housing expenditures in determining the financial capacity of families to service housing payments. Within this framework, the use of minimum residual incomes, rather than gross incomes, as a reference of affordability provides a broader understanding of whether non-housing basic needs are met after housing payment (Stone 2006). In off-city resettlement sites, livelihood, water, electricity, and transportation may be inaccessible, therefore decreasing

residual incomes for food, health, education, and other basic needs.

The Philippine housing crisis and the (un)affordability of socialized housing

Legal and institutional infrastructure for affordable socialized housing

Two national laws outline the objectives of the affordable housing: the Urban Development and Housing Act (UDHA)³ and the Local Government Code (LGC).⁴ The UDHA explicitly aims to “uplift the conditions of the underprivileged and homeless citizens in urban areas and resettlement areas by making available to them decent housing at affordable cost, basic services, and employment.” It details the sources of funding and roles of housing agencies towards the production of socialized housing. The LGC, on the other hand, tasks local governments to be self-reliant in the efficient and effective provision of essential services, including low-cost and mass housing.

Republic Act No. 11201, the recently passed law creating the DHSUD, also highlights the need to provide affordable housing. In referring to housing, it expanded the notion to include both the process and physical shelter where communities and cities are formed and sustained, and highlighted the importance of “location relative to access to livelihood.”

According to the Batas Pambansa 220 (BP 220), the cost of production and affordability levels of socialized housing must be based on 30% of the gross family incomes of low-income earners that the HUDCC considers as the poorest 30% Filipino families.⁵ Enacted in 1982, the BP 220 remains the governing law for the technical standards, including affordability, of socialized and economic housing. The UDHA identifies poor individuals or families living in urban or urbanizable areas who do not own housing facilities as the primary beneficiaries of socialized housing programs.⁶ Thus, the National

³ Republic Act No. 7279, enacted March 24, 1992

⁴ Republic Act No. 7160 (as amended by Republic Act No. 8553), enacted October 10, 1991

⁵ For instance, see HUDCC Memorandum Circular No 1, Series of 2018.

⁶ This is based on the poverty threshold set by the National Economic and Development Authority (NEDA).

Housing Authority (NHA) is tasked to provide socialized housing for the poorest 30% of urban poor Filipinos.⁷ The focus on the urban poor overlooks the spatial concentration of the poor in farmer and fisherfolk sectors and the high disparity between the income levels of rural and urban residents.

The dominant approach to socialized housing is privatized and supply-side focused, as reflected in the mandates of the government's key shelter agencies. The NHA regulates and provides incentives to the private sector for socialized shelter production. It is also primarily responsible for selecting resettlement sites and beneficiaries. By increasing the supply of low-priced units via private-sector production and providing subsidized housing loans, the hope is that informal settler families will be able to purchase formal and affordable housing.

The 'dual' housing crisis⁸

There is a 'dual' housing crisis in the Philippines—empty socialized housing in light of the huge unmet housing needs particularly for low-income Filipino families—that reflect the lack of affordability of socialized housing. In the 1990s, 16.5 million Filipinos were slum dwellers. By 2014, 17 million were still living in slums (United Nations n.d.). In terms of physical shelter, the Housing and Urban Development Coordinating Council (HUDCC) estimates that in 2016, 800,000 households are living in unacceptable housing (NEDA 2017).

To address the severe shortage, the administration of President Rodrigo Duterte plans to deliver housing assistance to almost 1.56 million households by 2022, of which the NHA will be producing 856,230 shelters. Through such massive housing production, the proportion of urban slum dwellers is to be drastically reduced from 38.3% in 2014 to 22% in 2022. However, socialized housing has not received sufficient state funds and the Philippines has the lowest funding allocation among Southeast Asian countries (NEDA 2017).

The NHA implements a completed housing approach. With the high land price in urban

areas, resettlement sites are mostly in peri-urban areas. Socialized house and lot units in off-city resettlements are offered for purchase to target beneficiaries through a subsidized loan to be repaid within a graduated 30-year amortization schedule.

Despite the 'low' monthly amortization, the program is faced with severe affordability issues. The NHA resettlement program has a vast number of unoccupied units and low collection and retention rates. Target beneficiaries refuse to occupy off-city resettlement, primarily citing the lack of livelihood and social services. As of 2017, 127,225 socialized housing (46%) of the total 274,994 built units are unoccupied. Likewise, NHA amortization collection rates in 2016 are at only 8%. In 2018, the National Anti-Poverty Commission (NAPC) documented that only a couple of years after resettlement, at least a third of the relocatees in 26 sites around Metro Manila have moved out.

The economics of (un)affordability within privatized shelter production

To ensure profitability and facilitate private sector participation in shelter production, the HUDCC regularly adjusts the socialized housing price ceiling for inflation, often at the behest of private contractors (See Table 1 below).

TABLE 1 Socialized housing price ceilings adjustments

Year	Socialized housing price/loan ceiling (in Php)
2000	180,000
2002	225,000
2005	300,000
2008	400,000
2013	450,000
2018	480,000 (22 m ² + 50% loft or 24 m ²) 530,000 (24 m ² + 50% loft or 24 m ²) 580,000 (28 m ² + 50% loft or 32 m ²)

Sources: HUDCC Memorandum Circular 1, Series of 2000; HUDCC Memorandum Circular 2, Series of 2002; HUDCC Memorandum Circular 3, Series of 2005; HUDCC Memorandum Circular 1, Series of 2008; HUDCC Memorandum Circular 1, Series of 2013; HUDCC Memorandum Circular 1, Series of 2018

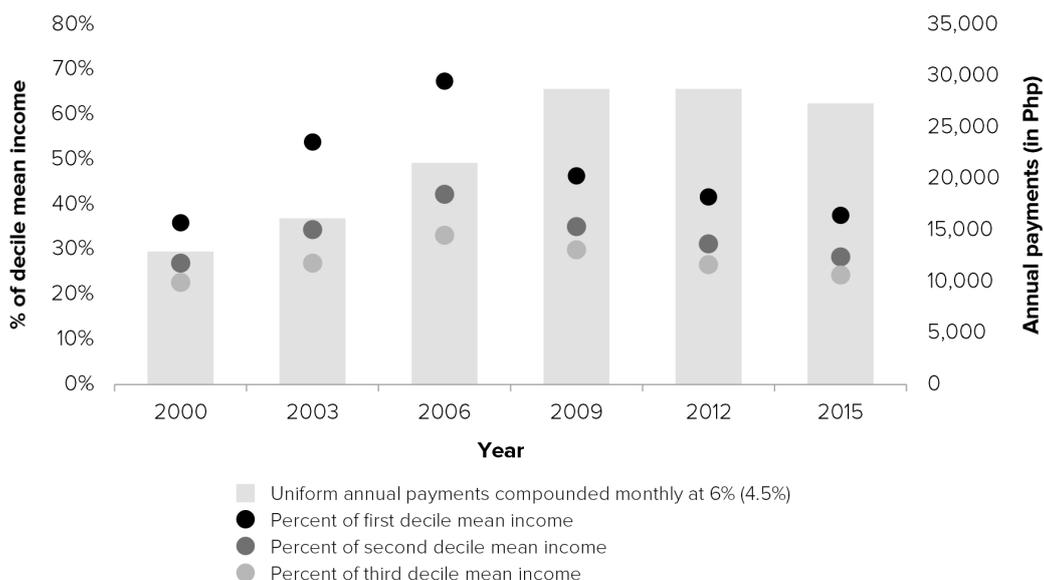
⁷ This is according to Executive Order 90, Series of 1986. In the last few years, the NHA has ventured into socialized housing provision for calamity survivors in rural areas.

⁸ I explicate the political economy of the low-occupation of socialized housing in another paper (see Arcilla 2018).

With the increasing price ceilings, a substantial portion of the poor’s family income must be allocated to shelter payments to access socialized housing loans. Matching the ceiling price⁹ to mean annual incomes of the poorest three deciles from the year 2000 to 2015 shows that the share of required housing expenses to income is mostly unaffordable,

beyond 30% for the poorest 20% in many years (See Figure 1 below). The poorest 10% are particularly severely cost-burdened if they access socialized housing from 2003 to 2006. These computations do not consider higher utility payments, increased transportation costs, and reduced incomes in off-city resettlements.

FIGURE 1 Uniform annual amortizations as a percent of mean annual incomes of the poorest 30%, 2000 to 2015



Source: Author’s computations using data from the Philippine Statistics Authority (PSA)’s Family Income and Expenditure Survey for years 2000, 2003, 2006, 2009, 2012, and 2015

The significant gap between the required household income share to access socialized housing loans and actual housing expenditures raises concern on the capacity of low-income families to afford socialized housing. The poorest 30% of Filipino families only spent 7.3% of their household income on housing in 2015 (See Table 2 on next page).

If affordability is to be based on actual housing expenditures, then privatized shelter production has not made socialized housing affordable for the poorest 30% of the population. A Home Guaranty Corporation (2005, 3–4) study concluded that “only those belonging to the seventh decile up can afford” the lowest priced socialized housing in 2003.¹⁰ By

2015, the poorest 70% of Filipino families cannot afford socialized housing at the ceiling price of Php 450,000. In the same year, only the fifth decile and above can afford the lowest-priced units located in off-city resettlement sites, which are at Php 240,000.

The difference between the actual housing payments of the poor against the prices that private shelter producers find economically feasible suggests that the socialized housing crisis is a problem of low-incomes. Focusing efforts on producing low-cost socialized housing, despite subsidized loans, long amortization terms, and graduated schedules, is not adequate to address the housing needs of the poorest Filipinos.

⁹ Transformed into equal annual amortization payments using actual interest rates and following the monthly-compounded interest calculations used by the NHA on low-rise buildings in 2014. The interest rates were adjusted from 6.0% to 4.5% in 2013, and lowered to 3% in June 2018. Actual amortizations may vary as house construction portions of the lower-value loan are not subjected to the monthly compounded interests.

¹⁰ The lowest-priced housing loan of Php 150,000 is from the Home Development and Mutual Fund (HDMF).

TABLE 2 Income deciles with average family incomes, expenditures, savings, and affordable housing loans, 2015

Per capita income decile	Average monthly family income	Average monthly family expenditures	Average monthly family savings	Average monthly rent/rental value of house and lot	Share of rent/rental value of house and lot to total income	Affordable loan (30 years, at 4.5% monthly) ¹¹
First	7,168.33	7,428.92	(260.58)	501.82	7.00%	99,039.78
Second	9,516.08	9,186.00	330.08	698.27	7.34%	137,811.38
Third	11,081.92	10,162.67	919.25	850.09	7.67%	167,774.75
Fourth	13,034.58	11,663.17	1,371.42	1,082.99	8.31%	213,740.16
Fifth	15,186.00	13,390.33	1,795.67	1,363.82	8.98%	269,165.10
Sixth	18,150.42	15,719.83	2,430.58	1,708.63	9.41%	337,217.20
Seventh	21,547.00	18,074.17	3,472.83	2,117.61	9.83%	417,933.96
Eighth	26,666.33	21,672.58	4,993.75	2,687.82	10.08%	530,471.27
Ninth	34,593.00	27,181.50	7,411.50	3,639.69	10.52%	718,333.44
Tenth	65,526.17	44,534.75	20,991.42	7,177.65	10.95%	1,416,589.32

Source: Family Income and Expenditure Survey 2015, Philippine Statistics Authority

Affordability of off-city resettlement: Economic displacement, lack of social services, and increased transport costs

Setting aside the social costs of family and community segregation endured by relocatees, relocation directly affects net household incomes in at least two ways: increased cost of living (including transportation costs) and livelihood displacement. Relocatees endure the lack of social services as the sudden influx of poor residents burden the capacity of receiving local governments, which are often low-income class municipalities.

Relocation into off-city resettlement impoverishes many people. In a 2018 survey conducted by the NAPC that covers 51,352 households in 26 off-city resettlement sites around Metro Manila, 37% of families were reported to have incomes below the poverty line.¹² The NAPC study

also recorded that more than half (58%) of working-age adults in the resettlements are unemployed.¹³ These poverty and unemployment levels are way above the recorded 2018 official rates in the National Capital Region, Region III, and Region IV-A, where the resettlement sites are located.¹⁴ The NAPC report also highlighted the high transportation costs that decrease net incomes of families. The NAPC findings support a World Bank study that revealed that families relocated in off-city resettlements have average monthly incomes lower by almost 30% compared to in-city relocatees, causing an increase in food insecurity, reduced spending on basic needs, and disruptions in children's education (Ballesteros and Llanto 2015).

Where socialized housing is located off-city, where livelihood is inaccessible, low-priced units may remain unaffordable given reduced incomes and higher living costs.

¹¹ Affordable loan is computed using the monthly compounded interest method used by NHA based on average monthly household rent/rental value payments. Computations noting that the Php 240,000 loan with a Php 35,000 subsidy for off-city resettlements where only the lot component is interest bearing did not change affordability levels. When the assumption of a 24-month savings as equity is added similar to the HGC (2005) study, off-city resettlement remains affordable to the fourth decile and up, while the in-city socialized housing valued at the price-ceiling is affordable to the 6th decile up. In an earlier study, Monsod (2016) computed that the Php 450,000 loan for High Density Housing in-city is not affordable to the poorest 50%, while the NHA resettlement valued at Php 205,000 is unaffordable to the poorest 20%.

¹² This is based on declared family income and the Philippine Statistical Authority 2015 provincial poverty threshold.

¹³ These are respondents who answered 'none' to the NAPC survey question on primary occupation.

¹⁴ Estimated official poverty rates in the first semester of 2018 ranged from 4.8% to 8.1% in District 1 and 3 in the National Capital Region, and the provinces of Bulacan, Rizal and Cavite. Official unemployment registered from 5.2% to 7.2%, in the National Capital Region, Region III, and Region IV-A. The differences in the NAPC and PSA methodologies allow only a rudimentary comparison but nonetheless point to higher levels of poverty and unemployment in off-city resettlements.

Enhancing affordability of socialized housing programs

Socialized housing remains unaffordable to the poorest 30% of Filipino families. The evidence suggests that to increase affordability, housing programs must include interventions that take into account the demand side, which include livelihood assistance and income-based subsidies.

As urban poor communities and their advocates have asserted, affordable in-city housing remains the best option for the Filipino urban poor. It minimizes economic displacement and preserves access to social services of the beneficiaries.¹⁵ However, this remains largely inaccessible to the Filipino poor due to high land costs.

Some critical policy recommendations¹⁶ towards ensuring socialized housing affordability are highlighted in this section.

- (1) **Develop a housing affordability indicator/s that incorporate the effects of relocation on post-relocation household net incomes.** If socialized housing programs are aimed to improve family welfare, these must be designed and evaluated based on alternative affordability indicators that consider living and transportation costs, access to social services in resettlement sites, and post-relocation incomes. These indicators can be supplemented with existing data sets on loan repayment, unit occupancy, and beneficiary retention.
- (2) **Provide income-based subsidies for the poor and institute income-restoration mechanisms.** Income-based subsidies will help the poor in accessing decent shelter without compromising access to basic needs. This measure is even recognized in the current Philippine Development Plan. In cases where much-needed development projects unavoidably displace in-city poor communities, the subsidies must aim to restore post-relocation incomes to pre-relocation levels using funds from the stream of project benefits (Cernea 2007).
- (3) **Recognize affordable and decent in-city housing as a significant component of a comprehensive poverty reduction program.** Affordable and decent in-city housing provides the poor with critical access to education and health services that increase worker productivity and incomes.
- (4) **Institutionalize participatory governance for the urban poor at the national, local, and institutional levels.** Providing a space where affected families can raise their concerns and participate in decision-making can make socialized housing programs more sustainable and affordable. Housing agencies must devote the necessary time and suitable human and economic resources for consultations and in helping in the people's planning process. Mixed and inclusive housing designs can be explored to incorporate differential subsidies and address diverse urban poor housing needs.
- (5) **Institutionalize alternative tenure modalities within an equitable and inclusive urban land reform.** High land prices limit affordability. Without innovative strategies that lower in-city land costs, the practice of locating socialized housing in off-city sites (and producing empty housing) will continue and the provision of income-based subsidies cannot be sustainable. In the short term, land inventories of idle public lands for socialized housing needs to be completed and made accessible to the poor communities. Alternative tenure modalities, such as usufruct and public rental, do work (Karaos, Nicolas, and Rabacal 2011), but these are limited by how much land is accessible to poor communities. In the long run, an equitable urban land reform program must be implemented where government regains its control of land.
- (6) **Develop a clear and integrated framework on employment generation based on equitable**

¹⁵ In-city housing is more welfare-enhancing (Ballesteros and Llanto 2015) and cost-effective than off-city resettlements when social service provision is considered (Ballesteros and Egana 2013).

¹⁶ The National Housing Summit on Housing and Urban Development (World Bank 2016) produced broad recommendations on affordable housing.

urban and regional agricultural development. Employment opportunities must be generated to increase incomes of urban poor and enable them to purchase formal housing. A component of this integrated framework is a better linkage of efficient and affordable public transport with socialized housing projects. Concomitantly, the influx of poor rural peoples in the cities searching for better employment opportunities and social services must be mitigated by increasing agricultural productivity and incomes.

Re-centering affordable socialized housing in the city: Challenges for federalism and urban governance in larger Metro Manila

The challenge to the new DHSUD and a possible Metro Manila federal government is to re-center affordable and adequate socialized housing in city planning. In a federal system of government, reforms towards making housing affordable, as a part of its undertakings aimed at social justice and inclusive governance, require the recognition of the transbounded nature of the right to affordable housing and its complex link with livelihood and human development. Ensuring affordable socialized housing entails comprehensive planning and integration with national programs on urban land reform, public transport infrastructure, poverty reduction, agricultural development, and employment generation. It similarly demands a better explication of the role and fiscal responsibilities of and coordination among key shelter agencies and regional and local governments. Within the current institutional setup, planning for employment generation and urban development is essentially distinct from planning for socialized housing. Even as some cities find creative ways to provide in-city socialized housing, the NHA remains the main actor in socialized housing and development. Housing for the poor—a key ingredient for inclusive urban development—thus lies outside the purview of urban citizens.

In the capital where the housing problem is acute, the formation of a Metro Manila administrative region within a federalized system may provide opportunities towards the better provision of in-city affordable housing. Land in the metropolis for socialized housing must be made accessible to urban poor communities through alternative tenurial

mechanisms including public housing and rental. Spaces and capacities for democratic participation of the urban poor in urban and shelter planning must be strengthened, including increasing their capacities and voting rights in the regional and city development councils and local housing boards.

Affordable housing is critical to empowering the urban poor and thus should be central to inclusive and sustainable urban development.

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