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Condominium Developments in Bangkok
Welcome to our second English language edition of the GH Bank Housing Journal. We were most happy with the warm response we received from readers of the first edition that was published in the fourth-quarter of 2007.

The Government Housing Bank of Thailand is pleased that our Research and Information Services Department also received overwhelming response from many real estate industry professionals who wanted to contribute to future editions of the journal. Thank you so much for your interest.

The GH Bank Housing Journal’s mission is to provide cutting-edge real estate industry information and knowledge. We are proud that this second English-language edition is highlighted with five articles on the effects of the US sub-prime crisis.

I would like to thank Triphon Phumiwasana and his colleagues at the Milken Institute in the US for their very important sub-prime contributions. I am also most pleased that Sarakorn Gerjarusak, Managing Director of Goldman Sachs Asia Ltd in Hong Kong could take time off his busy schedule for his contribution to our special sub-prime section.

This edition also features our popular Real Estate Wisdom series, a section on Thailand’s condominium market and four articles on recent real estate trends in Thailand and the region, including a report from UNESCAP on a recent regional pro-poor housing dialogue in India.

The GH Bank Housing Journal’s second English language edition, I am sure will provide all of you with valuable real estate industry-related information and perhaps just as importantly much entertaining reading.

Thank you again for your continuing support.

Khan Prachuabmoh
President, Government Housing Bank
Bangkok, Thailand
March, 2008
We thank you all for your warm response to the first English-language edition of the GH Bank Housing Journal that was published in the fourth quarter of 2007.

The second GH Bank Housing Journal is pleased to feature five interesting articles that look at the current US sub-prime crisis from a different perspective than what is normally delivered in the media. We thank members of the Milken Institute in the US and Sarakorn Gerjarusak, Managing Director of Goldman Sachs Asia for their important contributions.

We have also continued our Real Estate Wisdom series that has proven to be as popular in English as in Thai. This edition also features a round-up of Thailand’s condominium market by leading industry professionals from all segments of this fast-growing and most important housing sector.

The Journal’s final section highlights current real estate trends in Thailand and the region including a summary of the proceedings at the recent Regional Policy Dialogue on pro-poor housing in New Delhi.

Thank you again for your interest and again we welcome all your comments and suggestions.
US SUB-PRIME CRISIS – HOUSING FINANCE IMPLICATIONS

The US sub-prime crisis is wreaking havoc globally. Here in Asia, no-one is sure of its long-term housing industry implications. We feature four interesting articles by members of the Milken Institute and one by Sarakorn Gerjarusak, managing director of Goldman Sachs Asia Ltd.

02 A SHORT HISTORY OF SUB-PRIME MELTDOWN

This article provides us with a background of how the securitization market developed and how its rampant growth, particularly aided by the proliferation of sub-prime loans, has led to the current meltdown.

09 SURPRISE: SUB-PRIME MORTGAGE PRODUCTS ARE NOT THE PROBLEM!

The proliferation of sub-prime real estate loans particularly in 2006 and 2007 has been blamed by most people for the current financial crisis. In this article, the authors question this premise.

14 DESPITE FORECLOSURES, SUB-PRIME LENDING INCREASE HOMEOWNERSHIP

Homeownership is almost everyone’s dream. The authors argue that if increasing home ownership is the objective, sub-prime loans are benefiting society.

17 MORTGAGE MARKET TURMOIL: THE ROLE OF INTEREST-RATE RESETS

The current sub-prime crisis highlights the role of hybrid real estate loans that often feature initial low-teaser-rate payments that are eventually reset to market rates and terms. This article provides some interesting data on hybrid loans and their role in the US housing market.

20 US SUB-PRIME CRISIS: VALUE OF BAHT AND HOME MORTGAGE INTEREST RATES

Sarakorn Gerjarusak walks us through the Thai baht’s history since its 1997 devaluation and comments on how the sub-prime crisis has made almost everyone bearish the US dollar and how it will affect short and long-term home mortgage interest rates in Thailand.
CONDOMINIUMS IN THAILAND

In the past several years, condominiums have gradually become the primary housing type for many Thai home owners. This section features developers from many different condominium market-segments.

26 FROM TEMPLE BOY TO REAL ESTATE TYCOON - SONGSAKDI OWLARN

Songsakdi Owlarn started life as a temple boy and became one of Thailand’s leading land and housing developers. Learn how he transformed Bangkok’s eastern rice-fields during the past 45 years into a major suburb.

35 BUILDING A REAL ESTATE BUSINESS - FOUR DECADES OF SUCCESS - NAMCHAI TANTERDTHAM

The late Namchai Tanterdtham started with a small construction supply shop in the early 1960s and eventually transformed it into a business that built and sold more than 50 successful housing projects with 10,000 homes. Learn how he pioneered housing developments in Bangkok’s Ladprao area.

46 MEDIUM TO HIGH-END CONDOMINIUM DEVELOPMENTS 2007

Srettha Thavisin, Sansiri Plc’s president talks about the medium to high-end condominium market in 2007 and its prospects in 2008. He emphasizes that quality and superior after-sales service are keys to his company’s long-term success.

49 LOW AND MIDDLE INCOME CONDOMINIUM DEVELOPMENT IN BANGKOK

Opas Sripayak, managing director of LPN Developments talks about his company’s strategic move into the low and middle condominium markets primarily in Bangkok’s suburbs.

56 SUCCESS SECRETS - LOW-PRICE CONDOMINIUM PIONEER

Thumrong Punyaskunwong explains how he achieved huge success building low-priced condominiums in the late 1970s and why he has moved into developing higher priced units.

60 CONDOMINIUM DEVELOPMENTS IN BANGKOK 1994 - 2007

Sophon Pornchokchai’s paper outlines the growth of Thailand’s condominium housing market from 1994 to 2007. The article shows some very interesting trends and why he thinks that the current market is not oversupplied.
This section features articles on recent real estate trends in Thailand and the region.

67 URBAN PLANNING POLICIES IN THAILAND
This article outlines the development of urban planning in Thailand. It also gives a glimpse of where "official" development is headed during the next several decades.

74 REAL ESTATE INDUSTRY WILL DRIVE THAI ECONOMIC GROWTH 2008
Khan Prachuabmoh, Government Housing Bank’s President explains why the real estate industry and the new Thai government’s economic stimulus measures will drive economic growth in 2008.

77 KEY HOUSING STATISTICS 2007
Samma Kitsin of the Real Estate Information Center gives us a run-down on what happened to the Thai real estate market in 2007.

80 BAUSPAR FINANCING SYSTEM - APPROPRIATE FOR THAILAND?
Ballobh Kritayanavaj of the Government Housing Bank looks at whether Germany’s Bauspar home-financing system can be applied successfully in Thailand.

85 REGIONAL POLICY DIALOGUE ON PRO-POOR HOUSING
This article summarizes the UNESCAP and National of Housing Bank, India co-sponsored Regional Policy Dialogue on pro-poor housing in New Delhi, India in March 2008. It outlines how the region is dealing with the housing of low-income citizens.

We have also published Ravi Ratnayake, UNESCAP’s Poverty and Development Division Director’s very important statement at the Regional Policy Dialogue.
CONTRIBUTORS AND PERSONALITIES

JAMES R BARTH, PhD 2, 9,14,17

JAMES BARTH is the Lowder Eminent Scholar in Finance at Auburn University and a Senior Fellow at Milken Institute. His research focuses on financial institutions and capital markets, both domestic and global, with special emphasis on regulatory issues. Most recently, he served as leader of an international team advising People’s Bank of China on banking reform.

TONG LI, PhD 2, 9,14,17

TONG LI is a Senior Research Analyst at the Milken Institute. She received a BA degree in international finance from Peking University in 2000 and her PhD in economics with a concentration in development economics and econometrics from the University of California, Riverside.

TRIPHON PHUMIWASANA, PhD 2,9,14,17

TRIPHON PHUMIWASANA (ED) is a Research Economist at the Milken Institute. Born in Thailand, Triphon earned his PhD in economics with a concentration in international money and finance from Claremont Graduate University.

JAMES BARTH

GLEN YAGO, PhD 2,9,14,17

GLEN YAGO is a Director of Capital Studies at the Milken Institute and leading authority on financial innovations, capital markets, emerging markets and environmental finance. His opinions appear regularly in the Los Angeles Times and The Wall Street Journal. He earned a PhD from the University of Wisconsin.

GLEN YAGO

SONGSAKDI OWLARN 26

SONGSAKDI OWLARN 79, is the founder and Chairman of the Floraville Group of Companies that has transformed Bangkok’s eastern outskirts into a prime residential area in the past 50 years.

SONGSAKDI OWLARN

NAMCHAI TANTERDTHAM 35

The late NAMCHAI TANTERDTHAM was founder the NC Group of Companies that includes Stock Exchange of Thailand listed NC Housing Plc. This pioneer built more than 50 successful housing projects. He passed away on October 2, 2007.

NAMCHAI TANTERDTHAM

SRETTHA THAVISIN 46

SRETTHA THAVISIN is President of Sansiri Plc, a Stock Exchange of Thailand listed housing developer.

SRETTHA THAVISIN

SARAKORN GERJARUSAK, PhD 20

Hong Kong-based Thai investment banker SARAKORN GERJARUSAK (Bobby) is Managing Director of fixed income, currency and commodities at Goldman Sachs Asia Ltd. He holds a PhD in chemical engineering from Massachusetts Institute of Technology (MIT). His bachelors and masters degrees are from University of Pennsylvania and Yale University respectively.

SARAKORN GERJARUSAK

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<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Contributions</th>
</tr>
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<tbody>
<tr>
<td>OPAS SRIPAYAK</td>
<td>49</td>
<td>Managing Director of LPN Development Plc, a Stock Exchange of Thailand listed developer. He is a Bachelor of Architecture graduate of Silpakorn University.</td>
</tr>
<tr>
<td>THAMRONG PUNYASKUNWONG</td>
<td>56</td>
<td>The founder and President of Nirun Housing Co Ltd.</td>
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</tr>
<tr>
<td>SOPON PORNCHOKCHAI, PhD</td>
<td>60</td>
<td>An experienced valuer and appraiser. He has authored many articles on the subject and is a frequent guest speaker in Thailand and abroad. He is President of the Thai Appraisal Association.</td>
</tr>
<tr>
<td>TIRAWATR KULLAVANIJAYA</td>
<td>67</td>
<td>The former Director-General of Thailand's Department of Public Works and Town and Country Planning.</td>
</tr>
<tr>
<td>KHAN PRACHUABMOH</td>
<td>74</td>
<td>Has been the Government Housing Bank (GH Bank) of Thailand's President since 2002. Since taking charge of GH Bank, Khan and the organization have achieved domestic and international recognition as a global-leading housing finance bank.</td>
</tr>
<tr>
<td>SAMMA KITSIN</td>
<td>80</td>
<td>Director-General of the Real Estate Information Center (REIC), an independent unit under the Government Housing Bank. He was previously the chief executive of Thailand's credit information agency.</td>
</tr>
<tr>
<td>BALLOBH KRITAYANAVAJ</td>
<td>83</td>
<td>The head of Government Housing Bank's Research and Information Services Department. He has written many real estate articles during his career in the housing industry and is responsible for the Thai language edition of the GH Bank Housing Journal.</td>
</tr>
<tr>
<td>RAVI RATNAYAKE, PhD</td>
<td>88</td>
<td>The Director of the Poverty and Development Division and Chief Economist of United Nations ESCAP in Bangkok, Thailand. He is also the Coordinator of the Poverty Theme Group of UNESCAP and Coordinator of the regional Millennium Development Goals program.</td>
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US SUB-PRIME CRISIS
HOUSING FINANCE IMPLICATIONS

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  RESETS

- US SUB-PRIME CRISIS
  VALUE OF BAHT AND HOME
  MORTGAGE INTEREST RATES
The residential mortgage market in the United States has worked extremely well over the past two centuries, enabling millions of people to achieve the dream of home ownership. Indeed, the home ownership rate reached a record high of 69.2 percent in 2004 before declining to 68.2 percent at the end of the third quarter in 2007 (see figure 1). To be sure, there have been periods of disruption in these markets. The most recent episode occurred in the summer of 2007 and is widely referred to as the "sub-prime mortgage market meltdown." A major concern is the prospect that 2 million or more individuals with sub-prime loans will lose their homes to foreclosure in 2008 and 2009. Many of these individuals took out "hybrid" mortgage loans with low introductory interest rates for two or three years and a higher rate thereafter. The recent decline in home prices, increases in foreclosures and the tightening of credit standards by lenders are slowing economic growth and may possibly even create...
a recession. In response to this troubling situation, the Bush administration pushed for a voluntary freeze on interest rates for a select group of roughly 600,000 borrowers with sub-prime hybrid mortgages in an effort to prevent foreclosures. To head off similar problems in the future, some members of Congress are considering legislation that would effectively require lenders to extend mortgage loans only to individuals who can afford them. Furthermore, under some proposals, lenders and even investors in securities backed by mortgage loans could be held liable for any breach of laws and regulations when individuals purchase homes even though others are primarily responsible for screening customers brought to them. The Federal Reserve is also proposing new guidelines for mortgage lenders to better assure that only creditworthy borrowers obtain loans. Lenders are also reacting by no longer offering certain types of mortgage products and being more diligent in scrutinizing borrowers.

Before any legislation and regulations are enacted to address and respond to the current problems in the sub-prime mortgage market, it is important to understand some of the changes that have taken place in U.S. mortgage markets over the past three decades and have contributed to the current situation. Prior to 1980, the vast majority of all residential home mortgage loans were made by savings and loans. These institutions originated, serviced, and held these loans in their portfolios. The combining of these three functions by a single institution began to change in 1970 with the increased securitization of residential home mortgage loans. Subsequently, the Government National Mortgage Association (GNMA or Ginnie Mae), the Federal National Mortgage Association (FNMA or Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) became the primary securitizers of home mortgages. Indeed, the share of all outstanding home mortgages they securitized was only 1 percent in 1965, but rose to a high of 48 percent in 2001 (see figure 2). The securitization process contributed to the unbundling of the home mortgage process insofar as savings and loans no longer had to hold these mortgages in their portfolios. At the same time, investors in the securities backed by home mortgages provided an additional source of funding beyond the deposits of savings and loans. The origination and servicing of mortgages also became separate functions not entirely performed by savings and loans. The number of U.S. mortgage brokers was 7,000 in 1987, but increased to 53,000 in 2006. Their share of mortgage originations increased from 20 percent in 1987 to 68 percent in 2003, before declining to 58 percent in 2006 (see figures 3 and 4). The unbundling of the home mortgage process into these three separate functions (funding, origination and servicing) meant there were also three separate sources of revenue to be earned. Unlike the savings and loans, investors ultimately purchasing securities based upon pools of home mortgage loans became further removed from the homes serving as collateral, and therefore have relied heavily on rating agencies for accurately assessing the credit quality of these securities.

The collapse of the savings and loan industry in the early 1980s led to further changes in mortgage markets.1 When the Federal Reserve changed its operating policy to combat inflationary pressures, short-term interest rates rose rapidly, and the yield curve inverted (i.e., short-term rates exceeded longer-term rates).2 At the time savings and loans were heavily involved in the mortgage market, holding about half of all home mortgage loans in portfolio. The vast majority of these mortgages were traditional

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Those individuals choosing adjustable-rate mortgages typically receive an initial interest rate that is lower than one with a fixed-rate mortgage, but then face the prospect of higher rates if market interest rates rise. At the same time, the development and wide use of credit scores for individual borrowers and credit ratings for individual issuances of mortgage-backed securities provided more information for both lenders and borrowers to better assess and price risk.

Beginning in the second half of the 1990s, sub-prime mortgage loans grew rapidly in importance. Indeed, the subprime share of total originations was less than 5 percent in 1994, increased to 13 percent in 2000, and then further increased to more than 20 percent in both 2005 and 2006. Furthermore, the share of sub-prime originations that was securitized more than doubled over the same period, from 32 percent to 81 percent (see table 1). Security issuance, moreover, was no longer overwhelmingly dominated by Ginnie Mae, Freddie Mac and Fannie Mae. Home mortgage loans securitized by non-agency entities grew rapidly from $386 billion in 2000 to $2.2 trillion in the third quarter of 2007. The growth of sub-prime lending and non-agency securitization was largely stimulated by relatively low interest rates and increased reliance on credit scoring and risk-based pricing. The 10-year Treasury note rate fell from 6 percent in 2000 to 4 percent in 2003, remaining relatively flat for the subsequent two years, rising to 4.8 percent in 2006, and remaining relatively flat thereafter. Many lenders and investors were seeking higher yields and the sub-prime mortgage market promised them. Lending institutions and investors in securities found the sub-prime market segment attractive but apparently underestimated the riskiness of sub-prime loans. At the same time, many borrowers undoubtedly found sub-prime loans attractive given the substantial increases in home prices that were taking place in many parts of the country. Indeed, home prices rose nationally at an average annual rate of nearly 9 percent rate from 2000 to 2006,
A short history of the sub-prime mortgage market meltdown

after only rising an average of slightly less than 3 percent per year in the 1990s (see figure 5). Stated another way, a home worth $150,000 in 2000 was worth $251,565 in 2006. This environment undoubtedly fueled substantial optimism on the part of lenders, borrowers and investors. Mortgage brokers also found sub-prime loans attractive because they could earn fees without incurring any credit risk.

In the summer of 2007, substantial problems began to emerge in the sub-prime loan market when several sub-prime mortgage lenders filed for bankruptcy and other financial firms suffered losses on sub-prime securities. Furthermore, the rate of foreclosures on sub-prime loans increased from 2000 to 2006. Some estimates indicate a near doubling of the foreclosure rate over this period, and for loans in 2006 the foreclosure rate of 5.5 percent after just six months from origination is already exceeding the corresponding foreclosure rates for all previous years (see figure 6). Most of the foreclosures on subprime loans occur in the first few years after the loans have been made (see tables 2 and 3). Indeed, based on LoanPerformance data, the national foreclosure rate on sub-prime mortgage loans originated in 2006 was slightly higher than 10 percent from January 2006 through September 2007, and nearly 20 percent for loans made in California. As of November 2007, there was one foreclosure for every 617 households, according to RealtyTrac. More generally, some estimates of the total cost of the sub-prime mortgage meltdown range from $150 billion to $500 billion (as compared with the cost of saving and loan crisis at $408 billion in 2007 dollars, of which 82 percent was borne by taxpayers). This troublesome situation has led to many condemnations of sub-prime mortgage loans, particularly hybrid loans, and securitization.

Before overreacting to or overstating the current problems in the sub-prime loan market, it is important to realize that the growth in this market reflected a combination of factors, including the extension of credit to less creditworthy individuals that allowed first-time home ownership for many individuals. Sub-prime loans also let some borrowers improve their creditworthiness and then qualify as prime borrowers. The distinction between prime and sub-prime borrowers is also not as clear-cut as it might appear. For example, individuals can be considered either prime or sub-prime borrowers with FICO scores below 620, and the same is true for those with scores above 620. Indeed, the distinction is artificial insofar as risk-based pricing is used. Furthermore, most of the same types of mortgage products offered to sub-prime borrowers are also offered to prime borrowers. And the securitization of these products used by all borrowers is important in both enhancing the liquidity of home mortgage loans and increasing the supply of funds for such loans.

Most importantly, the factors that cause individuals to enter foreclosure are generally not based on the type of product they receive, but rather the financial circumstances they find themselves in subsequent to obtaining mortgage loans. These factors include unemployment, divorce, health problems and, especially, declines in home prices to the point at which homes are worth less than outstanding mortgage balances. By recognizing the key role these factors play, it becomes clear that additional legislation and regulations cannot and should not try to prevent sub-prime lending or innovation in the mortgage markets more generally because that will simply shut off credit to less creditworthy individuals desiring to become home owners. Instead, actions should focus on better educating consumers on complex loan products and simplifying the documents necessary for informed decision-making. After all, consumers must be allowed to choose mortgage products, even if some expose borrowers to interest-rate risk. Also, investors, both domestic and foreign, in securities backed by sub-prime loans, particularly in the more
exotic types, must more fully appreciate the fact that the marketplace is sometimes quite harsh in punishing those who seek out ever higher returns without properly taking into account and being able to accurately assess the corresponding ever greater risk. Lastly, in view of the fundamental determinants of foreclosures, more thought should be given to what foreclosure rate is acceptable on sub-prime mortgage loans in the absence of fraud on the part of either the lender or borrower. Surely it would be unreasonable to enact legislation or implement regulations based on the premise that the socially desirable foreclosure rate is zero. If that were the case, hardly anyone would qualify for a home mortgage loan.

Figure 1: Homeownership Rate Reaches an All-Time High in 2004 January 1965 - September 2007

Source: U.S. Census Bureau.

Figure 2: Securitization Has Replaced Financial Institutions in Funding Home Mortgages January 1952 September 2007

Source: Federal Reserve.

Figure 3: Mortgage Brokerages Become Major Players in Originating Home Mortgages 1987 - 2006


Figure 4: Mortgage Brokers Account for Majority of Recent Mortgage Originations 1987-2006

Table 1: Growing Importance of Sub-prime and Securitization of Home Mortgage Originations 1994 - 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Originations (US$ Billions)</th>
<th>Prime Market Share of Total (Percent)</th>
<th>Sub-prime Market Share of Total (Percent)</th>
<th>Sub-prime MBS Market Share of Total (Percent)</th>
<th>Share of Sub-prime MBS of Sub-prime Originations (Percent)</th>
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<tbody>
<tr>
<td>1994</td>
<td>773</td>
<td>94.0</td>
<td>4.5</td>
<td>1.4</td>
<td>31.6</td>
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<tr>
<td>1995</td>
<td>639</td>
<td>86.9</td>
<td>10.2</td>
<td>2.9</td>
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<tr>
<td>1996</td>
<td>785</td>
<td>83.2</td>
<td>12.3</td>
<td>4.5</td>
<td>36.4</td>
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<tr>
<td>1997</td>
<td>859</td>
<td>78.3</td>
<td>14.5</td>
<td>7.3</td>
<td>50.0</td>
</tr>
<tr>
<td>1998</td>
<td>1,450</td>
<td>84.0</td>
<td>10.3</td>
<td>5.7</td>
<td>55.1</td>
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<td>1999</td>
<td>1,310</td>
<td>83.2</td>
<td>12.2</td>
<td>4.6</td>
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<td>2000</td>
<td>1,048</td>
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<td>2001</td>
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<td>87.9</td>
<td>7.8</td>
<td>4.3</td>
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<td>2002</td>
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<td>88.4</td>
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<td>2003</td>
<td>3,945</td>
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<td>2005</td>
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<td>63.7</td>
<td>20.1</td>
<td>16.2</td>
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Figure 5: Home Prices Peak in 2006 and Subsequently Decline January 1987 - September 2007

Figure 6: Foreclosure Rates on Recent Sub-prime Mortgage Originations Rise Sharply 2000 - 2006 Originations

Source: S&P/Case-Shiller and OFHEO.

Source: LoanPerformance.

A short history of the sub-prime mortgage market meltdown
Table 2: National Sub-prime Foreclosure Rates by Origination Year*

<table>
<thead>
<tr>
<th>Foreclosure Rates in Origination</th>
<th>Year and Subsequent Years</th>
<th>1999</th>
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<tr>
<td>Origination year</td>
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<td>1.30</td>
<td>1.50</td>
<td>1.85</td>
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<td>0.97</td>
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<td>6.33</td>
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<td>7.17</td>
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<td>6.38</td>
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<td>2nd year</td>
<td></td>
<td>4.56</td>
<td>6.01</td>
<td>5.81</td>
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<td>3.11</td>
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<td>3rd year</td>
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<td>4.85</td>
<td>3.35</td>
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<td>2.23</td>
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<td>1.88</td>
<td>1.56</td>
<td>0.83</td>
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<td>2.05</td>
<td>1.19</td>
<td>1.17</td>
<td>0.59</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>6th year</td>
<td></td>
<td>0.79</td>
<td>0.71</td>
<td>0.48</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7th year</td>
<td></td>
<td>0.56</td>
<td>0.30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>8th year</td>
<td></td>
<td>0.24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Number of Foreclosures From Origins through September 2007</td>
<td></td>
<td>188,026</td>
<td>165,801</td>
<td>140,195</td>
<td>124,781</td>
<td>127,100</td>
<td>176,729</td>
<td>231,360</td>
<td>140,278</td>
<td>13,272</td>
</tr>
<tr>
<td>Total Number of Originations</td>
<td></td>
<td>787,420</td>
<td>739,749</td>
<td>620,945</td>
<td>797,625</td>
<td>1,143,037</td>
<td>1,716,141</td>
<td>1,925,780</td>
<td>1,368,706</td>
<td>440,934</td>
</tr>
<tr>
<td>Foreclosures Rate through September 2007</td>
<td></td>
<td>23.88</td>
<td>22.41</td>
<td>22.58</td>
<td>15.64</td>
<td>11.12</td>
<td>10.30</td>
<td>12.01</td>
<td>10.25</td>
<td>3.01</td>
</tr>
</tbody>
</table>

* Foreclosure rates are based on the number of loans starting foreclosure.
Source: LoanPerformance.

Table 3: California Sub-prime Foreclosure Rates by Origination Year*

<table>
<thead>
<tr>
<th>Foreclosure Rates in Origination</th>
<th>Year and Subsequent Years</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
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<tr>
<td>Year to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Origination year</td>
<td></td>
<td>0.88</td>
<td>0.76</td>
<td>1.01</td>
<td>0.70</td>
<td>0.48</td>
<td>0.50</td>
<td>0.76</td>
<td>5.20</td>
<td>4.88</td>
</tr>
<tr>
<td>1st year</td>
<td></td>
<td>4.03</td>
<td>3.72</td>
<td>4.29</td>
<td>3.18</td>
<td>20.8</td>
<td>20.4</td>
<td>5.97</td>
<td>14.10</td>
<td></td>
</tr>
<tr>
<td>2nd year</td>
<td></td>
<td>3.01</td>
<td>2.99</td>
<td>2.74</td>
<td>1.68</td>
<td>0.79</td>
<td>1.46</td>
<td>5.51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd year</td>
<td></td>
<td>2.66</td>
<td>1.26</td>
<td>1.17</td>
<td>0.35</td>
<td>0.34</td>
<td>0.85</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th year</td>
<td></td>
<td>0.93</td>
<td>0.49</td>
<td>0.22</td>
<td>0.15</td>
<td>0.12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5th year</td>
<td></td>
<td>0.46</td>
<td>0.11</td>
<td>0.12</td>
<td>0.06</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6th year</td>
<td></td>
<td>0.12</td>
<td>0.07</td>
<td>0.04</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7th year</td>
<td></td>
<td>0.06</td>
<td>0.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8th year</td>
<td></td>
<td>0.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Number of Foreclosures From Origins through September 2007</td>
<td></td>
<td>9,160</td>
<td>8,398</td>
<td>9,528</td>
<td>9,137</td>
<td>8,944</td>
<td>16,161</td>
<td>39,198</td>
<td>31,295</td>
<td>2,973</td>
</tr>
<tr>
<td>Total Number of Originations</td>
<td></td>
<td>75,224</td>
<td>88,915</td>
<td>99,412</td>
<td>146,796</td>
<td>235,065</td>
<td>333,327</td>
<td>320,200</td>
<td>162,134</td>
<td>60,871</td>
</tr>
</tbody>
</table>

* Foreclosure rates are based on the number of loans starting foreclosure.
Source: LoanPerformance.

US sub-prime crisis housing-finance implications
Rapidly rising foreclosure rates among sub-prime home mortgage loans have generated widespread media and regulatory interest. Some believe that the mortgage products offered to sub-prime borrowers are the fundamental cause of problems in this market. Based on such reasoning, they argue that many of the products offered to sub-prime borrowers should not have been made available.

Before addressing that issue, it is important to distinguish between prime and sub-prime borrowers. It is frequently assumed that FICO scores are the best determinants of a borrower’s creditworthiness, and that individuals with FICO scores below a specific number (640, for example) are sub-prime borrowers. Yet as figure 1 illustrates, prime and sub-prime borrowers are not so easy to distinguish on...
the basis of FICO scores alone. The data, from LoanPerformance (LP), show that prime borrowers can have FICO scores below 400, while sub-prime borrowers can score above 820. Indeed, there is no standard industry-wide definition of the term “sub-prime.” This means each and every lender makes its own determination. In fact, if appropriate risk-based pricing is used, the distinction between prime and sub-prime lending becomes artificial.

Just as it is difficult to distinguish between prime and sub-prime borrowers on the basis of FICO scores, it is also difficult to distinguish between them on the basis of the mortgage products they use. Over the past decade, most, if not all, of the products offered to sub-prime borrowers have also been offered to prime borrowers. In fact, during the period January 1999 through July 2007, prime borrowers obtained thirty-one of the thirty-two types of mortgage products—fixed-rate, adjustable-rate, and hybrid mortgages, including those with balloon payments—obtained by sub-prime borrowers (see tables 1 and 2).

While distinct differences exist in the extent to which the same types of mortgage product are offered to prime and sub-prime borrowers, both groups have had access to a wide range of products. Stated another way, certain kinds of products have not been marketed to sub-prime borrowers exclusively. Furthermore, regulatory authorities have noted that “sub-prime lending is not synonymous with predatory lending.”

If the product per se were the problem in the sub-prime market, one might expect all borrowers using that product to be facing foreclosure. But this is not the case. Foreclosure rates are rising, but the rates differ widely by type of product and borrower. Most important, the foreclosure rates on all the home mortgage products still fall far short of 100 percent, which means many borrowers are benefiting from them.

To argue that the product is the source of the problem is to ignore a fundamental truth: the ability or willingness of individuals to repay loans depends on financial factors. The marketplace and a borrower’s financial circumstances may deteriorate, leading to serious problems, including foreclosure. In some parts of the country, for example, real estate prices have fallen so far that houses are worth less than the amount owed on them. In addition, borrowers lose their jobs, or suffer divorce or serious illness, or otherwise face severe financial straits. It is well known that these factors, more than anything else, contribute to increases in foreclosures, regardless of the mortgage product.

Some of these products, however, have become associated with relatively high and rising foreclosure rates, especially among sub-prime borrowers. Tables 3 and 4 show the cumulative foreclosure starts (and not all foreclosure starts complete the process) for both prime and sub-prime borrowers during the period January 1999 through September 2007. Both groups experience foreclosures for twenty-nine of the different mortgage products, indicating that virtually every mortgage product, whether prime or sub-prime, is a candidate for foreclosure. Of course, foreclosure rates on sub-prime mortgages are typically higher than those for prime mortgages, regardless of product type. But this undoubtedly reflects the fact that sub-prime borrowers are by definition riskier.

The bottom line? Product innovation is beneficial, and attempts to curtail such innovation in the mortgage market could mean no access to credit for borrowers who would not otherwise qualify for loans. Legislative or regulatory actions that are too sweeping and severe could limit the availability of mortgage products, thereby denying borrowers a wider menu from which to choose the product that best suits their needs.

One must therefore be careful in reacting to the subprime mortgage market turmoil in such a way as to curtail credit for those with limited access to traditional mortgage products. A wider range of products is meant to accommodate the wide range of borrowers with different degrees of risk, and to better match risk-and-return combinations.

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1 Federal Register, July 12, 2002.
Of course, new products create learning curves on the part of both lenders and borrowers. To the extent that problems arise for lenders, they will make adjustments in the products they offer. Borrowers, too, must educate themselves about which products are most suitable for their current and expected future financial status. The process by which lenders and borrowers decide on specific mortgage products is imperfect and therefore can at times create difficulties for both, resulting in re-negotiations of mortgage terms and even the curtailment, if not discontinuation, of some products, as we have seen in the current mortgage market turmoil. And regulatory authorities should be vigilant against fraudulent activity in mortgage markets.

Rising foreclosure rates are a serious issue. But as Lawrence Summers of Harvard University stated in September 2007, "... we need to ask ourselves the question, and I don't think the question has been put in a direct way and people have developed an answer; what is the optimal rate of foreclosures? How much are we prepared to accept?" 3 It is not clear what foreclosure rates are optimal for different groups of borrowers from a social welfare standpoint.

**Figure 1:** Distribution of Prime and Sub-prime Mortgage Originations by FICO Score, 2006

**Table 1:** Prime Mortgage Originations by Year of Origination and Product Type, January 1999 - July 2007

<table>
<thead>
<tr>
<th>Year of Origination</th>
<th>Adjustable Rate</th>
<th>Hybrid</th>
<th>Other ARM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ARM 1</td>
<td>ARM 2</td>
<td>ARM 3</td>
</tr>
<tr>
<td>ARM 1 Months</td>
<td>12 Month</td>
<td>6 Months</td>
<td>3 Months</td>
</tr>
<tr>
<td>1999</td>
<td>50,355</td>
<td>4,437</td>
<td>168,313</td>
</tr>
<tr>
<td>2000</td>
<td>109,099</td>
<td>3,490</td>
<td>151,125</td>
</tr>
<tr>
<td>2001</td>
<td>4,73</td>
<td>5,396</td>
<td>175,529</td>
</tr>
<tr>
<td>2002</td>
<td>111,610</td>
<td>2,126</td>
<td>417,049</td>
</tr>
<tr>
<td>2003</td>
<td>147,815</td>
<td>18,417</td>
<td>275,207</td>
</tr>
<tr>
<td>2004</td>
<td>204,763</td>
<td>70,054</td>
<td>456,196</td>
</tr>
<tr>
<td>2005</td>
<td>340,330</td>
<td>57,443</td>
<td>415,929</td>
</tr>
<tr>
<td>2006</td>
<td>390,473</td>
<td>197,956</td>
<td>1,371,499</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Prime Mortgage Originations by Year of Origination and Product Type, January 1999 - July 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of Origination</td>
<td>Adjustable Rate</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td></td>
<td>ARM 1</td>
</tr>
<tr>
<td>ARM 1 Months</td>
<td>12 Month</td>
</tr>
<tr>
<td>1999</td>
<td>50,355</td>
</tr>
<tr>
<td>2000</td>
<td>109,099</td>
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<tr>
<td>2001</td>
<td>4,73</td>
</tr>
<tr>
<td>2002</td>
<td>111,610</td>
</tr>
<tr>
<td>2003</td>
<td>147,815</td>
</tr>
<tr>
<td>2004</td>
<td>204,763</td>
</tr>
<tr>
<td>2005</td>
<td>340,330</td>
</tr>
<tr>
<td>2006</td>
<td>390,473</td>
</tr>
</tbody>
</table>

Table 2 : Sub-prime Mortgage Originations by Year of Origination and Product Type, January 1999 - July 2007

<table>
<thead>
<tr>
<th>Year of Origination</th>
<th>Hybrid</th>
<th>Adjustable Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Term Initial Fixed Rate Period</td>
<td>ARM 6 Months</td>
</tr>
<tr>
<td></td>
<td>6 Months</td>
<td>1 Year</td>
</tr>
<tr>
<td>1999</td>
<td>28,720</td>
<td>20,820</td>
</tr>
<tr>
<td>2000</td>
<td>45,005</td>
<td>54,505</td>
</tr>
<tr>
<td>2001</td>
<td>71,825</td>
<td>78,825</td>
</tr>
<tr>
<td>2002</td>
<td>113,415</td>
<td>116,180</td>
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<tr>
<td>2003</td>
<td>217,450</td>
<td>71,642</td>
</tr>
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<td>2004</td>
<td>422,072</td>
<td>71,843</td>
</tr>
<tr>
<td>2005</td>
<td>342,650</td>
<td>121,945</td>
</tr>
<tr>
<td>2006</td>
<td>119,676</td>
<td>115,345</td>
</tr>
<tr>
<td>January - July 2007</td>
<td>18,312</td>
<td>34,944</td>
</tr>
<tr>
<td>Total</td>
<td>1,009,437</td>
<td>650,987</td>
</tr>
</tbody>
</table>

Table 3 : Prime Mortgage Cumulative Foreclosure Starts Through September 2007 by Year of Origination and Product Type, January 1999 - July 2007

<table>
<thead>
<tr>
<th>Year of Origination</th>
<th>Hybrid</th>
<th>Adjustable Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Term Initial Fixed Rate Period</td>
<td>ARM 6 Months</td>
</tr>
<tr>
<td></td>
<td>6 Months</td>
<td>1 Year</td>
</tr>
<tr>
<td>1999</td>
<td>43,948</td>
<td>106,087</td>
</tr>
<tr>
<td>2000</td>
<td>39,371</td>
<td>112,013</td>
</tr>
<tr>
<td>2001</td>
<td>11,537</td>
<td>63,435</td>
</tr>
<tr>
<td>2002</td>
<td>13,668</td>
<td>76,093</td>
</tr>
<tr>
<td>2003</td>
<td>8,617</td>
<td>79,680</td>
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<tr>
<td>2004</td>
<td>6,817</td>
<td>76,349</td>
</tr>
<tr>
<td>2005</td>
<td>3,601</td>
<td>55,267</td>
</tr>
<tr>
<td>2006</td>
<td>3,140</td>
<td>56,399</td>
</tr>
<tr>
<td>January - July 2007</td>
<td>612</td>
<td>12,334</td>
</tr>
</tbody>
</table>

US sub-prime crisis housing-finance implications
### Table 4: Subprime Mortgage Cumulative Foreclosure Starts Through September 2007 by Year of Origination and Product Type, January 1999 - July 2007

<table>
<thead>
<tr>
<th>Year of Origination</th>
<th>Hybrid</th>
<th>Adjustable Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Term Initial Fixed Rate</td>
<td>ARM 1</td>
</tr>
<tr>
<td></td>
<td>Period</td>
<td>Months</td>
</tr>
<tr>
<td></td>
<td>2/16 Hybrid</td>
<td>3 Years</td>
</tr>
<tr>
<td>2003</td>
<td>12,635</td>
<td>5,957</td>
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<tr>
<td>2004</td>
<td>19,744</td>
<td>6,858</td>
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<tr>
<td>2005</td>
<td>19,744</td>
<td>11,083</td>
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<td>2006</td>
<td>32,605</td>
<td>5,212</td>
</tr>
<tr>
<td>2007</td>
<td>48,186</td>
<td>2,258</td>
</tr>
<tr>
<td>2008</td>
<td>46,948</td>
<td>29,783</td>
</tr>
<tr>
<td>Total</td>
<td>188,686</td>
<td>139,827</td>
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</table>

<table>
<thead>
<tr>
<th>Year of Origination</th>
<th>Fixed Rate</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Term Initial Fixed Rate</td>
<td>Balloon 3</td>
</tr>
<tr>
<td></td>
<td>Period</td>
<td>na</td>
</tr>
<tr>
<td>1999</td>
<td>2,952</td>
<td>15,878</td>
</tr>
<tr>
<td>2000</td>
<td>1,434</td>
<td>9,082</td>
</tr>
<tr>
<td>2001</td>
<td>490.0</td>
<td>5,324</td>
</tr>
<tr>
<td>2002</td>
<td>282.0</td>
<td>3,777</td>
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<tr>
<td>2003</td>
<td>122.0</td>
<td>3,142</td>
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<td>2004</td>
<td>128.0</td>
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<td>2005</td>
<td>87.0</td>
<td>1,818</td>
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<tr>
<td>2006</td>
<td>18.0</td>
<td>885</td>
</tr>
<tr>
<td>2007</td>
<td>5.0</td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>5,073</td>
<td>42,528</td>
</tr>
</tbody>
</table>

Surprise: sub-prime mortgage products are not the problem!
DESPITE FORECLOSURES, SUB-PRIME LENDING INCREASES HOMEOWNERSHIP

James R. Barth, Tong Li, Triphon Phumiwasana, and Glenn Yago

Homeownership is at the heart of the American dream. The effects of the current turmoil in the mortgage market on homeownership are therefore sending shock waves across political and financial arenas. Amid predictions that 2 million households could lose their homes, federal and state legislators are struggling with an appropriate regulatory response. Ironically, new legislation aimed at protecting borrowers could curtail sub-prime lending and ultimately block millions more from homeownership.
The sub-prime loan market has come under intense scrutiny and frequent attack over the past year. Despite generating about 1.3 million loans for first-time home buyers in the period 2000-2006, the sub-prime mortgage market has resulted in a net ownership loss of 854,674 units, according to the Center for Responsible Lending (CRL).\(^1\)

However, following the basic approach taken by CRL, we find that even with rising foreclosure rates, the nation has actually seen a net gain in homeownership of 434,683 units for the period.

To arrive at this estimate, we use CRL assumptions with one important exception. CRL assumes that 25 percent of all loans for home purchases are made to first-time home buyers. But it calculates the number of sub-prime foreclosures based on all first-lien, owner-occupied sub-prime loans. This includes not only purchases of homes by first-time purchasers but also purchases of second homes and purchases by investors. Rather than use CRL’s calculation, we compare all purchase-loan foreclosures to the same types of loans to first-time home buyers. Since CRL’s data are proprietary, we rely on LoanPerformance (LP) data for our calculations. We were also able to nearly duplicate the results obtained by CRL using this dataset.

CRL has asserted that the sub-prime market has generated more than $2 trillion in home loans and that those loans “will lead to a net loss of homeownership for almost one million families.”\(^2\) However, we find that when one strictly matches the same kinds of loans, the result is a net gain of nearly half a million units.

More generally, it appears that continued access to credit (that is, to sub-prime mortgage loans) does help those home buyers who would otherwise have trouble obtaining credit to realize their dreams of homeownership. Indeed, without the sub-prime loan market, it is clear that many individuals—perhaps one million or more—would have been denied access to the credit needed to become first-time homeowners.

---

\(^1\) Center for Responsible Lending, “Subprime Lending: A Net Drain on Homeownerhip,” March 27, 2007, 2.

\(^2\) Ibid.
Table 1: Net Homeownership Gain or Loss Due to Sub-prime Mortgage Lending: Center for Responsible Lending (CRL) Calculations vs. Calculations Based on LoanPerformance (LP) Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Crl Calculations</th>
<th>LP Data / Calculations</th>
<th>LP Data / Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated number of first-time homebuyers using sub-prime mortgages</td>
<td>Forceclosures on sub-prime mortgages</td>
<td>Net homeownership gain (loss)</td>
</tr>
<tr>
<td></td>
<td>b</td>
<td>c=a-b</td>
<td>e</td>
</tr>
<tr>
<td>2000</td>
<td>87,651</td>
<td>133,126</td>
<td>(45,475)</td>
</tr>
<tr>
<td>2001</td>
<td>80,856</td>
<td>105,464</td>
<td>24,608</td>
</tr>
<tr>
<td>2002</td>
<td>85,883</td>
<td>102,252</td>
<td>16,369</td>
</tr>
<tr>
<td>2003</td>
<td>120,807</td>
<td>181,464</td>
<td>60,657</td>
</tr>
<tr>
<td>2004</td>
<td>219,180</td>
<td>348,345</td>
<td>129,165</td>
</tr>
<tr>
<td>2005</td>
<td>324,361</td>
<td>632,302</td>
<td>307,941</td>
</tr>
<tr>
<td>2006</td>
<td>354,172</td>
<td>624,631</td>
<td>270,459</td>
</tr>
<tr>
<td>Total</td>
<td>1,272,910</td>
<td>2,127,584</td>
<td>854,674</td>
</tr>
</tbody>
</table>

1 Applying the CRL assumption that 25 percent of purchase, first-lien, owner-occupied sub-prime originations are for first-time homebuyers to CRL proprietary data.
2 CRL foreclosure on first-lien, owner-occupied sub-prime mortgage
3 Number of first-time homebuyer minus number of foreclosures, using CRL proprietary data.
4 Applying the CRL assumption that 25 percent of purchase, first-lien owner-occupied sub-prime originations are for first-time homebuyers, using LP data.
5 Foreclosures on purchase, first-lien, owner-occupied sub-prime mortgages, using LP data.
6 Number of first-time homebuyer minus number of foreclosures, using LP data.
7 Nationwide net homeownership gain (loss) is based upon the assumption that LP samples capture 42 percent of all sub-prime mortgages loans.
8 These are the foreclosure rates used in CRL’s calculations and the LP-data calculations.

US sub-prime crisis housing-finance implications
The turmoil in the mortgage market is expected to worsen as interest rates on selected existing home mortgage loans reset upward in the months and years ahead. Loans with this feature are known as hybrids because their interest rates are fixed for a given period and then become variable, often with caps that limit the increase over a year or over the term of the loan. Such loans are at the center of ongoing debate in Washington and elsewhere because a relatively large number of people with shaky credit histories have taken out sub-prime hybrid mortgage loans.

Hybrids typically do not pose problems so long as home prices rise and individuals refinance their loans.
before the interest rates reset to a higher level. But home prices have not been rising, and people are having trouble refinancing their loans. As a result, more foreclosures are likely in the next few years.

Because hybrid loans, especially sub-prime hybrids, have become so controversial, it is important to assess their longer-term role in home foreclosures against other products in the mortgage market.

Figures 1 through 4 below show home mortgage originations and cumulative foreclosures for prime and sub-prime borrowers. The numbers, covering the period January 1999 to July 2007, are based on a sample of 80 million mortgage loans from LoanPerformance. Figure 1 shows that of 71 million prime mortgage originations, nearly 84 percent were fixed-rate mortgages (mostly thirty-year, fixed-rate loans), 10 percent were adjustable rate, and fewer than 5 percent were hybrid mortgages. In contrast, figure 3 shows that of the 9.5 million sub-prime mortgage loan originations, 44 percent were fixed rate, 16 percent were adjustable rate, and 32 percent were hybrid mortgages.

While both prime and sub-prime borrowers use all three loan products, sub-prime borrowers rely more heavily on hybrid loans, and most of these are 2/28 and 3/27 mortgages, with short-term, fixed interest rates (two and three years, respectively), followed by variable interest rates for the remaining twenty-eight or twenty-seven years. (The 2/28 mortgages also include 2/6 and 2/1 mortgages, or mortgages that reset after six months and one year, respectively, once the two-year fixed-rate period ends; 3/27 mortgages include 3/6 and 3/1 mortgages, or mortgages that reset after six months and one year, respectively, once the three-year fixed-rate period is over.)

The cumulative foreclosure starts (and not all starts end in foreclosure) of the different mortgage products are presented in figures 2 and 4. Even though almost all the attention is focused on high and rising foreclosure rates in the sub-prime market, the total number of foreclosures on prime mortgages is slightly higher than the total number of foreclosures on sub-prime mortgages: 1.4 million versus 1.3 million.

Of all prime mortgage foreclosures, 74 percent occur with thirty-year, fixed-rate loans. Hybrids and adjustable-rate mortgages account for fewer than 12 percent of foreclosures. In contrast, hybrid loans account for 36 percent of all sub-prime foreclosures (with 2/28 and 3/27 loans accounting for most of these). Yet fixed-rate loans account for nearly as many foreclosures, at 31 percent, and adjustable-rate loan foreclosures are not far behind, at 26 percent.

Clearly, a difference exists between the types of products associated with foreclosures for prime and sub-prime borrowers. It is important to note, however, that more than 800,000 homes financed by sub-prime loans other than hybrid loans went into foreclosure by the end of September 2007, according to data from LoanPerformance. Sub-prime mortgage foreclosures are obviously a problem, even without taking into account hybrid loans and their interest rate resets.

Without home price increases, hybrid loans will surely exacerbate the foreclosure problem if interest rates reset upward, but they are not the basic cause of it. Indeed, table 1 shows that of all the 2/28 and 3/27 sub-prime loans in foreclosure as of July 2007, 57 percent and 83 percent, respectively, had not yet undergone any upward reset of the interest rate.

In the first part of this decade, foreclosures were mainly a problem of the prime mortgage market. Today they are chiefly a problem in the sub-prime mortgage market. So far, in response to the worsening problems associated with the sub-prime loans, lenders have dramatically reduced the origination of such products, particularly those with reset features. However, most sub-prime borrowers have benefited enormously from the product diversity that has provided them access to credit and homeownership. It is important that any legislative or regulatory action not unduly curtail the availability of sub-prime mortgage loans.
Table 1: Selected Sub-prime Hybrid Loans in Foreclosure, as of July 2007

<table>
<thead>
<tr>
<th>Product Type</th>
<th>&lt; 1 Year</th>
<th>&lt; 2 Years</th>
<th>&lt; 3 Years</th>
<th>&lt; 5 Years</th>
<th>&gt; = 5 Years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/28 Hybrid</td>
<td>13.2%</td>
<td>44.2%</td>
<td>27.5%</td>
<td>12.0%</td>
<td>3.1%</td>
<td>100%</td>
</tr>
<tr>
<td>3/27 Hybrid</td>
<td>7.1%</td>
<td>46.1%</td>
<td>29.9%</td>
<td>12.9%</td>
<td>3.9%</td>
<td>100%</td>
</tr>
</tbody>
</table>
The sub-prime crisis has made most people even more bearish the US dollar.

During any financial crisis, such as the current US sub-prime crisis, the markets become much more volatile. For instance, the dollar-yen currency market, the dollar-baht market or even the equities become much more volatile because people are less certain about the future.

FALLING US DOLLAR - PREVAILING TREND

As we receive more news about the US prime crisis’s severity, all of us should prepare ourselves for increasing volatility. We also should be cognizant that the current prevailing trend is for a falling US dollar.

In Asia, the Singapore dollar is already at its pre-1997 crisis value (at S1.38 to the US dollar) and the Philippine peso is at its highest level vis-à-vis the US dollar for as long as most of us can remember.

Even the Thai baht continued to strengthen in 2007 despite an unstable political environment that affected consumer and investor sentiment as well as growth.

We can safely say that the sub-prime crisis has up until now affected the US more than any other country. Almost all bad news is directly affecting the US dollar’s value. Even in Thailand,
hotels that previously preferred charging US dollar room rates have reverted to charging baht.

CAVEAT-US IS STILL WORLD'S NUMBER ONE ECONOMY

However, I must place a caveat on any illusions that the US sub-prime crisis will permanently damage the value of the US dollar and that there will be a prolonged free-fall against other currencies. We should remember that the US is still the world’s number one economy and perhaps more importantly is the world’s number one consumer.

All of us have heard the phrase “when the US sneezes, the whole world catches a cold”. I am not going to say it will happen immediately, but any US economic slowdown will eventually affect most countries globally. Eventually, most other countries’ economies and ultimately their currencies will be affected.

We can expect that in about a year, the knock-on effects of the US sub-prime crises and a US economic recession will begin seriously affecting its trading partners. This will inevitably lead to a weakening of their currencies vis-à-vis the US dollar.

As someone that deals daily in the financial markets, I don’t believe in the de-coupling theory that Asian economies led by China and India will continue growing despite any major US or Western European economic slowdowns. I believe that the global financial markets and global economies operate symbiotically, and turmoil in one market invariably will spill over into other markets.

For instance, let’s look at today’s global fixed-income and global equity markets. If equity markets are not doing well, the fixed income markets will also experience problems because many equity investors may be forced to sell their fixed-income positions to cover any equity margin calls.

In today’s global economy, symbiotic relationships are prevalent for most activities. Almost everything is tied together and is equally affected by any changes to another part of the economy.
HISTORICAL LOOK AT THAI BAHt VOLATILITY

Since I am not an economist I will stick to the facts in analyzing the Thai baht’s volatility (based on data collected by Goldman Sachs during the past 12 years). Using this data, I will then try to predict the Thai baht’s value vis-à-vis the US dollar.

Let’s initially look at the Thai baht’s volatility in its relationship with the US dollar. Statistically, volatility is one standard deviation of the normal distribution of the Thai baht’s value versus the US dollar. The cost for any option purchase is a linear function of volatility.

THAI BAHT ESSENTIALLY PEGGED AT 25 UNTIL 1997

The Thai baht was essentially pegged at Bt25 to $US1 until 1997. The realized volatility was also at a very low two percent. The implied volatility was higher than realized or actual volatility because the market was concerned about the Thai baht’s stability. Therefore, investors or businesses were requiring an additional premium to hedge this additional implied risk.

After the baht was devalued from Bt25/$US1 in 1997, it hit its ultimate low in 1998 (Bt58/$US1). Between 1998 and 2000, the implied volatility of the Thai baht was lower than its realized or actual volatility.

During this period, more investors were selling than buying the Thai baht option, implying that investors believed that the markets were over-reacting when analyzing the severity of the Thai baht crisis. The sentiment toward the Thai baht during this period was also partially bolstered by the Russian economic crisis in 1998.

After the US Federal Reserve began aggressively cutting interest rates in 2001 and following an equity sell-off that was largely the aftermath of the 2000 US internet bubble, the Thai baht’s implied volatility remained higher than actual volatility until the end of 2002. During this period, many investors worried that equity market problems would spill-over into the currency markets.

HIGHER IMPLIED VOLATILITY - NORMAL FOR OPTION MARKETS

Under normal option-market conditions, implied volatility is normally higher than realized or actual volatility. As the Thai baht strengthened and sharply appreciated against the US dollar in 2006, both implied and actual volatilities remained stable.

However, when the Bank of Thailand imposed foreign exchange control measures in December 2006, the Thai baht market was essentially sterilized. Since that time, the Thai baht’s volatility has been rising but implied volatility has been lower than actual volatility.

TRENDS

Bad news tends to increase volatility. All of us expect more bad news to come from the US markets. Credit and equity markets will continue to be volatile.

As the Bank of Thailand gradually lifts the foreign controls imposed in December 2007, I expect that the onshore and offshore Thai baht markets will converge at about Bt31/$US1.

However, I expect that volatility will increase significantly as offshore traders join the party. They make money when there is volatility. During this period, investors and businessmen will find it much more expensive to hedge their currency exposures and implied volatility will surpass actual volatility as more players enter the market freely.

Over the medium term, I expect that the Thai baht will rise to Bt30/$US1 before it goes back to Bt35.
WHAT SHOULD WE DO?

I believe that the Bank of Thailand (BOT) should remove foreign controls slowly. Recently, the Bank of Thailand partially rescinded the 30 percent foreign exchange controls on a spot basis.

Later, they must remove restrictions on swap/forward/money market trading, including investments in Thai baht fixed income instruments. Initially, the BOT should place size and tenor restrictions (beginning with Bt500 million and up to one year).

When the Thai baht is perceived as stabilizing, these tenors can be increased to three years by December 2008. However, I do not think that full relaxation should be permitted until the affects of the partial relaxations are analyzed.

As more controls are gradually lifted, implied volatility will increase and in time it should overshoot realized volatility as more international investors enter the market.

SUB-PRIME CRISIS - THAI HOME MORTGAGE INTEREST RATES

The sub-prime crisis has forced the US Federal Reserve to continue reducing interest rates. Because the US is still the major economic and financial power in the world, we can expect that Thai interest rates will follow US interest rates downward. We can expect lower home loan mortgage interest rates throughout 2008.

However, over the long-term the US sub-prime crisis will eventually result in higher home mortgage loan interest rates. Short-term money market rates in the immediate-term will be kept low to help financial institutions rescue the economy and long-term rates will be kept high so that Bank’s can earn a larger spread on their loans.

Over time, factors such as inflation will creep-in and prices will rise as the economy is being reflated. The five to ten year bond interest rates will initially begin climbing and this will eventually result in higher interest rates for the long-term housing mortgage loan markets.

Source: Goldman Sachs Asia
REAL ESTATE WISDOM

- FROM TEMPLE BOY TO REAL ESTATE TYCOON
  SONGSAKDI OWLARN

- BUILDING A REAL ESTATE DEVELOPMENT BUSINESS - FOUR DECADES OF SUCCESS SECRETS
  NAMCHAI TANTERDTHAM
FROM TEMPLE BOY TO REAL ESTATE TYCOON

Songsakdi Owlarn

Real estate tycoon Songsakdi Owlarn, tells GH Bank Housing Journal how he rose from being a temple boy into becoming one of Thailand’s legendary real estate developers that reshaped Bangkok’s landscape. He talked to the Government Housing Bank Housing Journal about his remarkable business career in July 2007.

Thailand and specifically the city of Bangkok is filled with remarkable stories of how a few gutsy pioneering business-men in the past 40 years transformed this once quiet city of canals now with more than ten million people into one of world’s major metropolises.

Beginning in the mid-1950s, these brave often, swashbuckling businessmen traveled into the outskirts of Bangkok, at that-time filled with swamps, rice-paddies and a few crocodiles and slowly bought large land tracts before painstakingly transforming them into large housing estates.

Songsakdi Owlarn 79, is Chairman of the Floraville Group of Companies that transformed Bangkok eastern outskirts into a prime residential area. “Our first project, the Floraville Complex was built in the Pattanakarn and Sri Nakarin areas of eastern Bangkok in 1990,” he said.

The project’s first phase included massive two-tower 32-story condominium complexes. “The project was an overwhelming success as we sold out in three months,” he said.

Eventually, the completed Floraville complex became four 32 story buildings with more than 200,000 square meters of area. “It was constructed on a 20 rai plot of land and valued at more than Bt4,500 million.

Under Songsakdi’s leadership his Owlarn Group of companies capitalized on the successful Floraville name and through the next two decades completed revamped the Bangkok’s overall landscape.
During the initial period, Songsakdi also brought in two top technical experts to ensure that his projects would be on the cutting-edge of residential development. “Associate Professor Manop Bongsadadt helped me with project design and Professor Decha Boonkham designed the landscapes,” he said.

The group’s projects include among others, Floraville complex on Sri Nakarin road, Floraville Park City on Suwinthawong Road, Floraville Serviced Apartments, Floraville Sri Nakarin - Udomsook and the Floraville Rangsit - Prempracha.

Although the group’s initial success emanated from building condominiums on Bangkok’s outskirts, their very successful Floraville Park City project was a massive single-family housing development of more than 2,000 homes. “We built the project on 2,000 rai on Suwinthawong Road,” he said.

To ensure the project’s overall acceptance, the family surrounded the project with gardens and developed a park-like setting for the residents. “Each house was situated on 50 to 100 square wah plots and the starting price then was Bt1.69 million,” he said.

This project hit the market during the 1994 boom and all units were quickly sold out. “It was a great project that gave us a tremendous amount of confidence and satisfaction,” he said.

Eventually, his family’s hard work and perseverance paid off. “My father accumulated enough money and he was considered moderately "well-to-do" in our village,” he said.

**BECOMING A TEMPLE BOY**

After much cajoling, Songsakdi convinced his parents to allow him to study and live at the village Nang-Laew temple, a 20 minute walk from the family home. “It was a tough life but I spent three-years studying there,” he said.

Songsakdi then accompanied his cousin to the Mahathad Temple in Bangkok. “I completed the fourth grade there and then transferred to the Rachaborpit Temple School where I did quite well,” he said.

After completing the ninth grade, Songsakdi was forced to leave school because it was bombed and destroyed by enemy fighter planes 1942. “World War II ended my education,” he said.

During this turbulent period, Songsakdi said the Ministry of Education closed all schools in Bangkok. “I was forced to go back to Angthong,” he said.

Nevertheless, throughout most of his life, Songsakdi said he has continued to be an avid reader. “As a student, I would always stop by newsstands near Tha Prachan to read books and newspapers for free. Today I still spend a lot of my time reading,” he said.
EARLY BUSINESS TRAINING

All of Thailand’s pioneering real estate developers had unique backgrounds that prepared them to succeed.

Songsakdi’s greatest success attributes can probably be described by his excellent sales skills garnered from training and working with several multinational companies in the mid 1950s and his own perseverance and innate ability to develop and implement flexible solutions to any business problem.

TAILOR AT 17 - COKE TRAINEE AT 25

In 1947, at the age of 17, Songsakdi moved back to Bangkok and worked as a trainee at a cousin’s tailor shop. “It was named Keng Jin Tai and was in the Sri Praya area. My starting salary was Bt30 per month,” he said.

Coca Cola, Songsakdi said instilled in him the discipline and experience required for his future business success. “Their sales training taught me that success came from thoroughly understanding the products we were selling and then knowing how to identify and address each customer’s needs,” he said.

After two years at Coke, Songsakdi was recruited by Diethelm, a consumer product distribution company, where he worked as a salesman until 1957. “I then moved to Saha Thai Pattana where I worked as a traveling salesman for seven years,” he said.

His years, as a successful sales person, provided him with tremendous business experiences. “I learned how to be patient, strong and resolute,” he said.

These attributes, he said, helped him succeed in his many subsequent entrepreneurial efforts.

STRIKING OUT ON HIS OWN - LEARNING FROM THE SCHOOL OF HARD KNOCKS

After ten years as a salesman, Songsakdi decided to strike out on his own in 1964. “My first company, SS Import Company distributed paper products including toilet tissues, facial tissues and paper plates and cups,” he said.

Because of rampant competition in the paper products distribution industry, Songsakdi said his initial entrepreneurial efforts were very difficult. “We often had to borrow money from relatives and friends to stay afloat,” he said.

Throughout his entrepreneurial career, Songsakdi has been always willing to try new ideas.

In 1971, he established Thailand’s first vending machine company, Post Mix Service Ltd. “Our machines sold Coca Cola products, first at Ramkhamhaeng University and then expanded to other universities in Thailand,” he said.
These machines are now popular all over Thailand. "We got out of the business after two years because we had a conflict with our partners," he said.

Songsakdi credits much of his subsequent business success to his ability to learn from his prior disappointments. "I learned that success requires perseverance," he said.

**FLORA TAPE - FLEXIBILITY AND INNOVATION LEAD TO SUCCESS**

During his early business career, Songsakdi tried importing and selling "Flora Tape" a premium green tape that could be used to make artificial flowers. "I tried selling the tape for almost two years and almost gave up," he said.

However, the foreign manufacturer came to Thailand and told Songsakdi to change his business model. "He told me to organize groups of artificial flower producers into production groups," he said.

Songsakdi then sent his wife to Japan where she learned how these groups were being successfully organized in Japan. "That was the turning point for our family businesses," he said.

In 1973, they founded the Artificial Flower Producers Club of Thailand that eventually became home-based flower manufacturers. "They eventually became an integral part of our artificial-flower export-business supply-chain," he said.

The artificial flower business, Songsakdi said eventually became hugely successful. "I was able to buy a brand new house in Klongton for my family," he said.

**ARTIFICIAL FLOWERS - SPRINGBOARD TO FAMILY WEALTH - PERSEVERANCE STILL NECESSARY**

Initially, Songsakdi said that the "Flora Tape" artificial flower producer groups concentrated on selling the flowers locally. More and more people came into the business and profit margins started falling. "That's when we began looking for new export markets," he said.

However, Songsakdi's first forays into the Japanese market were not very successful. "My wife and I first went in 1975 and we were so disappointed because we didn't get any orders," he said.

It took the family two additional years of revamping their product mix and learning how to cope with the difficult Japanese wholesale distribution infrastructure before they were able to make any sales. "Our first order was for $US8,000 and we were very excited," he said.

Successful sales in Japan encouraged Songsakdi to look at an even bigger market, the USA. "In the beginning, we exported to the US through trading companies but that really didn't work out," he said.

Songsakdi decided that the family would promote and sell artificial flowers in the US by themselves. "My son Prasong and I decided to sell into the artificial flower markets through importers in New York, Los Angeles, Dallas, and Miami," he said.

Through hard work, Songsakdi and Prasong were able to entice six large artificial importers to purchase...
their products. “We were lucky because it only took about month to line-up these six large importers,” he said.

To ensure consistent quality and quantities, Songsakdi revolutionized the artificial flower business in Thailand by establishing what he described as a community-factory concept in Bangkok. “All the producers were grouped in proximity so that products could be efficiently manufactured and shipped anywhere globally,” he said.

ARTIFICIAL FLOWERS - PROFITS PROVIDE FOUNDATION FOR REAL ESTATE BUSINESS

Songsakdi said he started assembling pieces of land in 1983 during a period when the Thai economy was experiencing one of its periodic downturns. “During this period, the artificial flower export business was booming,” he said.

Increasing Japanese and Taiwanese labor costs were also pricing their artificial flowers out of traditional export markets. “We could produce the same quality artificial markets and ship them to the US at much lower prices than our competitors,” he said.

In addition, Thai exports also received a boost from the government. “The baht was depreciated by between Bt4 to Bt5 per dollar so we also made large foreign exchange profits during this period,” he said.

Songsakdi invested much of his increasing income and profits into real estate. “I bought a lot of property in Romklao and Bangkok’s eastern area because it was really cheap at that time,” he said.

Today, after almost three decades of suburban development, these areas are now situated adjacent to Bangkok’s new Suvarnabhumi international airport that is intricately linked to Bangkok and the eastern seaboard through networks of mass transit, superhighways and tollways. “It was my good luck and fortune that allowed me to acquire those properties,” he said.

From 1983 to 1985, Songsakdi said he spent all his spare cash accumulating vast amounts of land in Romklao, Sri Nakarin, Pattanakarn and Suwintawong areas of eastern Bangkok. “I bought most properties with cash,” he said.

While he was acquiring the mass tracts of land, Songsakdi said he had no fear. “Because I was born empty-handed, I felt that I really had nothing to lose,” he said.

WHY REAL ESTATE?

As a young man, Songsakdi said he often read how Hong Kong and Japanese businessmen became really wealthy investing in real estate. “Their exploits really inspired me and ever since then, I’ve always wanted to own land,” he said.

Songsakdi said that he also learned from his reading that real estate is often a foundation of wealth because of its intrinsic value. “A piece of land is secure, permanent and will increase in value over time,” he said.

As a young man aspiring to great wealth, Songsakdi said he often dreamed of owning many pieces of real estate just like the Hong Kong and Japanese millionaires he read about. “On my travels with Prasong to Japan, America, and Europe for business, I learned how cities expanded into suburbs as their populations grew,” he said.

Many of these suburbs, he noticed were built around transportation routes including railways, ring roads or highways. “I began thinking how Bangkok would eventually expand,” he said.
Arriving back to Bangkok, Songsakdi predicted that the Romklao area would eventually be an important suburb. “Railroad lines and main roads linked Bangkok through Ramkhamhaeng, Sukhaphibal, Ramindhra, On-nut, and New Rama IX roads to the eastern seaboard that was being developed as an industrial base,” he said.

Between 1983 -1985, Songsakdi took the plunge into the real estate development business. It was a bold move that would eventually bring his family tremendous wealth. “During this period, I had accumulated about 1,000 rai in the area,” he said. (one rai equals 1,600 square metres)

LAND ACQUISITION FUNDAMENTALS

Throughout his real estate development career, Songsakdi has relied on specific fundamental land-acquisition criteria. He said that large lands plots should be contiguous and must be adjacent to main roads and be wide enough for development if they are to become valuable. “I also relied a lot on my intuition,” he said.

Large land plot acquisitions, Songsakdi said should also be evaluated for their future development potential and how we can maximize its development potential,” he said.

Most of the property he purchased came from brokers. “I usually want to see every piece of land with my own eyes and during the early 1980s I looked at property every day,” he said.

REAL ESTATE DEVELOPMENT BUSINESS - PERSEVERANCE NECESSARY

Although Songsakdi’s Owalarn group has been hugely successful as a real estate developer in Thailand for the past decades, it has not always been a bowl of cherries. “We went through many difficult times and we had to rely on our ability to be flexible and change-strategies,” he said.

The group’s initial Floraville Complex first phase had been a booming success in 1990. “Everything was quickly sold out,” he said.

However as the group began developing the second phase, Gulf War I struck in 1991. “It brought on high oil-prices and a global recession and a coup in Thailand really hurt our sales,” he said.
Relying on his previous business experiences, Songsakdi did not panic and knew that flexibility and innovation was required. “We changed course and eventually developed a whole new marketing concept,” he said.

His initial attempts at changing course were very successful. “I went to Hong Kong a few times and sold more than one billion baht of units and then to Singapore but we couldn’t sell many units there,” he said.

Again, Songsakdi changed strategies by revamping operations. The group completely renovated the remaining condominiums and rented them as high-end serviced apartments. “Our efforts were overwhelmingly rewarded and we quickly filled all the units,” he said.

SONGSAKDI’S SALES AND MARKETING PHILOSOPHY

Much of the Owlarn Group’s success emanates from Songsakdi’s strong sales background, much of it learned from his stints at Coca Cola and Diethelm during the late 1950s and early 1960s.

Songsakdi said that he and his real estate development company have always relied on four core marketing success principles. “I call them our 4 p’s,” he said.

The first P, he said was product. Once the family and its consultants decided that residential condominiums would be appropriate for Pattanakam and Sri Nakarin areas, Songsakdi said they brought in Associate Professor Manop and Professor Decha to ensure that the real estate produced would be the best in the area.

Songsaki’s second marketing P is price. Because his group had accumulated a lower-cost land bank than its competitors Songsakdi said he knew that it could always deliver a quality product to the market at a reasonable price. “Consequently all our projects were competitively priced and most importantly we were able to realize a profit on each sale,” he said.

Place or location is Songsakdi’s third P. “We knew that the Sri Nakarin area was fast becoming a premium residential and commercial area and many people were even beginning to consider it as Bangkok’s new downtown,” he said.

With his extensive sales background, Songsakdi’s last P, promotion is dear to his heart. “We must know our product thoroughly and be able to understand and satisfy our potential customers’ needs and know how to communicate our message to them,” he said.

SUCCESS PRINCIPLES

In general, long-term success in the real estate development business, Songsakdi said depends largely on basic principles that he learned during his long business career.

A key element is having a good product to sell. “It must completely satisfy a customer’s overall needs,” he said.

As a young business man, Songsakdi said he relied much on his intuition for important business decisions. “Today, I think we should carefully analyze project feasibility studies and research data before making any
decisions, especially on large, long-term projects," he said.

Because of his early experiences with large multinational companies such as Coca Cola and Diethelm, Songsakdi can't emphasize enough the importance of well-planned and well-executed marketing programs. "Having a good product isn't enough because in this highly competitive environment, a strong marketing strategy is a key success element," he said.

With today's fast-changing business and political environments, Songsakdi said successful businesses must be flexible and adaptable in the way they operate. "We must recognize change and adapt quickly to new environments if we want to succeed in the long-term," he said.

Successful businesses must also be able to develop synergies between older and new generation owners and employees. "An organization must work as one going in the same direction if it wants to succeed in this highly competitive environment," he said.

With most of the newer generation having attained higher education including degrees from top overseas universities, Songsakdi warns that education alone will not guarantee business success. "Business success requires more than just a clever mind, it also requires a lot of hard-work and perseverance," he said.

He said that he always teaches his family that no one lives through life without any obstacles or problems. "Successful people and companies face-up to problems and work through the solutions," he said.

Honesty and integrity however, he stressed, are still hallmarks of any long and successful businesses. "These are values that carry a company and family's reputation through the decades," he said.

In today's fast-changing and volatile environments, Songsakdi said adherence to HM The King's sufficiency economy principles is also key to long-term success. "We must learn to make the right long-term choices and understand how to manage the inherent risks," he said.
CONTENTED RETIREMENT

Songsakdi’s Owlam Group is now successful in many businesses in Thailand. In addition to real estate development and the production and exporting of artificial flowers, the company is a major manufacturer and exporter of Christmas decorative items, toys, education and other office and household products. His children led by his eldest son Prasong currently manage the group’s operations. “I quit my day-to-day work when I was sixty and after turning 72, I have been merely acting as a consultant and family mentor,” he said.

His children, Songsakdi said are all qualified to take the family business successfully to the next level. “My son, Prasong is well known in the real estate industry and has been President of Housing Business Association and Chairman of the Real Estate Business Development Committee, Thai Chamber of Commerce and Board of Trade of Thailand as well as many other local and international organizations,” he said.
GH Bank Housing Journal interviewed Namchai at his Ladprao home in December 2006. He was accompanied by his two sons, Somchao, NCH's managing director and the Real Estate Association of Thailand's president and Somnuek, the company’s deputy managing director. At the time of the interview, Namchai was 76 years old. Namchai later passed away on October 2nd, 2007.

A HOUSING INDUSTRY PIONEER

During a long and illustrious career spanning more than four decades, Namchai Tantaterdtham pioneered and developed many building and financing innovations for thousands of Thai home owners.

Beginning as a small construction supply shop owner in the early 1960s, Namchai led Bangkok's suburban housing development into areas such as Lardprao and Bangkapi. Today these are major suburban housing communities for Bangkok’s commuters.

Namchai and his companies developed more than 50 successful real estate projects beginning in the early 1960s. He has provided Thailand's citizens with almost 10,000 individual homes that were sold for more than Bt20 billion ($US571 million). (Schedules 1 and 2)

Today, NC Housing Plc’s “Baan Fah” homes are still popular dream-homes for many people in Thailand.
### SCHEDULE 1

**NC GROUP HOUSING PROJECTS**  
As of December 31, 2007 Past Projects

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Name</th>
<th>Location</th>
<th>Total Units</th>
<th>Project Value (MB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Baan Pha Rangsith Klong 4</td>
<td>Rangsit-Ongkarak Klong 4</td>
<td>1,339</td>
<td>1,380</td>
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<td>2</td>
<td>Baan Pha Konglaung</td>
<td>Bangkhan Rd., Klonglaung</td>
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<tr>
<td>4</td>
<td>Baan Pha Chompruek (P1)</td>
<td>Lumlookka Klong 8</td>
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<tr>
<td>5</td>
<td>Baan Pha Lagoon</td>
<td>Rangsit-Ongkarak Klong 1</td>
<td>879</td>
<td>1,939</td>
</tr>
<tr>
<td>6</td>
<td>Jantima Park</td>
<td>Budhamonthon 5</td>
<td>99</td>
<td>122</td>
</tr>
<tr>
<td>7</td>
<td>Baan Pha Chompruek (P2)</td>
<td>Lumlookka Klong 8</td>
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</tr>
<tr>
<td>8</td>
<td>Baan Suan Lalana - SDH (P1)</td>
<td>Pattaya, Chonburi</td>
<td>51</td>
<td>118</td>
</tr>
<tr>
<td>9</td>
<td>Baan Suan Lalana - SDH (P2)</td>
<td>Pattaya, Chonburi</td>
<td>46</td>
<td>122</td>
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<tr>
<td>10</td>
<td>Baan Suan Lalana - CD</td>
<td>Pattaya, Chonburi</td>
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<td>53</td>
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<tr>
<td>11</td>
<td>Baan Pha Piyarom Ruenlaung (P1)</td>
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<td>525</td>
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<tr>
<td>12</td>
<td>Srinakarin Grand Home</td>
<td>Srinakarin Rd.</td>
<td>21</td>
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<tr>
<td>13</td>
<td>Baan Pha Piyarom Kiang Suan (P2)</td>
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<td>413</td>
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<tr>
<td>14</td>
<td>Baan Pha Green Park Rangsith Klong 2 (P1)</td>
<td>Rangsit Klong 2</td>
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<td>340</td>
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<tr>
<td>15</td>
<td>Baan Pha Green Park Latprao</td>
<td>Latprao 101 Rd.</td>
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<td>17</td>
<td>Baan Pha Piyarom Ruen Pana (P5)</td>
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<td>18</td>
<td>Baan Pha Rangsith Klong 2</td>
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<td>19</td>
<td>Baan Pha Piyarom Pruek Wana (P6)</td>
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<tr>
<td>20</td>
<td>Baan Pha Green Park Rangsith Klong 2 (P2)</td>
<td>Rangsit Klong 2</td>
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<td>1,070</td>
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</table>

**Total Past Projects**  
6,622  
10,179

### SCHEDULE 2

**CURRENT PROJECTS**

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Name</th>
<th>Location</th>
<th>Total Units</th>
<th>Project Value (MB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Baan Pha Piyarom Lake and Park 1 (P3)</td>
<td>Lumlookka Klong 6</td>
<td>139</td>
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</tr>
<tr>
<td>2</td>
<td>Thanyathani Home on Green *</td>
<td>Lumlookka Klong 5</td>
<td>203</td>
<td>814</td>
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<tr>
<td>3</td>
<td>Narisa Thonburiram</td>
<td>Prach U Thit</td>
<td>58</td>
<td>409</td>
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<tr>
<td>4</td>
<td>Baan Pha Green Park Royal Pinklaos</td>
<td>Pinklaos</td>
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<tr>
<td>5</td>
<td>Baan Pha Green Park Royal Budhamonthon 1</td>
<td>Budhamonthon 1</td>
<td>90</td>
<td>756</td>
</tr>
<tr>
<td>6</td>
<td>Baan Pha Rim Had</td>
<td>Pattaya, Chonburi</td>
<td>93</td>
<td>526</td>
</tr>
<tr>
<td>7</td>
<td>Baan Pha Green Park Royal Thonburirom</td>
<td>Prach U Thit</td>
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<td>1403</td>
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<td>8</td>
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<td>Baan Pha Piyarom Lake and Park 9 (P9)</td>
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<td>Home on Green 2</td>
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<tr>
<td>13</td>
<td>The Focus Condominium Konkhaen</td>
<td>Konknaen</td>
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<td>146</td>
</tr>
<tr>
<td>14</td>
<td>Baan Pha Rangsith Lumlookka Klong 7</td>
<td>Lumlookka Klong 7</td>
<td>187</td>
<td>227</td>
</tr>
<tr>
<td>15</td>
<td>Baan Pha Piyarom Premier Park (P10)</td>
<td>Lumlookka Klong 6</td>
<td>298</td>
<td>701</td>
</tr>
</tbody>
</table>

**Total Current Projects**  
3,047  
10,860

**Total Projects**  
9,669  
21,039

*Notes: SDH = Single Detached House, DH = Duplex, TH = Townhouse, CD = Condominium, CB = Commercial Building*
EDUCATED AT THE SCHOOL OF HARD KNOCKS

Namchai is widely recognized as one of Thailand’s real estate industry’s leading innovators and pioneers.

He achieved his spectacular success with only a primary school education. “My parents were Teochew-Chinese immigrants and I attended a Chinese school in Bangkrabur until I was about nine years old when it was closed by General Phibulsongkram during a communist-scare,” he said.

He then continued his schooling at Soi Thong School and completed the fourth grade when the school and surrounding markets were destroyed by bombs during World War II. “I left school and began working with my brother in the Krungkasem area,” he said.

Through hard-work and ingenuity, Namchai became a wealthy land and housing developer in Thailand. His innovative practices helped shaped today’s massive development industry in Thailand. He proved that someone without a higher education could achieve unparalleled success through determination and diligence.

LEARNING ON THE JOB - FROM EMPLOYEE TO BUSINESS OWNER

Namchai said many of his future business-skills were shaped during his formative years as a young employee working in Thailand shortly after World War II. “After the school and market were bombed, I lived with my brother at Krungkasem Road and worked for ฿50 a month at a construction supply store”.

At 15, Namchai continued his schooling for a short-time at the Pei-Ing Chinese School at Song Wat until that school closed-down. He then worked with his brother until he got married at 22. “That’s when I decided to really settle-down and start my own family,” he said.

With the help of his best friend’s father who owned the Sapun Kaew Department Store, Namchai started a construction contracting business.

“We built 13 commercial buildings in Taewarat Kunchorn in the Taewet district,” he said.

This project, Namchai said provided him with a life-long lesson that helped him become a successful real estate developer in later-life. “It taught me that the right location is a most critical real-estate success factor,” he said.

Although the Taewet area project was well-constructed, Namchai had difficulty selling the units because the project was located near a crematory. “No one wanted to buy them,” he said.

To remedy the situation, Namchai decided to conduct a series of religious ceremonies and built spirit-houses to pay respect to the spirits. “Eventually the buildings were all sold,” he said.
Throughout his real estate development career, Namchai continued building spirit houses at every project. “The spirit houses protect everyone and I believe they ensure good fortune and great wealth,” he said.

DEVELOPING NEW AREAS - LADPRAO SUCCESS

Namchai said that any new property development must have the potential to be transformed into a major community. “That’s what attracted me to Ladprao,” he said.

During four decades, Namchai transformed Ladprao from swampy farmlands into one of Bangkok’s major communities. “In 1963, I began looking for land on the outskirts of Bangkok to develop,” he said.

Even at that time, Namchai said land in the inner-city had become very expensive. On one of his excursions to Bang Kapi, he passed through the then undeveloped area of Ladprao. “Although the main roads were quite well-developed, most of the area was still agricultural and only a few scattered residences had been built,” he said.

Namchai said he remembered counting more than 100 different streets. “I quickly calculated that if we could build 100 homes on each of these streets, we would be able to sell 10,000 homes,” he said.

To test his theory, Namchai opened a construction-supply business in Ladprao. “I sold my gold savings for about Bt 8,000 and my friend’s parents that owned the Sapun Kaew Department Store gave me enough money to lease land in Ladprao for a “Sataporn Panich” construction supply store.

UNDERSTANDING CUSTOMER BEHAVIOR - FISHING STRATEGY

Much of Namchai’s success can also be attributed to his clear understanding of customer behavior. “We have to respond to their demands as quickly as possible,” he said.

As a youngster, Namchai said he spent a lot of time fishing in swamps and ponds around Bangkok. “I was good at fishing because I knew where the fish went for food and their favorite hunting areas,” he said. Namchai applied his successful fishing strategies to all his subsequent business operations. “I select the right location and then develop a project that consumers really want,” he said.

Before commencing any development project, Namchai said he always asked himself several key questions. “Can people live here? Is it convenient? Will it eventually develop into a large residential area?” he said.
CUSTOMER RELATIONSHIP MANAGEMENT - NAMCHAI’S VIEW

According to Namchai, managing individual customer’s needs are also critical success factors. “I realized that all successful businesses are friendly and honest with their customers,” he said.

When Namchai first opened his Ladprao store, he often drove around the area. “When I saw someone with a heavy-load, I offered them a ride to their destination,” he said.

As time went by, everyone in the area got to know him and affectionately called him “Entrepreneur Uncle Sataporn,” he said.

It was not always a one-way street. “When my car got stuck in the mud during rainy season, many of them would help me free my car,” he said.

This close rapport with people in the neighborhood, Namchai said was a key business secret. “Everyone knew I sold construction supplies and they always came to me for their needs,” he said.

CONSTRUCTION SUPPLY PROFITS PROVIDED FOUNDATION FOR LAND DEVELOPMENT SUCCESS

Namchai's construction supply business grew rapidly and profitably between 1966 and 1969. “I began accumulating savings that could be invested,” he said.

However, even with his mounting savings, Namchai realized that he had to apply innovative financing techniques if he were to become a successful real estate developer.

During the initial period, Namchai was able to capitalize during periodic economic and real estate cycle downturns, by using his construction-supply-business cash-reserves to purchase land, sometimes at fire-sale prices. “At that time, many plots of between 50 and 100 square wah had been sold for about Bt1,000 per square wah,” he said.

Many of the plots had been sold on installment to developers and purchasers who could not continue their payments. Namchai used his cash-reserves to buy about 10 pieces from beleagured purchasers. “Eventually when the market recovered, I sold all of them at a profit,” Namchai said.
TRUST IMPORTANT

Even in Namchai’s early days, land developments required huge amounts of capital. Today land developers must have great credit records and borrow money from financial institutions or obtain capital-market funding,” he said.

However, 30 years ago, Namchai was able to work closely with land-owners that were willing to cofinance projects with him. “It was all a matter of trust,” he said.

For instance, Namchai purchased his first large land-plot of approximately 10 rai on Nak Sawat Street in Ladprao in 1969 for about Bt150,000 per rai. “The owner trusted me and transferred the land-titles to me before I paid the full amount,” he said.

Namchai immediately sub-divided the land into 50 square wah plots (one sq wah equals four sq meters) and at the same time built access roads and water systems. “I sold the lots at Bt1,000 per square wah to the customers,” he said.

The land purchasers paid Namchai by installment. “I collected their money and paid the original land-owner,” he said.

These same lots today sell for between Bt30,000 and Bt40,000 per square wah.

PROFITING FROM SPECIAL SITUATIONS - INGENUITY AND FORESIGHT

Another critical element for Namchai’s long-term real estate development success was his innate ability to develop innovative new financing alternatives along with his ability to convert seemingly unwanted land into much higher-value uses with ingenuity and foresight. “Successful land-development depends a lot on opportunities and one’s ability to turn them into win-win situations,” he said.

Namchai said that during this period one landowner-developer was having difficulty selling 50 square wah plots on Ladprao 64 for Bt1,000 a square wah. “I offered to sell the plots for Bt1,500 per square wah if the land-owner would give me exclusive rights to sell the property,” he said.

Once the land-deal concluded, Namchai developed a whole new sales strategy for the project. “I prepared all the lots for construction and sold each plot with a house,” he said.

He priced the construction of one-storey homes at Bt35,000 and two-storey homes at Bt45,000. “I also sold each lot to them for Bt75,000 and they paid me by installment,” he said.

This slight-innovation resulted in a quick sell-out. “The landowners received more profit from the higher land-prices and I made a large profit from building the homes. It was a win-win situation for everyone,” he said.

PARTNERSHIP WITH LANDOWNERS BANGKAPI RESIDENTIAL PROJECT

Developing and sub-dividing a huge piece of land normally requires an enormous amount of capital. In 1977, Namchai recognized a huge residential development opportunity in Bangkapi. “I found a 60 rai piece of land that was selling for Bt150,000 per rai or about Bt9 million,” he said.

Because Namchai didn’t have the cash available to purchase the property, he put together a joint venture between himself and the landowner to co-develop the land and share the profits. “Two other landowners in the area also joined our venture and I became the project’s developer,” he said.

The “Sum Nak Ngan Klong Kum” project sold out quickly. “Again, it was a win-win situation for everyone and we were all thrilled with the outcome,” he said.
LANDLOCKED PROPERTY - UNLOCKING VALUE

Inaccessible landlocked land normally has a low market value. In addition, these properties normally cannot be mortgaged to financial institutions.

A Muslim family sold Namchai a 70 rai piece of landlocked land next to the Klong Kun Nivet Project in Ladprao. “He couldn’t sell it to anyone so he came to “Entrepreneur Uncle Sataporn” for help,” he said.

Namchai paid the Muslim family Bt60,000 per rai for the landlocked property. “I then built a road to connect the land to Klong Kun Nivet Project that I had purchased for Bt1 million,” he said.

As the community grew, I developed 100 townhouses on both pieces of land and sold them for Bt280,000 each,” he said.

INITIAL BRANDING SUCCESS “WANGTHONG”

As Namchai’s real estate development reputation increased, he began developing a brand for his projects.

In 1981, he purchase land owned by the Sri Wangthong Theater in Ladprao. “It was a five-rai piece that I sub-divided and built one-storey homes on 50 square wah plots and sold for Bt 290,000,” he said.

This project was named “Moo Baan Wangthong” because it was situated in the Wangthong District. “My partners and I decided to capitalize on the Wangthong name for nearby future projects,” he said.

Namchai developed a brand around the Wangthong name. “Wang means palace and people living in the project dreamed they were living in a palace and because “thong” means gold, everyone here felt wealthy and happy,” he said.

The Wangthong brand was later extended into the Sukhapiyal area by Namchai’s daughter and son-in-law. Subsequent successful projects included “Wangthong Village,” “Wangthong House” and additional Wangthong projects in Ladpro, Bangkapi, Don Muang and Rangsit areas. “The Wangthong Group businesses are currently run by my son-in-law’s Jetsadawarangkool family,” he said.

NEW BRAND … “BAAN FAH” HOMES

In 1994, Namchai and his family established a new company, NC Housing that was eventually listed on the Stock Exchange of Thailand. “Our new housing projects were developed under the “Fah family” brand,” he said.

Subsequently projects included Baan Fah Rangsit, Baan Fah Klong Luang, Baan Fah Lagoon, Baan Fah
Green Park and Baan Fah Piyarom. “Baan Fah” or the “home in the sky” signifies love, life and warmth, the basic ingredients of a happy family,” he said.

More importantly, because the sky has no boundaries, Namchai said the Baan Fah brand signifies greatness and eternity.

**WORD-OF-MOUTH MARKETING**

According to Namchai, real estate developers must rely on their reputations for long-term success. “It also requires lots-of-luck and perseverance,” he said.

Most importantly, successful land developers need to know how to assemble land and acquire capital for construction. “Again reputation and trust are critical elements because many projects would not be viable if developers were required to pay up-front cash for the property,” he said.

For his Ladprao area projects in the 1960s and 1970s, Namchai relied on his reputation and worked closely with land-owners to sub-divide properties and build homes for sale. “I didn’t have a lot of capital but land-owners and most importantly the new home-buyers trusted that I would complete and deliver quality homes at fair and reasonable prices,” he said.

Much of Namchai’s subsequent success emanated from the goodwill that he created when he began constructing homes. “Many of my original customers were very proud of their homes and invited friends to see what they had purchased,” he said.

Subsequent new projects were equally as successful. “We developed a brand that was trustworthy and reliable and word-of-mouth really helped us find more new customers,” he said.

**AFTER SALE SERVICE - A KEY PRIORITY**

Premium customer service, particularly after a property has been sold, has long been a priority for Namchai’s developments. “Long-term customer satisfaction is critical because word-of-mouth has always been our strongest marketing channel,” he said.

During a “Thousand Year Rain” occurrence in Bangkok, several Namchai-built homes experienced massive roof-leaks and interior damage. “We repaired every single roof at no-cost,” he said.

The word-of-mouth value in those repairs, Namchai said was tremendous. “Our customers were eternally grateful and our company’s reputation was greatly enhanced,” he said.

Namchai told the GH Bank Housing Journal that he regularly visited his many projects during New Year celebrations. “I meet many of our old customers and they talk to me like an old friend,” he said.
THE 1997 FINANCIAL CRISIS

Like many other real estate companies in Thailand, Namchai’s company was affected by the 1997 financial crisis. “Many financial institutions were closed and the housing market went through a huge crisis,” he said.

During this unprecedented crisis, Namchai said many developers were refused loans and customers defaulted on their loan contracts. “My company experienced the same problems,” he said.

Namchai said his company had difficulty selling projects and some buyers did not close their purchases because they could no longer afford to make mortgage payments. “We were badly affected,” he said.

During this dark period, Namchai said his group restructured its loans with Siam Commercial Bank. “My reputation and record for honoring loan commitments helped us through this very tough period and we successfully renegotiated all our loans,” he said.

The company was also spared because in 1999 Namchai felt very uncomfortable about the real estate industries prospects and refrained from entering any new development projects. “We only started five new projects between 1994 and 1996, and we did not follow other developers by borrowing overseas funds,” he said.

As a result, Namchai’s companies were not as severely affected by the Asian financial crisis that began in 1997 and lasted until 2000. “We were able to continue our existing projects and generated cash flow from new customers,” he said.

During the crisis, Namchai said the Government Housing Bank continued funding new home purchasers. “GH Bank really helped sustain the real estate industry and helped drive economic recovery by offering more loans to home-buyers,” he said.

When the economy began improving in 2000 and 2001, Namchai’s companies began buying land from bank non-performing asset portfolios. “We developed 20 new projects in 2000,” he said.

REAL ESTATE AND HOUSING DEVELOPMENT - NAMCHAI’S LIFE’S WORK AND PASSION

Namchai enjoyed his life as a successful developer and continued working until he passed away at the age of 77. During his last several years, he was still an active participant in his companies’ affairs. “I am still my company’s president and I still participate in corporate planning and give my opinions on major corporate issues,” he said.

Under his leadership NCH received many prestigious awards including the Stock Exchange of Thailand’s “Best Corporate Governance Report Award 2006” that is presented to a company adjudged to have adhered best to good corporate governance principles including disclosure and transparency, shareholders rights, equitable treatment of shareholders, role of
stakeholders, and board responsibilities. These principles also included honesty, sincerity and ethics that were the guiding philosophy of Namchai’s long and illustrious business life.

People with honesty, sincerity and integrity, Namchai said will never be poor. “Honesty, sincerity and integrity are key success factors for long-term business success because that’s only way to create “trust”,” he said.

Namchai added that he would work until his last breath because he strongly believed that work keeps his brain working and most of all “keeps me alive”. Throughout his life, he and his family friends traveled to more than 50 countries. “I learned a lot from all of my overseas trips and tried to incorporate the new ideas into my business strategies,” he said.
CONDOMINIUMS IN THAILAND

- MEDIUM TO HIGH-END CONDOMINIUM DEVELOPMENTS 2007
- LOW AND MIDDLE INCOME CONDOMINIUM DEVELOPMENT IN BANGKOK
- SUCCESS SECRETS - LOW-PRICE CONDOMINIUM PIONEER
- CONDOMINIUM DEVELOPMENTS IN BANGKOK 1994 - 2007
In 2007, Sansiri Plc, one of Thailand's largest real estate developers was fabulously successfully selling high-end condominium units in Bangkok's Central Business District (CBD).

Srettha Thavisin, Sansiri's president said that the company's 400 condominium units at “Siri at Sukhumvit” sold out quickly after one month on the market. “We made sales of Bt3.2 billion from that project,” he said.

That project’s success has led the company to launch its next high-end condominium “Sukhumvit Soi 39” shortly. “We also expect to sell these units quickly,” he said.

Sansiri's success in the selling condominiums in the Bangkok CBD reflects the overall 2007 condominium market. An independent study in early 2008 showed that in 2007 an amazing 5,691 condominium units were sold each month in Bangkok during the year.

Srettha told the GH Bank Housing Journal that Sansiri has successfully launched more than 20 condominium projects in the past two decades. “Our company motto” Where Quality Living Begins “reflects our strong belief that quality of life can be significantly influenced by the environment in which people live and work,” he said.

During the past two decades, the company has become one of Thailand’s premier housing developers. The Stock Exchange of Thailand listed company has had revenues exceed-
In 2008, Srettha said Sansiri expects to launch about four to five medium to high-end condominium projects; two or three projects in the resort city of Hua Hin and perhaps two or three CBD projects in Bangkok. “Most of our customers (95%) are Thais so I don’t think any overseas economic downturn will affect us much.”

High-end success in Bangkok’s condominium market, he said will depend on a company’s brand and reputation. “Being able to deliver status and quality are critical for any high-end developer,” he said.

In 2008, Srettha said Sansiri expects to launch about four to five medium to high-end condominium projects; two or three projects in the resort city of Hua Hin and perhaps two or three CBD projects in Bangkok. “Most of our customers (95%) are Thais so I don’t think any overseas economic downturn will affect us much,” he said.

Although Sansiri has been successful in the high-end condominium market, the company has not neglected the hot “medium and lower-price-range” markets. “Our subsidiary, Property Plus sells medium-price condos and it also sells lower-price products under its “Condo One and Condo One X brands,” he said.

According to Srettha the company’s success emanates from strategies developed and honed during the past two decades.

Site locations, he said always must provide the end-buyer convenience and a pleasant environment. “Currently, we are concentrating on acquiring sites adjacent to the BTS Skytrain and to the MRT underground,” he said.

Medium to high-end condominium developments 2007 - 2008
Over the years, the company he said has carefully segmented its target markets by ensuring well-defined products. “Our high-end Sansiri residential projects are widely recognized as among the best in Thailand,” he said.

Market research and analysis are also critical success factors. “We must know exactly what each consumer group wants. This in turns contributes to a project’s success and ultimately to the company’s long-term success,” he said.

The company, he said also exerts a tremendous amount of effort on after-sales services. “We have our own “Call Center 1685” that instantly handles any customer’s problems,” he said.

On a day-to-day basis, Srettha said the company carefully ensures that every property is managed with the highest quality of service and aesthetics over the long-term. The continuing success of Sansiri’s past projects, he said are the lynchpin or its long-term success.

“We really believe that everything Sansiri does reflects our motto “Where Quality Begins” and we believe that our community of happy home-owners feel the same way,” he said.
LOW-AND-MIDDLE INCOME CONDOMINIUM DEVELOPMENT IN BANGKOK

Opas Sripayak

The Managing Director of one of Thailand’s leading condominium developers talks to GH Bank Housing Journal about the lower-and-middle condominium market. This interview took place in October 2007.

Medium-priced condominium projects adjacent to the Bangkok BTS sky-train lines are expected to dominate the launching of more than 50,000 to 60,000 new condominium units in 2007.

Opas Sripayak, Managing Director of LPN Development Plc, one of Thailand’s major lower and middle income condominium developers said condominium registrations would rise in 2007 to 20,000 units from 14,000 units in 2006. “These numbers include projects launched two years ago that are now being completed,” he said.

The majority of the newly launched units, Opas said will be priced between Bt1 million and Bt2 million for smaller condominium units located adjacent to the BTS lines. “Proximity to the skytrain is their main selling point,” he said.

Nevertheless, Opas said sales volumes will depend on product features and location. “I expect sales volumes will range between 30 and 100 percent this year,” he said.

The most popular locations are in the Ratchadapisek, Huay Kwang and Ladprao areas. “Land and House, Supalai, Charn Issara and other local developers all have projects in these areas,” he said.

Although many middle-income condominiums have been built adjacent to skytrain lines, Opas said areas anticipating imminent sky-train extensions are also becoming very popular. “Thapra is now considered a great...”
location because the skytrain is expected to arrive there in 2008," he said.

Despite all the added construction, Opas said middle-income condominium prices are generally rising. “Our project near the Thai Cultural Center was launched at Bt30,000 per square meter (or about one million baht per unit) and now they are selling at Bt60,000 per square meter,” he said.

The sudden demand for condominium units at Ratchadapisek, Rama 9 and Huay Kwang is beginning to attract speculators. With rising prices, Opas said developers such as LPN worry whether the real targeted home buyers can qualify for mortgage loans as unit prices are driven higher.

**LPN - A LEADING LOWER AND MIDDLE INCOME DEVELOPER**

Opas told GH Bank Housing Journal that during the past 18 years, LPN has developed and sold more that 30,000 condominium units in 40 different projects. “Our Lumpini brand is well-known throughout the country,” he said.

Operationally the Stock Exchange of Thailand-listed company is also one of the country’s leading real estate developers. In 2007 the company had revenues of Bt6.8 billion ($US213 million) and net profits of Bt927 million ($US29 million).

The company’s net profit margin has averaged about 15 per cent over the past five years and its return on equity has exceeded 22 percent during the same period.

Opas, who became managing director in 2005 and is an architect by profession attributes much of the company’s long-term success to its overall vision. “LPN wants to maintain market leadership while enhancing performance by developing total residential solutions that promote excellent quality communities,” he said.

**TARGET MARKET SHIFT 2007**

Prior to 2007, Opas said LPN’s strategy was to develop condominium projects for middle-income families with monthly incomes of between Bt25,000 and Bt50,000 per month. “These people are aged 35 and up, married with not more than one child,” he said.

In 2007, Opas said LPN shifted gears and is now targeting first-time home buyers with incomes of Bt15,000 per month. “These are younger people, between 25 and 30,” he said. (see Schedule One)

**SCHEDULE ONE**

**LPN CONDOMINIUM DEVELOPMENTS 2007 - 2008**

In the first half year of 2007, LPN launched three condominium projects.

1. **LUMPINI CONDO TOWN BAUDINDECHA, RAMKAMHEANG**

   This project targeted new customers with monthly incomes of Bt15,000 - 20,000. This customer group can afford monthly mortgage payments of Bt2,000 - Bt3,000.

   The projects consists 3,500 units in 14 buildings on 35 rai of land. Unit sizes are between 25 sqm and 28 sqm sales prices range from Bt600,000 - Bt700,000.

   The units were launched in February 2007 and as of October 2007, 80 per cent were sold.

2. **LUMPINI CONDO TOWN RAMINTRA, LAKSEE**

   These units are situated on 25 rai of land and all units were sold within two weeks.
3. LUMPINI VILLE RAMINTRA, LAKSEE

This is phase two of the Lumpini Condo Town project near the Central Department Store, Ramintra.

The 1,100 units were being sold for Bt1 million per unit. As of October 2007, 70 percent of the units were sold.

The following three projects were launched in the second half year 2007;

4. LUMPINI VILLE PRACHACHEUN, PONGPECH

These 950 units are located in a 19 storey building and are selling for Bt1 million baht located near The Mall Department Store, Ngam Wong Wan

Total project valued - about Bt1,250 million
Current sales volume - about 65 percent

5. LUMPINI SUITE, PINKLAO

This project that will be launched in November 2007 near Pata Pinklao is a 21 storey building with 540 units

Unit size: one bedroom, 35 sqm
Selling price: Bt1.8 - Bt2 million

6. LUMPINI CONDO TOWN RATANATHIBETH

Opposite Central World Ratanathibeth
25 sqm. units

Selling price - Bt600,000 - Bt700,000 per unit
2,000 units

Project launch - December, 2007

LPNS LUMPINI BRANDING STRATEGY

LPN, has used a branding strategy to position projects according to target groups, that are primarily based on income and affordability. “Lumpini is our parent brand and we use the name in all sub-brands,” Opas said.

Normally, LPN only launches about five to six projects per year because its strategy is different from other developers. “We don’t land-bank so we have the flexibility to quickly build in areas that become popular,” he said.

The individual projects are identified by sub-brands including Lumpini Suites, Lumpini Place, Lumpini Ville, Lumpini Center and Lumpini Condo Town. (see Schedule Two for category definitions)

Because more than 60 percent of LPN Development Plc’s investors are foreign, Opas said he is often asked to explain what Lumpini means. “I always tell them that Lumpini means “Land of Paradise”, he said.

Although the LPN brand may look old-fashioned when compared to its competitors, Sansiri and Noble, Opas said the company has always been known as a very functional and value-for-money developer for each market it targets.

“Our track-record shows that LPN has built and maintained many successful communities in the past two decades,” he said.

SCHEDULE TWO

LPN LUMPINI BRAND CATEGORIES

1. LUMPINI SUITES

This brand targets the upper-middle income groups and the units are priced at between Bt60,000 per sqm and up.
The units are located in the central business district and high-end housing areas.

2. LUMPINI PLACE

This brand targets the upper middle and middle income groups and the units are priced at between Bt45,000 - Bt60,000 per sqm.

The units are located in the central business district and populated areas.

3. LUMPINI VILLE

This brand targets the middle and lower-middle income groups and the units are priced between Bt35,000 - Bt45,000 per sqm.

These units are similar to those for Lumpini Place but locations are further away from the business center and different construction materials and amenities are offered.

4. LUMPINI CENTER

This brand targets lower-middle and upper-low income groups and are priced between Bt 25,000 - Bt35,000 per sqm.

The units are located between the city center and suburban areas. The targeted customers' family residences and/or work locations are not more than five kilometers from the project

5. LUMPINI CONDO TOWN

Lumpini Condo Town is LPN’s latest brand. It is capitalizing on a “Blue Ocean” strategy to enter profitable and growth areas not currently being served by competitors.

The brand targets upper-low income groups that most developers are currently ignoring because of community-management and financial institution loan-approval problems.

Lumpini Condo Town units are priced at between Bt600,000 - 700,000 per unit.

LPN will be concentrating on developing its market share and dominance in this market segment.

LPNS OPERATIONAL STRATEGIES- ITS CORE COMPETENCIES

According to Opas, LPN has succeeded in Thailand’s tough real estate development market because it has always adhered to its unique core operational strategies. “These core competencies allow LPN to differentiate itself in the Thai market,” he said.

These core competencies, he said buttress the company’s overriding vision to maintain market leadership by developing total residential solutions that promote excellent quality communities.

IDENTIFYING TARGET MARKETS

Opas told the GH Bank Housing Journal that before commencing any new condominium project, LPN spends a lot of time studying its specific target market. “We want to know what they are really looking for and how much they can afford,” he said.
The company, he said also does extensive population growth studies in each specific community calculating the number of employers and current housing supply. "These statistics help us determine the type of project we want to sell," he said.

In more than 18 years of developing condominiums for lower and middle Thai residents, LPN has also discovered that the majority of condo purchasers usually select projects that are close to work or family homes. "Most of our customer originally lived less than three kilometers from the condo they purchased," he said.

"Most of our customer originally lived less than three kilometers from the condo they purchased," he said.

This key element has been a central part of LPN’s site selection strategy. "We know that most of our buyers want to live near their families," he said.

**UNIQUE SITE-SELECTION STRATEGY-FOLLOWING SHOPPING MALLS**

Opas said that LPN has capitalized on the unique knowledge that most of its potential purchasers want to live near their family and relative’s homes or work place to develop its overriding site-selection strategy. "We like sites that are located near shopping centers in the outskirts of the city," he said.

These areas, Opas said are populated with large families that need housing. "These families usually need to expand their current homes or look at purchasing new homes for their children’s families," he said.

With land-costs skyrocketing, new single-family homes nearby are not within the budgets of most families. "If they want an affordable new single-family home, they will have to move far away from their parents and relatives," he said.

Consequently, LPN has priced its condominium projects according to a specific target market’s incomes and needs. "Our condominiums satisfy the new generation’s need for affordable homes that are close to their families and relatives," he said.

LPN’s strategy of providing new housing for people that work within a three-to-five kilometer distance from their family home or work has precluded the company from building condominiums adjacent to the Bangkok skytrain. "Other condominium developers have utilized this strategy but we prefer addressing the needs of our own specific target market," he said.

**NO LAND BANKS - MAXIMIZE UTILIZATION**

Opas said that unlike many of its competitors, a key strategy of LPN is not accumulating huge land banks. "This means we don’t tie up as much capital and most importantly, it provides us flexibility to move to prime locations at any time," he said.

Land utilization is also a key strategic element of LPNs long term success. "While our competitors build single family homes or townhouses in similar areas, we maximize land-use and per-unit costa by building high-rise condominiums," he said.

**SUPERIOR DESIGN - COST LEADERSHIP STRATEGY**

Superior design and cost-efficiency have also been major contributors to the company’s almost two decades of success. "Many of our senior people started out as architects and engineers," he said.

The company he said controls construction costs by utilizing the same infrastructure for each of its brands.
"We've used the same group of contractors for more than a decade," he said.

Because of their architectural and engineering backgrounds, the company's senior executives are always looking to optimize unit designs. "From the customer's perspective, we are always trying to maximize utility in small-spaces," he said.

As a large developer, Opas said LPN is always looking at how it can capitalize on economies-of-scale. Its construction processes over the years have been purposely kept simple.

The company, he said doesn't rely much on the latest high-technology building processes. "We use reinforced concrete, post-tension floors and pre-cast concrete wall panels. Our economies of scale on these basic items can usually benefit our customers," he said.

Over the past decade, Opas said that LPN has also established a reputation for being an efficient builder of high-quality units. "All of our projects must be complete within a year and our efficiency means lower costs and more value for money to our customers," he said.

HELPING PURCHASERS OBTAIN FINANCING

Prior to considering the development of any condominium project, Opas said that LPN closely identifies and analyses the target group it is focusing on. "We want to know how much they can afford to pay and the type of unit they want," he said.

To ensure that lower-income purchasers can save enough for down payments and ultimately qualify for bank loans, Opas said that LPN has developed innovative installment down-payment programs. "Our programs allow customers to pay their ten percent down payments by installment," he said.

Prior to the unit's completion, LPN staff help these purchasers with the paperwork necessary to obtain long-term mortgages from financial institutions such as the Government Housing Bank. "We usually structure the down-payment installments to approximate what the customer's payments will be once the long-term mortgage is issued," he said.

The purchaser's regular down-payment installment record, Opas said is evidence that the potential borrower has the ability to make payments regularly on a long-term mortgage. "Most of our customers therefore have little difficulty obtaining loan approval," he said.

Moreover, Opas said that during the past 18 years, few LPN customers have appeared on financial institutions' books as non-performing loans," he said.

Because LPN primarily builds homes for lower and middle-income purchasers, GH Bank is one of principal lending institutions to LPN customers. "GH Bank is one of our partners," he said.

Normally, the company allows customers to select their mortgage financing institution. However, after the 1997 financial crisis in Thailand, the majority the company's home buyers have used GH Bank financing. "Government and state enterprise employees usually select GH Bank," he said.
IMPORTANCE OF AFTER-SALES SERVICE

Opas said another key reason why LPN has been a successful real estate developer for almost two decades is its major emphasis on after-sales service. “We have our own property management company that is very responsive to our customers needs,” he said.

In addition, the company has an extensive customer relationship management (CRM) unit that works with existing and potential customers throughout the year. “The CRM unit ensures that these stakeholders every need is taken care of,” he said.

Regular social activities are also organized at all LPN projects. “We want all our home buyers to be proud about the communities they have chosen to live in,” he said.

The company has also established very successful “Vibrant Community” projects in each of its developments. “We realize that if everyone is active and healthy, the community will be vibrant and a desirable place to live and raise families,” he said.
Although demand for low-end condominiums with sales of less than Bt500,000 ($US15,625) is huge, no private developers entered the market in 2007.

Thumrong Punyasakulwong, Nirun Housing Co Ltd President said he believed the demand for low-priced condominium units under Bt500,000 probably exceeds 600,000 units but various obstacles are stopping developers from supplying this market.

“Financial constraints and new building laws and regulations make it difficult for developers to profitably build for this market,” he said.

Most financial institutions, he said refuse to finance low-priced condominiums. “They will only look at loans of more than Bt500,000,” he said.

The Government Housing Bank and the Government Savings Bank, he said have loans available for low-income purchasers but their regulations preclude many cash-poor low-income buyers from qualifying. “They will only finance up to 70 percent of a unit’s appraisal value and most buyers for low-priced units just don’t have enough savings for down payments,” he said.

New building regulations including requiring parking areas, he said are also making it almost impossible to profitably provide low-price condominiums. “City regulations limiting building floor-area-ratios are also raising costs,” he said.

The current need for environment impact assessments, he added are also hurting the production of low-priced condominiums.
Thumrong began building low-priced housing when he first entered the housing industry in 1975. "I built row-houses and town-houses that I sold for Bt120,000 per unit or leased on 20 to 30 year leases at Bt80,000," he said.

He also began building apartments for lower income renters. "I rented the apartments for between Bt1,000 and Bt1,200 per month," he said.

Even though the first condominium law was passed in 1979, Thumrong said it took time for developers and home buyers to adopt the concept. "I remember when Thavorn Trisiripaisarn built Bangkok Condominium which was the first Thai project under the new Act," he said.

As townhouse prices begin rising in the early 1980's, Thumrong said he began seriously considering condominiums as a viable alternative. "Townhouse prices rose from Bt120,000 per unit to about Bt180,000, a price that drove many home-buyers out of the market," he said.

In 1986, he built a pilot low-priced condominium project at Sukhumvit Soi 93. "I named it "93 Building". It had 30 units in a two-storey building that I sold for Bt99,000 each," he said.

Because these units were priced much lower than row-housing and townhouses, they sold out quickly. "I sold them all in ten days," he said.

To push sales of this huge project, Thumrong advertised in the Thai Rath newspaper with the slogan "Cheaper to buy than rent - just pay Bt1,000 per month". "The project sold out in 15 days," he said.

When the 1989 real estate boom hit Bangkok he launched the 500 unit Nirun 3 at Sukhumvit Soi 103. "Buyers formed long queues for the units and bought them all in one hour," he said.
During this boom period, Thumrong built 17 Nirun Condominium projects and sold more than 20,000 low-priced condominiums. “Then Gulf War I came,” he said.

1992 MARKET RECOVERS

The Bangkok housing boom slowed down tremendously in 1991 during Gulf War I. “High oil prices and a coup in Thailand dampened consumer confidence,” he said.

However, the market quickly recovered in 1992. “I began building “Nirun Residence” a new condominium project near Ramkamhaeng II University,” he said.

The first phase of 1,600 units, he said sold out in three months. This project was more up-scale than the previous Nirun Condominiums and sold for Bt250,000 per unit. “We put in more elegant interiors including wall-paper, carpets and marble-like flooring,” he said.

Thumrong eventually built and sold more than 30,000 condominium units under the “Nirun Residence” brand. “More than 20,000 Nirun customers have loans with the Government Housing Bank,” he said.

UNSCATHED BY THE 1997 CRISIS - THANKS TO GH BANK HOUSING JOURNAL

Thumrong credits a 1995 article in the Government Housing Bank Housing Journal with helping him escape unscathed during the unprecedented 1997 economic crisis. “The article was about rampant housing speculation and noted the huge number of unsold abandoned homes,” he said.

Upon reading the article, Thumrong said he decided to stop all new proposed projects and rushed to finish then-current projects. “We were able to transfer more than 8,000 homes to customers during the crisis and sold out our inventory,” he said.

WHAT CAN BE DONE TO IMPROVE BAAN EUR - ATHORN?

The Government subsidized Baan Eur-Athorn housing program under the National Housing Authority (NHA) for low-income wage earners, Thumrong said, has helped many buy homes. However, he thinks the program would be even more beneficial if the NHA gave more importance to location. “The homes should be built near workplaces...”
and the number of housing units built under the program should reflect demand for the location as well as the price,” he said.

NO LONGER BUILDING LOW - PRICED CONDOMINUMS

In 2006, Thumrong decided to move into the higher-priced condominium market by launching his “The Station” brand of condos at Sathorn Charoenkrung in central Bangkok. “The first project included 676 units and are being sold for between Bt40,000 to Bt60,000 per square meter,” he said.

Thumrong expects this project will be completed in 2008. “We pre-sold 85 percent of the units so I’m very satisfied with our efforts in this market,” he said.

Buoyed by his success in this new market, Thumrong told the GH Bank Housing Journal, he is now launching two similar projects, one on Sukhumvit Soi 62 and one on Rama IV Road.

LONG - TERM SUCCESS SECRETS

Developers, Thumrong said must understand real estate market boom-and-bust cycles if they want long-term success. “We need accurate and up to date information and GH Bank and the Real Estate Information Center are doing a lot to provide this data to us,” he said.

His long term success, Thumrong said, stems from his ability to always carefully balance his housing supply with customer demand. “Managing housing inventory optimally through up-and-down business cycles and a bit of luck has been the key to my success in the real estate industry,” he said.
Condominiums constituted the majority of residential housing units launched in Bangkok in 2007. Detached homes and townhouses are gradually losing their once dominant positions. This study analyzes the Bangkok condominium market from 1994 to 2007.

THE SURVEYS

This paper’s findings are based on the most comprehensive and continuous field surveys by Agency for Real Estate Affairs (AREA) which has the largest field survey data base in Thailand. The surveys are among the most reliable in Bangkok and Thailand because AREA is not involved in the property development or real estate brokerage businesses. It is merely a property information, research and valuation center.

The AREA surveys cover newly launched real estate projects weekly and reports are published monthly. Sales updates are reported semi-annually. About 300 to 400 projects are launched each year and the number of projects available in the market is around 1,200 - 1,400. Of the total number of projects launched, approximately half of them were condominiums.

THE DEVELOPMENTS

Condominiums first appeared in Thailand in the early 1980’s after the 1979
Condominium Act was enacted. Initially, condominiums were not readily accepted by the general market and mainly catered to middle-and-higher income households. However, since the 1990’s, condominiums have gradually been accepted by lower income groups. A 1994 AREA survey showed that the lowest-priced condominium unit offered was a 24 square meter unit offered for sale at Bt200,000 (at that time US$ 8,000).

In 1994, the total number of condominium units in the market was 125,856; 69,354 units had been sold to home-buyers and 56,502 units were available at year-end and formed part of the 1995 supply. Figure 1 shows that condominiums available-for-sale increased annually for several years. However, from 2000, because of higher absorption rates, the number of units available dropped substantially. The number of units available for sale at year-end was lowest in 2006 and increased slightly in 2007.

The number of units available in 2007 (supply) increased substantially from 55,502 in 2006 to 69,257. Condominiums had become a possible home-ownership choice because of affordability. However, the number of units available for sale at year-end 2007 was still very low. Many condominium units were sold during 2007. The market for condominiums in 2007 was much more robust than for other types of housing.

CONDOMINIUM LAUNCHES 2007

The latest AREA survey showed that 81,364 housing units were launched in Bangkok in 2007, of which 44,750 units were condominiums. Condominiums constituted 55% of housing units launched during the year.

More than 40% of these condominium units (17,930 units) were priced between Bt1 million and Bt2 million (US$ 30,000 - $60,000). About two-thirds of the condominiums launched were offered at below Bt2 million. The surveys indicated that most condominium units are being offered to low-middle and middle income groups. Less than 200 condominium units of more than $US500,000 were launched in...
Bangkok in 2007.

In terms of sales, about 71% of the condominiums launched in 2007 were sold (booking fees paid and with monthly down-payment installment contracts).

**Table 1: Housing Projects Launched in January-December 2007 by Prices**

<table>
<thead>
<tr>
<th>Price Range (Mil. of Baht)</th>
<th>Detached</th>
<th>Duplex</th>
<th>Townhouse</th>
<th>Shophouse</th>
<th>Condominium</th>
<th>Land/Subdv</th>
<th>Total Units</th>
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<tbody>
<tr>
<td>0.501-1.000</td>
<td>25</td>
<td>476</td>
<td>6,388</td>
<td>90</td>
<td>9,918</td>
<td></td>
<td>16,897</td>
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<td>3.001-5.000</td>
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<td>10.001-20.000</td>
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<td></td>
<td>464</td>
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<td>517</td>
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<td>&gt; 20.000</td>
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<tr>
<td>Overall</td>
<td>11,384</td>
<td>5,634</td>
<td>17,902</td>
<td>1,654</td>
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<tr>
<td>Proportion</td>
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<td>7%</td>
<td>22%</td>
<td>2%</td>
<td>55%</td>
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<td>100%</td>
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<tr>
<th>Development Value (mil.Baht)</th>
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<tr>
<td>0.501-1.000</td>
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<td>1.001-2.000</td>
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<td>2.001-3.000</td>
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<td>Overall</td>
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<td>Proportion</td>
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<th>Units Remaining in the Market</th>
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<tr>
<td>0.501-1.000</td>
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<td>1.001-2.000</td>
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<td>&gt; 20.000</td>
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<td>Overall</td>
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<th>% Sold</th>
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<tr>
<td>0.501-1.000</td>
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<td>10.001-20.000</td>
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<tr>
<td>&gt; 20.000</td>
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<td>Overall Ave.</td>
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Agency for Real Estate Affairs (area.co.th), February 2008

In 2007, on average, 52 percent of all types of housing units available were sold. Detached homes and townhouses constituted 24% and 33% of the total...
housing units sold.

**CONDOMINIUM MARKET - END OF 2007**

AREA surveys of more than 1,400 Bangkok housing projects indicate that at the end of 2007, 108,674 housing units were still available for sale. These included newly launched 2007 units and prior years’ launches. This total constituted the inventory available at the beginning of 2008. Of this total, condominium units constituted only 29,677 units or 27% of total inventory. At the same time, detached houses constituted 37,531 or 35% of the total.

Looking at sales, 81% of the condominium units available at year-end 2006 were sold in 2007. At the same time, two-thirds of the detached houses and townhouses available for sale were sold. Condominiums have become the home of choice for Bangkok buyers in recent years.

**PERFORMANCE OF CBD CONDOMINIUMS**

The following figure shows the locations of 290 condominium projects offered at the end of 2007.

The map shows that the majority of condominium projects were located in the Central Business District (CBD). Many of them were located alongside the Bangkok BTS mass transit systems. Commuting problems to and from work resulted in fewer suburban condominium projects. However, in the future, when mass transit systems are expanded to the suburbs, new condominium projects will be built in those areas.

---

**Table 2:** Housing Projects Offered in the Market as of End 2007

<table>
<thead>
<tr>
<th>Price Range (Mil. of Baht)</th>
<th>Detached</th>
<th>Duplex</th>
<th>Townhouse</th>
<th>Shophouse</th>
<th>Condominium</th>
<th>LandSubdv</th>
<th>Total Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;0.501</td>
<td>370</td>
<td>570</td>
<td>369</td>
<td>7,558</td>
<td>1,266</td>
<td>9,193</td>
<td></td>
</tr>
<tr>
<td>0.501-1.000</td>
<td>4,055</td>
<td>3,301</td>
<td>10,681</td>
<td>116</td>
<td>4,490</td>
<td>16,426</td>
<td></td>
</tr>
<tr>
<td>1.001-2.000</td>
<td>9,208</td>
<td>3,847</td>
<td>2,998</td>
<td>386</td>
<td>4,047</td>
<td>21,162</td>
<td></td>
</tr>
<tr>
<td>2.001-3.000</td>
<td>14,909</td>
<td>703</td>
<td>2,197</td>
<td>1,357</td>
<td>2,777</td>
<td>22,110</td>
<td></td>
</tr>
<tr>
<td>3.001-5.000</td>
<td>7,248</td>
<td>51</td>
<td>279</td>
<td>25</td>
<td>1,825</td>
<td>139</td>
<td></td>
</tr>
<tr>
<td>5.001-10.000</td>
<td>1,198</td>
<td>1</td>
<td>23</td>
<td>9</td>
<td>682</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>&gt; 20.000</td>
<td>543</td>
<td>3</td>
<td>337</td>
<td>19</td>
<td>902</td>
<td>902</td>
<td></td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>37,531</td>
<td>8,473</td>
<td>27,475</td>
<td>2,667</td>
<td>29,677</td>
<td>108,674</td>
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</tr>
</tbody>
</table>

**Proportion**

<table>
<thead>
<tr>
<th>Price Range (Mil. of Baht)</th>
<th>Detached</th>
<th>Duplex</th>
<th>Townhouse</th>
<th>Shophouse</th>
<th>Condominium</th>
<th>LandSubdv</th>
<th>Total Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;0.501</td>
<td>70%</td>
<td>68%</td>
<td>71%</td>
<td>71%</td>
<td>88%</td>
<td>12%</td>
<td>83%</td>
</tr>
<tr>
<td>0.501-1.000</td>
<td>60%</td>
<td>62%</td>
<td>64%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>70%</td>
</tr>
<tr>
<td>1.001-2.000</td>
<td>71%</td>
<td>46%</td>
<td>52%</td>
<td>71%</td>
<td>75%</td>
<td>75%</td>
<td>44%</td>
</tr>
<tr>
<td>2.001-3.000</td>
<td>63%</td>
<td>46%</td>
<td>71%</td>
<td>55%</td>
<td>77%</td>
<td>70%</td>
<td>66%</td>
</tr>
<tr>
<td>3.001-5.000</td>
<td>65%</td>
<td>75%</td>
<td>76%</td>
<td>90%</td>
<td>76%</td>
<td>76%</td>
<td>54%</td>
</tr>
<tr>
<td>5.001-10.000</td>
<td>70%</td>
<td>96%</td>
<td>32%</td>
<td>10%</td>
<td>75%</td>
<td>82%</td>
<td>72%</td>
</tr>
<tr>
<td>&gt; 20.000</td>
<td>55%</td>
<td>88%</td>
<td>71%</td>
<td>14%</td>
<td>63%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Overall Ave.</strong></td>
<td>66%</td>
<td>56%</td>
<td>67%</td>
<td>66%</td>
<td>81%</td>
<td>46%</td>
<td>71%</td>
</tr>
</tbody>
</table>

Agency for Real Estate Affairs (area.co.th), February 2008

Condominium Developments In Bangkok, 1994-2007
Figure 2: 290 Condominium Projects Offered for Sale in Bangkok, 2007

Table 3: Housing Developments in the CBD of Bangkok (Zone I) As of Dec 2007

<table>
<thead>
<tr>
<th>House type</th>
<th>Price Range (Mil. of Baht)</th>
<th>No. of Projects</th>
<th>No. of Units</th>
<th>Units Sold/month</th>
<th>Period to go (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>122</td>
<td>32,117</td>
<td>25,094</td>
<td>7,023</td>
</tr>
<tr>
<td>Detached</td>
<td>10.001 - 20.000</td>
<td>1</td>
<td>9</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>house</td>
<td>&gt; 20.000</td>
<td>3</td>
<td>39</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>48</td>
<td>20</td>
<td>28</td>
<td>1,237</td>
</tr>
<tr>
<td>Townhouse</td>
<td>3.001 - 5.000</td>
<td>1</td>
<td>38</td>
<td>4</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>5.001 - 10.000</td>
<td>3</td>
<td>497</td>
<td>429</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>10.001 - 20.000</td>
<td>1</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>543</td>
<td>437</td>
<td>106</td>
<td>3,687</td>
</tr>
<tr>
<td>Shophouses</td>
<td>3.001 - 5.000</td>
<td>1</td>
<td>64</td>
<td>9</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1</td>
<td>64</td>
<td>9</td>
<td>55</td>
</tr>
<tr>
<td>Condominium</td>
<td>1.001 - 2.000</td>
<td>30</td>
<td>7,201</td>
<td>5,784</td>
<td>1,417</td>
</tr>
<tr>
<td></td>
<td>2.001 - 3.000</td>
<td>41</td>
<td>6,611</td>
<td>5,177</td>
<td>1,434</td>
</tr>
<tr>
<td></td>
<td>3.001 - 5.000</td>
<td>68</td>
<td>8,472</td>
<td>6,574</td>
<td>1,898</td>
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<tr>
<td></td>
<td>5.001 - 10.000</td>
<td>76</td>
<td>6,087</td>
<td>4,766</td>
<td>1,321</td>
</tr>
<tr>
<td></td>
<td>10.001 - 20.000</td>
<td>43</td>
<td>2,080</td>
<td>1,610</td>
<td>470</td>
</tr>
<tr>
<td></td>
<td>&gt; 20.000</td>
<td>28</td>
<td>1,011</td>
<td>717</td>
<td>294</td>
</tr>
<tr>
<td>Total</td>
<td>113</td>
<td>31,462</td>
<td>24,628</td>
<td>6,834</td>
<td>161,599</td>
</tr>
</tbody>
</table>

Source: AREA, February 2008  Note: Oval area is CBD

The 2007 survey shows that in Bangkok’s CBD area that includes Phaholyothin Road before Chatuchak to the north; Sukhumvit 71 to the east, Yannawa to the Chao Phraya River south and west, many different types of housing were available including luxury detached homes, townhouses, shophouses and con-
dominiums. However, condominium units were the vast majority. Table 3 shows that 5,691 of the 5,711 housing units sold per month were condominiums (almost 100%). The total number of housing units available for sale at all 113 projects surveyed was 31,462; only 6,834 units (22%) remained unsold at the end of 2007. We estimate that the available condominium inventory in this area at year-end could be sold in 1.2 months (based on 5,691 unit sales rate per month).

OBSERVATIONS

Some real estate industry observers worry that the Bangkok condominium may be oversupplied. However, our surveys based on number of units sold and absorption rates indicate that these concerns are unfounded. In general, land is scarce and becomes more expensive over time. Low-rise residences can only be affordably built on the outskirts of Bangkok. Condominiums have become the major housing alternative. More home buyers are also appreciating the security and maintenance advantages of owning condominiums.

However, the completion of many projects has become a concern. Some projects have been delayed because of construction and permit problems as well as environmental impact assessment difficulties. Developers and buyers have been adversely affected and these delays may adversely affect the cost and viability of future projects. More consumer protection programs many also be needed to ensure reasonable market performance.

NOTES:

Bangkok in this article refers to the Bangkok Metropolitan Region (BMR) which consists of Bangkok and other five vicinity provinces, i.e. Nonthaburi, Pathum Thani, Samut Prakan, Samut Sakhon and Nakhon Pathom.
REAL ESTATE TRENDS

- Urban Planning Policies in Thailand
- Real Estate Industry Will Drive Thai Economic Growth in 2008
- Key Housing Statistics 2007
- The Bauspar Finance System: Is it Appropriate for Thailand?
- Regional Policy Dialogue on Pro-Poor Housing Finance
Urban Planning Policies in Thailand

Tirawitr Kullavanijaya
Former Director-General, Department of Public Works and Town and Country Planning, Ministry of Interior, Thailand

Thailand’s Cabinet mandated the Department of Public Works and Town & Country Planning to develop comprehensive land use and planning processes throughout the country in July 2002. Tirawatr Kullavanijaya, the Department’s former Director-General recently prepared a comprehensive up-date on its progress.

Thailand has constantly faced internal and external pressures that have impacted its socio-economic developments, including the way of life, natural resources, land use and settlements.

Much of Thailand’s early development was done without a formal blueprint or so-called “land use master plan”.

Consequently, urban and industrial developments have encroached into agricultural and natural areas. The wanton destruction of natural resources that protect the environment has often exacerbated natural disasters such as heavy flooding and landslides.

Since most developments have been centralized around large metropolitan areas like Bangkok, an urban-rural development imbalance has also resulted.

Bangkok has become a primate city\(^1\) with widely-perceived instances of quality of life degradation, land-use conflicts and long-term unforeseen detrimental health impacts on its more than ten million citizens.

In Thailand, the Department of Public Works and Town & Country Planning (DPT) is responsible for urban development and planning as well as building standards and controls. Its mission is to create a better environment and a superior quality of life.

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\(^1\) a major city that is the financial, political and population center of a country and is not rivaled in any of these aspects by any other city in the country
In July 2002, the Thai Cabinet finally mandated the DPT to develop comprehensive land use planning processes throughout the country.

DPT realizes that it must resolve these problems and formulate development paradigms that also address globalization issues such as Free Trade Agreements (FTA) and global warming that has affected all countries around the world.

**OVERALL DEVELOPMENT STRATEGY - SEGMENTATION**

Thailand’s overall development strategy is segmented into national, regional, provincial and city/town, community levels.

At the national, regional and provincial levels, master plans are created to provide a broad development framework for city/town and community levels. Local and community development plans address specific implementation issues and comply with overall master plans.

The DPT has also been involved with special planning projects including the Suvarnabhumi Aerotropolis residential and industrial area developments as well as master planning for Tsunami hit areas.

With the current structure in place, Thailand’s land development infrastructure now follows more closely international best practices.

**THAILAND’S LAND USE DEVELOPMENT AND PLANNING CONCEPTS**

**A. BROAD CONSULTATIVE PROCESS**

In developing national, regional and provincial master plans, the DPT has relied on broad consultative processes with concerned stakeholders, especially average citizens. This consultative process is an integral part of the overall framework at all development levels.

Five public hearings were conducted to discuss national level concerns and five more hearings each were held at six regional levels. The participative processes began with problem identification and analyses before formulating the roles, visions, concepts, policies and strategies for periods of between five and 15 years.

**B. MAJOR TOURISM, MEDICAL SERVICES HUB, KITCHEN OF THE WORLD**

An overriding element of the master plan is recognizing that Thailand will become a major tourism industry and medical services hub as well as the “kitchen of the world” during the next five to 15 year period.

Thailand would also continue to serve as a regional hub for Southeast Asia and ultimately develop into an economic and logistic center for the region.

At the same time, the “Greater Mekong Sub-region” or “GMS” is aiming to open new economic zones and increase cooperation among major cities in this region. The GMS plan places Thailand as the region’s gateway because China’s southern hinterland connects to the ocean through Thailand via “Development Corridors”.

The plan designates three specific development corridors:

- **The Northern Corridor** connects southern China to Myanmar and northern Thailand at Mae Sai, Chiangsan and Chiangkhong. The second **East Western Corridor** connects Myanmar to Thailand (through Tak, Mukdahan and Nakorn Panom provinces) to Laos and to Vietnam.
- **The Southern Corridor** connects Thailand (at Aranya Prathet district, Srakaew) to Cambodia and to Vietnam.
provinces) to Laos and to Vietnam. The Southern Corridor connects Thailand (at Aranya Prathet district, Srakaew) to Cambodia and to Vietnam.

These three corridors are destined to influence Thailand’s overall development. Thailand’s medium and long-term development visions (five to 15 years) will be articulated as follows:

- **NATIONAL DEVELOPMENT VISION FOR 2057**
  Thailand will be a global leader in agriculture, agro-industry, food technology, health services and tourism. Thai people will have a good quality of life and a healthy environment. The country will be highly-stable and secure with an infrastructure that ensures long-term sustainable development.

- **NATIONAL DEVELOPMENTS VISION FOR 2037**
  Thailand will be a developed country that has created a comfortable balance between urban and rural development. It will also be a regional import-export and tourism-industry hub. More importantly, Thailand will be a knowledge-based society that is capable of continuous innovation.

- **NATIONAL DEVELOPMENT VISION FOR 2012**
  To achieve its medium and long-term visions, Thailand has formulated the following vision for 2012: Thailand will be a gateway for ASEAN and southern China. It will be a production and import-export center for global standard food products, primarily from its own innovative agro-processing industries and it will also be a tourism and services center for Southeast Asia.

- **PLAN OBJECTIVES**
  1. To establish sustainable development and safe settlements, in terms of natural resources conservation, disaster mitigation and preserving local ways of life.
  2. To balance urban and rural development and reduce land-use conflicts.
  3. To re-distribute development opportunities to all regional cities and reduce economic disparity throughout the country.
  4. To enhance national development potential and competitiveness.

**THAILAND’S FUTURE URBAN PLANNING POLICIES**

In 50 years, Thailand’s population will be 80 million and urban populations are expected to total 50 per cent of the population vs today’s 30 per cent.

Agricultural land will greatly decrease during this period. Therefore, increasing agricultural productivity will be a critical national development issue.

During this period, the Thai economy will evolve from an agricultural based to an industrial and services-based economy. As a result, Thailand will also evolve into a developed country.

As a key South East Asian hub, Thailand will play a key role in the region’s development and will undertake the following policies:

1. **OVERALL POLICIES**
   1.1 Promoting commercial gateways in the border areas and developing logistic hubs, linking land transportation network with neighboring countries, especially the North-South Corridor and East-West Corridor areas.
   1.2 Enhancing Suvarnabhumi International Airport and international ports so that Thailand can be promoted and developed as the regional transportation hub.
   1.3 Promoting industries that facilitate international trade development.
1. Utilizing innovations to create value-added agricultural and industrial products.

2. Developing Bangkok into a new world-class business center.

3. Developing regional centers and border towns as gateways and economic centers linking Bangkok to the neighboring countries.

2. LAND USE POLICIES

2.1 Designating forest and watershed areas in the northern and western regions

2.2 Designating industrial areas around the Eastern Seaboard (ESB) zones

2.3 Designating agricultural conservation areas, particularly irrigation zones in central and northeastern regions, so that Thailand can be promoted as the world's kitchen.

2.4 Rehabilitating eastern, central and southern coastal areas for environment conservation and tourism.

2.5 Designating border economic development zones in Mae Sai, Chiangsan and Chiangkhong districts (Chiangrai province), Nong Khai Province, Mukdahan Province, Nakornpanom Province, Aranyapradesh (Sarakew province) and Sradao (Songkla province).

2.6 Designating canal areas - resolving central region floods

2.7 Preserving greenbelt zones around the cities

3. URBAN DEVELOPMENT POLICIES

3.1 Bangkok will be a compact city (based on land-use planning, focusing on higher-density and better accessibility which reduces automobile dependency), that performs as a world-class business and investment center.

3.2 Disbursing developments to regional cities so as to minimize the primate city characteristics of Bangkok. Supporting disbursement by developing intra and inter-city infrastructure, social services and transportation networks.

3.3 Developing provinces surrounding Bangkok, including Samutsakom, Ratchburi (Baan Pong), Nakorn Pratom, Suphanburi, Ayutthaya, Angthong, Saraburi, Nakorn Nayok and Chachoengsao by land use planning for future developments of specific industries, housing, new government center, designated conservation and flood-way areas.

3.4 Developing the new economic zones in areas surrounding Suvarnabhumi Airport, including Bangpakong, Chachoengsao, Kra binburi and Nakorn Nayok, that can serve as transportation and logistics centers.

3.5 Promoting the new border-area economic zones, including Mae Sai, Chiangsan, Chiangkhong, Mae Sot, Nong Khai, Nakon Phanom, Mukdaharn, Dan Jede Sam Ong (Kanchanaburi) Aranyapradet, Padangbesar (Songkhla) and Sungaikolok (Narathiwat).

3.6 Promoting health services centers at Bangkok, Phuket and Chiangmai, and recuperation centers for elderly people at Hua Hin, Phuket and Chiangmai.

3.7 Promoting cities as education, research, development and Information and Communications Technology (ICT) centers at Pathumthani, Khon Khaen, Songkla and Phuket.

3.8 Further developing new commercial areas at Nakorn Nayok, Chachoengsao and areas surrounding Suvarnabhumi Airport.
3.9 Promoting industrial cities surrounding the Eastern Seaboard areas and the hinterland between central region and lower northeastern part of Nakorn Ratchasrima.

4. INFRASTRUCTURE POLICIES

4.1 Thailand has agreed with ASEAN to develop land transportation networks (road and rail systems) connecting 23 routes totaling 36,600 kilometers. This network will allow Thailand to become a regional and international transportation and logistics hub.

There will be five major corridors, including:

1. Singapore - Kunming
2. Vientiane - Laem Chabang (Chonburi Province of Thailand)
3. Rangkung - Danang
4. Thawai - Wungtao
5. Bangkok - Phanomphen

4.2 Constructing motorways in Bangkok and adjacent provinces and into major provinces regionally - preparing for ASEAN land transportation hub.

4.3 Promoting transportation and modern logistic systems mode

4.4 Developing rail system infrastructure: The rail system is a crucial element of Thailand’s future development strategy. The government has planned to develop the country’s rail infrastructure as follows:

- Developing dual-track rail lines and express railway systems for improving domestic capacity and connecting dual-track rail lines with neighboring countries
- Developing new Eastern Seaboard linkage lines in two phases: the first phase is developing Bangkok-ESB, Chachoengsao Sattahip, Sriracha-Laem Chabang and Khao Cheechan - Map Taput lines; and the second phase is to expand Sriracha-Chachoengsao and Map Taput-Rayong lines.

- Developing intercity hi-speed train-line for high-capacity linkage with Eastern Seaboard
- New railway line project: This project will cover areas that are currently not served by the present system. Warehousing will also be built to store products currently being off-loaded or on-loaded at the Eastern Seaboard.

4.5 Developing and improving regional airports networks:

- Developing Suvarnnabhumi International Airport
- Improving Phuket and Chiangmai International Airport
- Developing Chiangrai, Phitsanuloke, Suratthani into regional airports within 10 years

4.6 Developing international water transportation system:

- Constructing second phase at Chiangsan District (Chiangrai Province)
- Constructing new deep-sea port at the southern part of the Gulf of Thailand (the second Songkla Port)
- Constructing new deep-sea port at Pak Nara, Sathun Province
- Constructing new port at Klong Yai, Trad Province within 15 years

4.7 Developing regional logistics infrastructure

- Developing ICT at Ladkrabang
5. TOURISM POLICIES

5.1 Developing the coastal areas as world-class tourist destinations
- Eastern coastal zone: Pattaya
- Upper-southern coastal zone: Petchburi, Prachuabkirikhan, Chumpon provinces
- Linking eastern and upper-southern coastal zones: Pattaya and Hua Hin

5.2 Promoting regional tourist centers
- Chiangmai, Chiangrai, Udonthani, Nakorn-Ratchasrima, Songkla (Hatayai)

5.3 Links with the neighboring tourism destinations
- World heritage route: Baan Chiang - Luang Prabang - Hoi Haan - Wa
- Cultural route: Pimai - Panomrung - Kao Prawiharn - Angkor Wat - Nakorn Panom
- Lanna cultural route: Chiangmai - Lampoon - Lampang - Pukarm

5.4 Designate tourism sites as historical preservation sites: natural, historical and cultural tourism

6. URGENT URBAN PLANNING PRIORITIES WITHIN FIVE YEARS

6.1 Preparing protection and mitigation plans for high-risk natural disaster areas, especially all river basin areas. The plan will include designated disaster risk zones, control permits and flood warning systems.

6.2 Conserving and rehabilitating natural resources such as forests, watershed and coastal areas by rehabilitating forests, determining buffer zones between community, forests and beaches; developing land use plans for coastal zones in Bangkok, Samut Prakarn and the southern region.

6.3 Disbursing developments to regional areas by further developing transportation infrastructure linking Bangkok and vicinity with regional cities.

6.4 Balancing regional city developments by encouraging regional-development clusters that can benefit from their collaboration and proximity to Bangkok. Improving regional area’s public facilities and utilities so that they are capable of serving new development roles.

6.5 Developing corridor potential by linking north-south corridor with the southern China and Lao PDR.

6.6 Developing major economic zones that will enhance national growth-enhancing land, water, rail and air linkages linking Bangkok and Eastern Seaboard.

6.7 Developing sustainable and healthy urban areas - managing urbanization, improving public facilities and infrastructure, developing long-term environmental infrastructures - for Bangkok and Eastern Seaboard region.

6.8 Promoting global-class natural and cultural tourism by developing tourist centers in all regions including Chiangmai, Chiangrai, Udonthani, Nakorn Ratchasrima and Hatayai, and linking them with world heritage routes and coastal tourist destinations - accelerating tourist area land use planning.
6.9 Developing rural communities through land use planning by conserving productive agricultural lands, providing convenient and fast communication networks and developing water resources for agriculture and industry.

CONCLUSIONS

Thailand is using a public participative process to establish its national and regional plans and for the development of national urban planning policy frameworks.

The Master Plan will be a roadmap for conducting development projects that will comply with national development strategies and ultimately strengthen Thailand’s competitiveness, ensure sustainable development and most importantly provide a healthy and happy environment for its citizens.
The Thai economy is expected to rebound especially with the late 2007 election of a new government. We should expect that the real estate industry will again be asked to be a key driver of economic growth. The new government has already begun announcing specific new business stimulus measures that will drive the real estate industry’s growth in 2008. Most economists forecast that the Thai economy will expand at a range of 4.5 percent to 6 percent annually.

NEW GOVERNMENT STIMULUS MEASURES

The new government’s pro-active measures to stimulate economic growth, particularly at the grass roots level will be a critical element of a robust 2008 economy. These measures announced in early 2008 include specific programs that will directly impact the real estate industry’s growth.

Along with measures targeted to drive the grass-roots economy and the real estate industry’s growth, the government will also pump funds into mega-projects such as Bangkok mass transit line extensions and the upgrading of nationwide rail lines that will undoubtedly accelerate Thailand’s growth in 2008. The mass transit line expansions in Central Bangkok will undoubtedly continue the acceleration of condominium developments adjacent to and near mass transit stations.

The current US economic downturn and its government’s low-interest rate remedies to stem the subprime crisis will also insure that Thailand’s interest rates remain low for most of 2008. Lower interest rates should bode well for the Thai real estate industry.
REDUCING TRANSFER TAXES

To kick-start the real estate industry in 2008, the new Government immediately reduced real estate transfer taxes and fees to negligible amounts.

The specific business tax on real estate transfers was lowered from 3.3 percent to 0.1 percent. In addition, property transfer registration fees were lowered from 2 percent to 0.01 percent and mortgage registration fees from 1 percent to 0.01 percent.

All these measures immediately reduced up-front costs for home buyers and ultimately lower overall home purchase prices.

POSSIBLE NEGATIVE FACTORS

Several factors however may still impede the stimulus-induced real estate industry’s growth during the year. The new coalition Government’s stability and longevity still linger in most people’s minds.

In addition, persistently high and seemingly unabated rising oil-prices will continue to be an obstacle to continuous economic growth. The high-oil prices have now spilled into other sectors and inflation is now just beginning to lurk its ugly head.

Consumer sentiment continues to be strongly affected, particularly at the lower and lower-middle income levels. Persistently high and rising oil prices immediately results in higher daily transportation costs and reduces disposable income for purchasing other goods and services that drive the economy. In this environment, Thai consumers tend to refrain from spending and save for a rainy day.

In the important export area, the Thai baht’s rising value against the US dollar also hurts many exporters, especially those previously committing to US dollar priced sales contracts. They are now receiving less baht for their sales and more importantly are being squeezed by US dollar based importers on current and future sales.

THE THAI HOUSING MARKET

Political instability and falling consumer sentiment in 2007 slowed Thai economic and the housing market’s growth. The new Government’s economic stimulus measures implemented in early 2008, however should increase sentiment and result in the Thai economy and the housing market’s growth during the year.

The Government announced specific measures to increase funding for the Baan Eur-athorn housing projects for lower-income citizens earning Bt15,000 or less per month. In addition, the Government also announced that it will be encouraging civil servants and government employees to purchase homes with specifically designated home-loan financing projects.

These pro-active measures should rejuvenate the Thai real estate industry in 2008. Again, the real estate industry will be asked to revive a flagging Thai economy.

However, the Thai real estate industry must still battle with rising construction costs that have been largely driven by external factors. The demand for critical materials such as iron and steel have been driven higher by increasing global demand, particularly from the booming Chinese and Indian economies.

THE THAI HOUSING MARKET 2007 AND TRENDS FOR 2008

Thai housing and housing finance markets’ performances are closely linked to the country’s economy. Because overall economic growth in 2007 was slower than in 2006, the Thai housing market also grew at a slower pace. Newly completed housing units totaled about 74,000 units in 2007 a five percent decrease from the 2006 total of 78,000 units.

Overall, single detached-houses still constituted the highest percentage of housing (54.4 percent) followed by condominiums (25.2%), townhouses...
(18.7%) and commercial buildings (1.7%). However, the trend toward condominiums is definitely rising in Thailand.

In 2007, newly launched condominiums constituted the greatest percentage of units launched (62.5 per cent). Townhouses were 20.4 percent of the units launched and single-family homes only constituted 14 percent of the total housing units launched in 2007. The overall trend, particular in central Bangkok is toward condominium living.

**AVERAGE HOME SELLING PRICES**

Government Housing Bank (GH Bank) is the primary provider of housing finance to middle and lower income home buyers in Thailand. Our statistics show that the average selling price of homes in Bangkok and surrounding provinces has been decreasing since 2003.

At the end of 2007, the average home selling price was approximately Bt2.152 million, decreasing from Bt2.830 million in 2006 or 23.9 percent. Home buyers have begun buying condominiums particular those that are built toward the Bangkok city center and adjacent to mass transit lines. This has been a key reason for falling average housing prices.

**THE THAI HOUSING FINANCE ENVIRONMENT**

The Thai housing market had outstanding mortgage loans of Bt1,479,903 million at the end of 2007 increasing 9.9 percent from the previous year-end. However, new loans issued in 2007 increase only 2.8 percent (Bt270,466 million).

With the implementation of Basel II, many Thai commercial banks began aggressively entering into all sectors of the home loan mortgage market in 2007. In 2008, we expect that price and product competition will continue. Several commercial banks have begun offering zero per cent interest rates on home loans for three to six months while others have reduced various fees.

Combined with the expected 2008 global low-interest rate environment, the newly competitive home finance market should greatly benefit Thai consumers and the real estate industry. To gain stronger market footholds, many financial institutions now serve more as financial advisors rather than single-product sellers to potential borrowers.

Instead of merely selling mortgage loans to customers when they buy new homes, they are catching these customers much earlier in their life-cycles. Consequently at GH Bank, special savings programs that attract younger people who will eventually require home mortgages have become critical long-term marketing strategies.

Higher projected 2008 economic growth and the new Government’s economic stimulus measures will be good for the housing and housing finance markets. More new investments and projects will be launched in Bangkok and surrounding areas.

New housing units will be primarily targeted at middle and lower market buyers (Bt1 million to Bt3 million). These homes will correlate with buyers’ capacities to finance these new purchases. Condominiums and townhouses will continue to grow their market shares.

Many factors will affect the forecast including the rate of economic expansion, private and public sector investment growth, the employment rate, oil prices and inflation, interest rate trends, political stability as well as the length and breadth of the US sub-prime crisis.
The Government Housing Bank’s (GH Bank) Real Estate Information Center (REIC) collects and collates housing statistics in Bangkok and other provinces around Thailand.

These statistics include data on sub-division permits, residential construction permits, housing completions, real estate transactions and fees, construction materials wholesale prices, housing mortgages, housing project financing, key interest rates and others.

In 2007, the following areas merited special attention:

**LAND SUB - DIVISION PERMITS** are issued under the Land Sub-division Act B.E. 2543 (2000), to sub-divide land for entire development projects. Permits issued to subdivide only parts of projects are not counted. Under the law, any person sub-dividing land into 10 lots or more must obtain Departments of Land’s district office permits.

In 2007, 465 development projects were sub-divided into 58,604 lots. Ninety percent (52,900 lots) were allocated for housing while the remaining were for vacant lots.

In Bangkok, 118 projects were sub-divided into 13,400 lots and 163 projects in the five-surrounding provinces were subdivided into 29,800 lots. In other provinces; Chonburi had 58 projects that were sub-divided into 4,300 lots; Ayudhya had 14 projects (1,800 lots) and Chiang Mai had 20 projects (1,600 lots).

Overall in 2007, land sub-division permits for projects was 11 percent lower than in 2006 while 15 percent fewer lots were created.

**LOW-RISE CONSTRUCTION PERMITS** are issued to construct single-detached homes, duplexes and townhouses, but do not include shop-houses (commercial permits category).

About 158,500 low-rise housing units totaling 24.6 million square meters in area were granted construction permits in the first three-quarters of 2007, a 3 percent drop from the same period in 2006.

Bangkok issued permits for 14,200 low-rise units (3.8 million sqm) and permits were issued for 33,700 units (5.2 million sqm) in adjacent areas. Bangkok and its adjacent area received permits for about 36 percent of the country’s permits (construction area permitted).
In the provinces, Chonburi came up big with 16,500 units (2.3 million sqm) and other provinces with permits for more than one million sqm in construction area include Chiang Mai (7,200 units with 1.3 million sqm), Korat (15,200 units with 1.6 million sqm), Khon Kaen (7,700 units with 1.3 million sqm) and Phuket (4,700 units with 1.1 million sqm).

HIGH - RISE CONSTRUCTION PERMITS
are issued for constructing new condominiums, apartments and flats regardless of height.

During the first three-quarters of 2007, permits were issued for 3,570 buildings with 7.7 million sqm of construction area. The number of permits for buildings in 2007 was 25 percent more than in 2006 but the total construction area permitted decreased by 25 percent. The average construction-area-per-building decreased from 3,600 sqm in 2006 to 2,200 sqm in 2007.

New revised land-use regulations came into effect in Bangkok in May 2006. Many developers rushed to apply for high-rise construction permits before the effective date. Consequently, an unusually high number of high-rise construction permits were issued in that year.

During the first three-quarters of 2007, only 920 buildings were being constructed in Bangkok but these accounted for 44 percent of the country's total high-rise construction-area permitted. (In 2006, Bangkok accounted for 63 percent).

Several provinces experienced large year-on-year increases for residential high-rise construction area in 2007. These include Surat Thani (706 percent), Prachuab Kirikhan (640 percent) and Chiang Mai (176 percent).

HOUSING COMPLETIONS, The REIC defines housing completions as houses that are at least 70 percent completed and have been assigned house numbers by district offices.

About 74,000 houses of various types were completed and registered in Bangkok and its surrounding provinces last year, a drop from 78,000 in 2006 but higher than 72,000 in 2005.

These numbers can be contrasted to the more than 170,000 housing completions in each of the two years prior to the 1997 economic crisis. In the years that followed, housing completions dropped to as low as 29,000 units (in 1999) before gradually returning to current sustainable levels.

Bangkok houses can be categorized as single detached houses, duplexes, townhouses, shop-houses and condominiums.

Despite over building fears, only 17,000 high-rise condominium units were completed and registered in the capital and adjacent areas in both 2006 and 2007. However, more than 36,000 condominium units are currently under construction, and developers are planning an additional 18,000-20,000 units. More than 50 percent of Bangkok condominiums are in the inner city. Other units are concentrated within a two kilometer radius of the two mass transit systems.

Condominiums have been selling well in the inner-city and along mass transit routes, as higher fuel prices, smaller households and changing lifestyles drive urban professionals to live close to their workplaces. Foreign expatriates and investors have also purchased a significant number of the higher-priced units. More than 60 percent of planned condominium units in Bangkok and vicinities have been sold (Bangkok alone - 70 percent).
During the past two years, newly completed and registered condominium units represented about 22 percent of all total housing completions in Bangkok and its vicinities, up sharply from the 13-15 percent level four to five years ago. Single detached houses, however, remain popular with about 55 percent of new houses being built in that category. Townhouses and shop-houses together constitute another 22 percent and town-houses are the remaining one percent.

REAL ESTATE TRANSACTIONS normally number about 800,000 - 900,000 a year. For the whole of 2007, there were 842,700 real estate transactions in Thailand - a small increase over 2006 (835,200). Transactions were heaviest in Bangkok (111,300) and surrounding provinces (109,500). Transactions in some other key provinces were: 45,200 in Chonburi, 30,700 in Chiang Mai and 30,700 in Korat.

CONSTRUCTION MATERIALS WHOLESALE PRICES rose 4.9 percent in 2007 (iron had steepest rise - 10.3 percent). Many developers have already announced price hikes of 5-10 percent for new units in 2008. However, the government’s March real estate stimulus measures may return cash to developers as well as consumers. These measures may induce developers to postpone price increases.

NEW HOUSING MORTGAGES rose from Bt263 billion in 2006 to Bt270 billion in 2007. New mortgages reached an historic high of Bt297 billion in 2003 before dropping to Bt294 billion the following year and Bt279 billion in 2005. Outstanding mortgages in Thailand at the end of 2007 stood at Bt1.48 trillion.

The housing market is expected to benefit from four positive factors in 2008. The 2007 year-end general election ushered in a civilian government that ended the military-appointed administration. The new civilian government should return foreign government and investor support for the country. The American sub-prime crisis will mean lower policy-driven interest rates for the US as well as Thailand (lower Thai mortgage interest rates). The newly-announced mass transit routes will shore up developers’ sentiment and fiscal stimulus measures will boost consumer spending in the housing sector. Therefore, the 2008 housing market should be much more buoyant than the 2007 market.
The 2007 US housing market problems and the related sub-prime crisis have raised many questions about the US housing finance system’s innovative loan products and efficiency, parts of which have been widely adopted by many countries. Major concerns include the secondary mortgage market, assets securitization, low-down payment housing finance, and efficiency of American housing credit regulations.

At the same time, interest about housing finance systems in other developed countries is increasing, especially Germany where its “Bauspar System requires borrowers to save money for a period before receiving housing loans.” The German system has experienced a long history of success and is often regarded as a very stable way to provide home financing. Borrowers benefit from lower-than-market interest-rate loans and non-performing loans have historically been very low.

This article reviews the German Bauspar System’s basic characteristics and its major advantages as a case study for Thailand’s further adaptation and implementation.

1. GERMAN HOUSING-LOAN MARKET

The German housing loan market is relatively smaller than other developed countries. The country’s outstanding housing loans are equal to about 52 percent of Gross Domestic Product (GDP) in 2005 while this ratio in both the Netherlands and Switzerland is well over 90 percent and more than 70 percent in the US. (Figure 1)
Most people in Germany live in rented accommodations. Homeownership is low at 43 percent; while in most other industrialized countries, the rate is about 70-80 percent. (Figure 2)

The German “bausparkassen” home-financing system is based on a “Contract savings system or Bauspar System”. Under the system, clients must first enter into a Bauspar contract and regularly save a specific amount over a specified period with the housing-finance institution. These financial institutions are called “bausparkasse” which means building and loan association. The clients are eligible for home-mortgage loans after achieving specific

Germany’s housing finance infrastructure differs from Thailand because many types of financial institutions engage in housing finance. However, the “bausparkassen” grant more than 37 percent of housing loans while saving banks, mortgage banks, public banks and life insurance companies have market shares of 32, 16, 9, and 6 percent respectively.

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savings targets. This system has operated in Germany for more than 60 years.

Currently, there are 26 bausparkassen operating in Germany, 11 are publicly-owned while the other 15 are private. The bausparkassen administrate more than 33 million Bauspar contracts.

3. MAJOR CHARACTERISTICS

Prior to obtaining a home-mortgage loan, that can be used to purchase a new home, construct a home, or renovate an existing home, clients must enter into a “Building-Savings Contract or Bauspar Sum Contract” with the bausparkasse. The clients becomes eligible to apply for housing loans after fulfilling savings targets as agreed-to in the contract.

Bauspar Sum Contracts normally have three phases:

1) SAVINGS PERIOD

Clients initially enter into a bauspar contract and agree to save a specific amount and the bausparkassen agrees to provide a specific amount (Bauspar loan) as a home-loan mortgage when the savings contract is fulfilled. Under the contract, the clients agrees to save a monthly sum for specified period. The total savings amount is usually 40%-50% of the eventual Bauspar sum. The Bauspar sum includes the amount deposited and the Bauspar loan amount.

During the contractual period, clients receive lower-than-market interest-rates on their deposits (about 150 - 425 basis points).

Bausparkasse savers may in some cases also benefit from government subsidized interest premiums. These subsidies or saving bonuses (or home savings premiums) encourage savings.

2) ALLOCATION PERIOD

Normally, the client will have saved 40%-50% of the Bauspar Sum within five to six years (the minimum is 2 years). The client would then be eligible to receive contractual sum as a home-mortgage. The loan amount in excess of the savings accumulated constitutes a loan from the Bausparkasse.

However, clients may not immediately receive their Bauspar loans after completing the contract’s savings phase. The Bausparkasse may not have enough funds at that time to fund the loan from existing savings contracts, interest revenues, loan installments, and state subsidies, which are its main source of funds.

Various formulas have been devised to determine which clients receive their loans first. A “time-by-money system” or “allotment priority system” could be used. For example, clients that have the highest savings amount in the shortest time period may receive the right to apply for housing loans first.

3) LOAN PHASE

When clients require their loans, they still must provide evidence of their financial reliability. The loan phase starts when the Bauspar Sum is paid. The payment is the combination of the 40-50 percent Bauspar savings deposits and the Bauspar loan.

The loan interest rate usually ranges from 4 - 6.75 percent, i.e. agreed deposit interest rate plus 2.5 percent. The loan interest rate will be much lower than the market rate. Borrowers are required to make equal repayments every month. Generally the repayments would equal one percent of the principal. However, the borrowers are free to repay more than the required monthly amount, or make early repayments of the whole sum.

The loan-to-value ratio on any Bauspar loan must not exceed 80 percent. Bausparkasse may also ask for additional securities such as bank guarantees, deposit guarantee, beneficiary guarantees, wage transfer guarantees, etc.
4. REMARKS ABOUT THE GERMAN BAUSPAR SYSTEM

1) DEPENDENCY ON PUBLIC SAVINGS

The Bauspar system is highly dependent on savings from people that intend to apply for housing loans. To be eligible for a Bauspar loan, each borrower must save a fixed amount over a set period. The loan size is also dependent on the amount saved.

The system promotes public savings and self-dependency and is quite compatible with Thailand’s sufficiency-economy philosophy. The 40 percent up-front savings component does well in minimizing non-performing loans and lenders’ credit risk.

However, home buyers may wait five to six years 5-6 years to save at least 40 percent of the contractual sum before being eligible to take the 60 percent loan. This is a relatively long-time and delays home ownership.

The Bauspar system may not be popular in Thailand where people are able to save for a down-payment of between 10-20 percent of the purchase price and are then eligible for home-mortgage loans.

At the same time, the system may also not work in countries that do not have savings incentive schemes or strong support for public savings.

These drawbacks may explain why Germany’s home ownership rate is relatively low when compared to other European countries where capital markets for housing exist.

2) LOWER-TAN-MARKET-RATE INTEREST FOR BOTH SAVINGS AND LENDING

Although borrowers benefit from lower home-loan mortgage interest rates, the Bauspar system also forces them at accept lower-than-market interest rates on their savings. The loan rate is normally 2.5 percent above the contracted savings interest rate.

These conditions indicate that the Bauspar System may not be the most superior home-financing system.

3) FIXED INTEREST RATES - STABLE HOUSING FINANCE SYSTEM

The Bauspar system’s fixed interest rates paid for savings accounts and for home mortgages (250 basis points above contracted savings rate) has made the German housing finance system relatively stable. Both borrowers and lenders face no interest rate risk. The Bauspar system is a self-contained financing system free from capital markets and interest rate fluctuations and promotes financial institution system stability.

4) BORROWERS - FIXED SAVINGS AND LOANS AMOUNTS IN ADVANCE

Bauspar system borrowers enter contracts with a determined fixed Bauspar Sum long before purchasing their homes. When they decide to purchase homes, six years hence, the Bauspar Sum may not be enough to finance the home they want.

In such situations, they may need to borrow additional funds from another credit institution, requiring another mortgage contract.

On the other hand, in Thailand borrowers can purchase homes anytime as long as they have enough savings for down payments which are typically only 10-20 percent and they can borrow the other 80-90 percent of sales price (or appraisal value).

5) STATE-SUBSIDIZED DEPOSIT INTEREST RATES

To promote Bausparkassen savings for home buyers, interest income is tax exempt and
premiums are paid to some lower-income depositors. These incentives help promote savings for housing, especially for people with lower incomes. Without tax incentives or premiums, it would be difficult to convince people to save at lower interest rates for long periods at any Thai bank.

5. POLICY RECOMMENDATIONS FOR THAILAND

From the above review and remarks, I offer the following policy recommendations for Thailand:

1) The Government should develop long-term savings strategies that are tied to housing loans as a way to support and promote public savings, especially for young people. It should also promote these savings programs with tax and other incentives especially for regular savings that are earmarked for initial home ownership.

2) The Government Housing Bank should introduce innovative new savings programs that eventually lead to home-mortgage loans or improve existing "GHB - Savings for Home Loan Accounts" to encourage home ownership and to increase its deposit base. The Bank should focus on developing programs that encourage continuous savings by young people including teenagers, recent graduates, and young employees.

3) All financial institutions should set up credit underwriting rules that focus on borrowers’ current savings-cash-flows rather than their monthly incomes. For instance, borrowers saving every month for two to three years should receive more credit points or borrowers that present evidence of monthly savings-flows (for more than a year) greater than the proposed monthly loan installments should have their loans quickly approved.
It gives me great pleasure to address the opening ceremony of the Regional Policy Dialogue on Pro-poor Housing Finance. As you know this Regional Dialogue is the first of many activities in our regional project on Pro-poor housing finance in Asia and the Pacific.

We, at UNESCAP, give great importance to the issue of housing and housing finance. Housing is a basic human right. It is also a key driver of the economy. Studies in Asia and the Pacific show that multiplier effects of housing spread over 600 other industries. Crises in land and housing markets can trigger crises in capital markets, not only in the country of its origin but also in other countries around the globe.

It has been suggested that one of triggers of the Asian Financial Crisis was speculation in land and property markets, particularly in Thailand, caused by inadequate regulation and management of housing finance market and excess liquidity in financial markets. As you will recall, the Asian financial crisis resulted in a loss of years of developmental gains overnight in countries of South East Asia and triggered considerable human suffering and social unrest.

We may now be threatened by another global financial crisis. This time caused by the exposure of financial institutions around the world to sub-prime mortgage financing in the United States. How severely this crisis affects the economies of Asia and the Pacific remains to be seen. While I am sure that this will be discussed in the sidelines of this meeting it is not the central topic of today’s discussions.

We need to address housing finance because over 500 million people or nearly 45 percent of all urban residents in Asia and the Pacific do not have adequate housing, which is a basic and fundamental right recognized by the United Nations. Housing is also critical in achieving the Millennium Development Goals or MDGs. Access to legal housing enables people to access basic services such as electricity, clean drinking water and sanitation. It also provides access to other public services and programs, such as education and health care, citizen registration and voting rights. A formal residential address also facilitates finding jobs and accessing credit and other financial services.

Households, particularly poor households, often use parts of their houses for economic activities such as
small manufacturing workshops, retail shops and even for renting a room to earn additional income. Housing, therefore, is much more than a roof over one’s head—it is a major factor in defining a household’s economic and social status and well-being.

For most people housing is the single most expensive purchase they will ever make. Therefore, only the richest of households can pay up-front for their housing. Housing finance is therefore crucial to improve access to housing, particularly for the poor.

The formal financial institutions prefer lending to those with established credit records and regular incomes to ensure payment of monthly installments. They also prefer borrowers that have some sort of collateral. Most poor do not have formal credit records, regular incomes or collateral. Moreover, the poor tend to build, improve and expand their houses step-by-step as and when their incomes permit. They often require a series of small housing loans that they can pay off easily. Processing such small loans is not cost effective for formal housing finance institutions.

In response to this apparent inability of formal housing finance institutions to reach the poor, many non-governmental and community-based organizations have added housing finance to their microfinance schemes. Such schemes are community based or run by governmental and non-governmental microfinance institutions. Many of these institutions rely on social collateral and community-based screening processes to ensure repayment. Often their loan repayment rates are higher than formal sector banks.

However, such programs tend to be small in scale and reach only a limited number of the poor. In order to provide access to housing finance to a larger number of the poor, financial and institutional linkages between formal and microfinance and community-based housing finance institutions need to be strengthened. This would, on the one hand, enable the microfinance and community-based institutions to increase their coverage and on the other, enable the formal sector institutions reach markets that were hitherto too risky or altogether inaccessible.

Many countries of the region are undertaking reforms aimed at improved housing conditions of the urban poor. To assist the policy makers, researchers, housing finance professionals in formal and community-based sectors, UNESCAP has initiated a regional program to promote Pro-poor Housing Finance in Asia and the Pacific.

As you know this Regional Policy Dialogue is the first activity of the programme. In partnership with the National Housing Bank of India, we are initiating a regional study of housing finance systems. Under the proposed study, the state of the art in pro-poor housing finance will be documented and analyzed in six countries. These are: India, Indonesia, Mongolia, Pakistan, Sri Lanka and Thailand. A country reporter’s meeting is being held back-to-back with this Policy Dialogue. The Country Reporter’s meeting will discuss and finalize the guidelines for preparing reports. I understand some of you are also participating in that meeting.

To refine the outcomes of the country reports and to generate discussions at the country-level, national workshops will also be organized in each of the participating countries. Depending on our ability to raise additional financial resources other countries may be included in this study. We will prepare a comparative analysis, based on the country reports and present it to a regional symposium. The regional symposium will discuss the issue of pro-poor housing finance in greater depth and deliberate on the need for regional mechanisms and structures, including the need for setting up a regional network of formal and community-based housing finance institutions.

This Policy Dialogue, therefore, is primarily a brainstorming session. We have gathered here some of the most eminent housing finance practitioners from the region to discuss the challenges, the opportunities and future directions in housing finance and in particular, financing the housing for the poor.

Lastly, I would like to take this opportunity to thank our partners and hosts, the National Housing Bank of India for co-organizing this meeting. I am sure we will have fruitful discussions and point the way forward on this crucial issue.
This article was adapted from the draft meeting report prepared by UNESCAP on a Regional Policy Dialogue sponsored by UNESCAP and National Housing Bank, India.

1. OBJECTIVES

- ESTABLISHING REGIONAL NETWORK

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the National Housing Bank, India (NHB) have jointly initiated a “Pro-poor Housing Finance” program that aims to establish a regional network to promote experience and information exchanges and to undertake joint or collaborative activities among formal and community/CSO-based housing finance institutions. The project aims to move pro-poor housing finance approaches beyond individual micro-credit schemes to country and regional level financing structures.

- IDENTIFYING AND DISCUSSING CRITICAL AND EMERGING ISSUES

The Regional Policy Dialogue’s (RPD) initial brainstorming meeting identified and discussed critical and emerging housing finance issues in general and financing housing for the poor in particular. It was also the first opportunity to discuss the need for experience and information exchanges and the initiation of collaborative activities among and between formal and community-based/CSO-based housing finance institutions through regional networking.

2. INTRODUCTION

- HOUSING AS A BASIC AND FUNDAMENTAL RIGHT

Housing is a basic and fundamental right, since it not only provides shelter and the space for households to live in privacy, security and dignity,
but also provides a point of reference through which households can access other services and utilities. Access to housing is a key determinant of urban conditions and of the social status and well-being of households. Therefore, access to adequate housing is essential for the achievement of the Millennium Development Goals.

**KEY DRIVER OF A COUNTRY’S ECONOMY**

Housing is a key driver of a country’s economy. More than six hundred industries are linked to housing. It is a labour intensive industry providing employment to skilled and unskilled workers. Land and housing market turbulences often translate into capital and labour market turmoil. A well-functioning and well-governed housing market is crucial not only for providing shelter and security to individual households, particularly to the poor, but is also critical for a country’s macro-economic stability.

**LIMITED ACCESS TO HOUSING FINANCE IN ASIA AND THE PACIFIC**

Access to housing-finance is limited in countries of Asia and the Pacific. A key reason is that the formal housing finance sector is relatively small in most countries. In addition, the formal banking sector (commercial banks, housing banks, house building finance corporations etc.) prefers lending to those with established credit records and regular incomes to ensure monthly instalment payments.

Most poor people don’t have formal credit records, regular incomes or collateral. Moreover, they tend to build, improve and expand their houses step-by-step as and when their incomes permit. They often require a series of small housing loans that they can pay off easily. Processing such small loans is not cost effective for formal housing finance institutions. In response to the formal housing finance institutions’ inability to reach the poor, many governmental, non-governmental and community-based organizations have added housing finance to their savings and credit schemes. These institutions often rely on social collateral and community-based screening processes to ensure repayment. However, such programmes are often small-scale and reach only a limited number of the poor.

To provide more housing financing access to a larger number of the poor, financial and institutional linkages between formal and community/civil society (CSO)-based housing finance institutions must be strengthened. Community-based institutions would then be able to increase their coverage and formal sector institutions would also be able to reach markets that were hitherto too risky or altogether inaccessible.

3. PARTICIPANTS

RPD participants included chief executive officers and senior officials from selected governments, housing finance banks and institutions and senior decision-makers from community-based and CSO-based
housing finance institutions. Representatives of UNESCAP, UN-HABITAT, the World Bank and USAID also took part.

4. SUMMARY OF SESSIONS

4.1 OPENING SESSION AND CONCEPTUAL OVERVIEW OF HOUSING FINANCE IN ASIA AND THE PACIFIC

■ UNPRECEDENTED URBANIZATION

In his welcoming address, Chairman and Managing Director, NHB, India, S Sridhar said that unprecedented Asian urbanization required shifting the focus from rural to urban areas and the UN had highlighted the importance of adequate shelter by including slum eradication in its Millennium Development Goals. In India, he said, the government has adopted “affordable housing for all” as its National Shelter Policy theme.

■ FOUR MAJOR ISSUES IN HOUSING FINANCE

Sridhar said that four major housing finance issues should be discussed. The first issue is the availability of financing for the poor, which he said was always a challenge in most countries. Secondly, the affordability of mortgage-financing for lower income groups is simply inadequate. Affordability, he added included credit costs as well as land and construction costs. With increasing property prices, normal commercial-term financing is unaffordable to the poor. Thirdly, risk mitigation mechanisms that smoothed institutional finance access to the poor were still at relatively nascent stages in developing countries. Mechanisms such as mortgage insurance/guaranty, guarantee funds etc. still needed to be put in place. Fourthly, enabling legal and policy frameworks must be refined.

He added that financial inclusion is now globally engaging the attention of policy-makers and that governments must play major roles in any financing or development initiatives. Other regulating agencies such as Central banks and real estate regulators, he said could also play useful roles by providing viability gap-funding, risk mitigation, addressing land tenure issues, urban and regional planning, fiscal issues, setting up and maintaining suitable databases etc.

“Internationalization” in the form of experience sharing, capacity building and learning from other’s successes and failures Sridhar said would move any pro-poor housing finance initiatives forward.

■ HOUSING AS A BASIC HUMAN RIGHT

Ravi Ratnayake, Director, Poverty and Development Division, UNESCAP said that housing is a basic human right. Access to legal housing, he said enabled people to access basic services such as electricity, clean drinking water and sanitation. It also provided access to other public services and programmes, such as education and health care, citizen registration and voting rights. A formal residential address facilitated finding jobs and accessing credit and other financial services. Households, particularly poor households, he said often used their homes for economic activities such as small manufacturing workshops, retail shops and renting rooms for additional income. “Housing, therefore, is much more than a roof over one’s head; it is a major factor in defining a household’s economic and social status and well-being,” he said.

■ LIMITED ACCESS TO HOUSING - FINANCING FOR LOWER-INCOME GROUPS

Ratnayake also outlined major reasons for the current limited access of low-income housing-
formal financial institutions, he said didn’t provide pro-poor housing finance because their normal operations required clients to have established credit records, regular income and collateral — all of which most poor people were lacking. On the other hand, many non-governmental and community-based organizations that have added housing-finance to their micro-finance schemes operated on too small a scale to make a real difference. In order to reach the poor en masse, he stressed, formal and non-governmental/community-based organizations needed to be linked.

- **FIRST OF MANY ACTIVITIES UNDER THE PRO-POOR HOUSING FINANCE PROGRAM**

A Meeting of Country Reporters on Pro-poor Housing Finance, Ratnayake said was being conducted alongside the Regional Policy Dialogue. It was finalising guidelines for country reports on housing finance in India, Indonesia, Mongolia, Pakistan, Thailand and Sri Lanka. These country reports would be use for a regional study on housing finance systems, focusing particularly on housing finance to the poor and on discussions and capacity building at national workshops involving both formal and micro-finance/community-based housing finance organizations.

- **CLOSER REGIONAL COOPERATION**

In his keynote address Nagesh Kumar, Director-General, Research and Information Systems for Developing Countries (RIS) made a strong case for closer regional cooperation in Asia as the region is emerging as a new centre of gravity for the world economy and noted that in this respect the Asian crisis of 1997 had been a wake-up call for Asian countries to think and act collectively rather than individually. He also mentioned two important economic trends in Asia, namely the widening deficit in infrastructure supply in different countries and the mounting foreign exchange reserves currently mostly invested in US treasuries. Linking the two, he stressed the need to create a powerful regional mechanism that could efficiently utilize these funds for infrastructure development, including housing finance.

Adnan Aliani, Economic Affairs Officer, Poverty and Development Division, UNESCAP gave a conceptual overview of housing finance in Asia and the Pacific and explained the objectives of this regional pro-poor housing finance initiative and outlined the structure of discussions for the four sessions summarized below.

### 4.2 SESSION 1: CAPITAL MARKET RELATED ISSUES

- **CONSTRAINTS AND CHALLENGES**

In discussing constraints and challenges, the participants stressed that limited accessibility to capital markets, high funding costs and lack of long-term funds because of interest rate, exchange rate and credit risks were very problematic. They agreed that while capital-market related issues varied from country to country; the challenge of raising funds at a reasonable cost was one main component for providing pro-poor finance.

Participants noted that the region’s capital markets were not well developed and rather volatile and that without credible risk mitigation, investors would be risk-averse. Huge information gaps regarding housing finance and misconceptions about loan recoveries from the poor and the inadequacy of current legal and institutional frameworks for pro-poor housing finance also inhibited the market’s development.

- **OPPORTUNITIES**

On the other hand, Asian economies, in general, are doing extremely well. Rising incomes were leading to construction booms and housing finance demand could be expected to rise sig-
significantly, leading to huge capital market growth potential. Because informal financing mechanisms, such as community-based housing finance schemes and microfinance institutions (MFIs) were already in place, the participants said many opportunities were available for scaling-up. Many such housing-finance institutions had valuable experiences and successes providing housing finance to the poor.

Government policies they said in many Asia-Pacific countries were turning pro-poor and budgetary allocations for housing the poor were increasing. Governments have begun implementing various guarantee programmes for lending to and providing subsidies for those with unstable incomes. Many governments have established specialised housing finance institutions to run pro-poor programmes and schemes that could establish and assess credibility of the poor, such as contractual housing finance systems or home loan account schemes.

Participants also saw huge potential in securitization, which was still a fairly new concept in most Asian countries. However, they cautioned that although much needed, the creation of functioning secondary markets would be a systemic and complex task. In this regard, the potential of accessing provident and pension funds for financing pro-poor housing and creating mutual funds and investment trusts were highlighted. They also pointed out that poor people's savings were a big untapped sector for pro-poor housing finance. These savings, it was noted could provide access to cheap funds as well as bring rural poor into the financial system.

**AREAS FOR RESEARCH**

Recommended research areas include new product development and analysis, preparing feasibility studies, risk profiling, appraisal and valuation standardization, access to international funds and looking at various channels to reach the poor apart from MFIs/NGOs. Participants agreed increasing the understanding of low-income finance, both among community-based institutions and formal institutions was critical.

**FUTURE ACTIONS AND DIRECTIONS**

Recommendations for future action and direction include scaling-up community-based housing finance initiatives, developing adequate guarantee policies so that formal financial institutions would feel more confident and establishing mortgage guarantee corporations with government participation. Participants stressed the importance of creating a more enabling legal environment by establishing pro-poor standards and norms and establishing transparent and efficient registration systems. Participants said more pro-poor government policies, guarantees and subsidies were needed including incentives to promote secondary markets. Larger budgetary allocations to housing agencies for pro-poor housing and establishing long-term housing development funds were also suggested (to be set up at either national or international level).

4.3 **SESSION 2: MORTGAGE AND PROJECT LENDING ISSUES**

**FORECLOSURE LAWS**

Regional Policy Dialogue on pro-poor housing finance
The participants noted that foreclosure laws were notoriously difficult to enforce and therefore it was often in the bank’s interest to avoid loan defaults. They said prudential and banking requirements should be revisited so as to create the delicate balance of neither being too strict nor too lenient. Even when foreclosures could be enforced, many said houses were often un-saleable and evicting already poor households posed difficult social and moral dilemmas.

CREDIT SCORING

To avoid defaults, credit scoring of low-income borrowers was seen as important. In this context, the need for consumption and savings patterns studies of the poor was stressed once again. For easier repayment, it was suggested to structure loans so that initial payments would be smaller (with the option of using subsidies) and rising over time.

LAND AND PROPERTY REGISTRATION

Thai participants said their property registration system was completely computerized and that it took only two to three hours to transfer ownership. Therefore there was no need for title insurance. Other participants suggested introducing registration insurance where premiums were lower. Indonesian delegates said in their country, human settlement land titles often conflicted with agricultural and forestry land titles. Participants from Thailand related their experiences in preparing individual city development plans and using joint surveys to establish the scale and type of title problems.

CAPACITIES AND TOOLS FOR ADMINISTERING MORTGAGE FINANCE

Regarding capacities and tools for administering mortgage finance and in particular risk and credit assessment, South Africa’s credit scoring mechanism for low-income housing was viewed as an interesting example. Other participants suggested registering mortgages in packages to avoid the high transaction costs of individual registrations. One participant pointed out that housing societies/ cooperatives maintained good systems and suggested a mortgage locator system (which however should be started small and allowed to spread rather than be planned as a national-level system from the outset).

4.4 SESSION 3: MAKING HOUSING FINANCE ACCESSIBLE TO THE POOR

Many formal housing finance institutions in Asia and the Pacific, including those with an explicit mandate to provide housing finance to the poor, have found it very difficult to effectively reach low-income groups. This session focused on the barriers of formal financing institutions and on how to overcome them. Innovations such as lending to community groups rather than to individuals were seen as one main way forward. The important role that bridging and linking institutions could play in connecting these communities to the formal financing sector was given great prominence. Participants discussed the possibilities of incremental loans for reaching the poor, looked at sources of financing - both governmental and market based and discussed the role of government in providing an enabling legal environment, subsidies and funds as well as land and basic infrastructure.

GROUP LOANS VERSUS INDIVIDUAL LOANS

Participants commented repeatedly on the advantages of community-based group lending vs individual lending. Thailand’s CODI was cited as an example. It was suggested to analyse how its processes could be adapted and replicated in other countries and scaled-up to reach the majority of the poor in Asia and the Pacific. While CODI communities were geographically-based entities, grouping the poor by profession (e.g. agriculture) was also suggested. Other participants described suc-
cessful practices of giving money to cooperatives that took over allocating and administrating the funds.

SAIBAN in Pakistan successfully delivered loans to individuals. However, it was pointed out that it worked because its approach required strong control over communities. Scaling up this approach was also discussed.

■ LONG-TERM VERSUS INCREMENTAL LOANS

The difficulty of providing long-term loans was discussed because both financial institutions and the poor preferred loans not to exceed seven to eight years, while housing finance often required loans of 15 years or more if instalments are to be affordable. Incremental loans were suggested as one solution to this problem. However, participants said that incremental loans were difficult to implement in many urban settings, because land scarcity meant that buildings often had to be four to seven stories high. Representatives from Indonesia said that their government had started building basic three-to-four story structures with some success.

Participants also discussed progressive instalments, where borrowers initially paid less and more as their incomes increased over a 10 to 15 year period. Because poor incomes often fluctuate, one participant suggested special legislation extending the grace period for non-performing loans should be extended from several months to one year. A related suggestion was to have flexible payment-schedules adjusted to seasons, as the poor often worked on seasonal jobs such as construction or mining.

Representatives from HBFC in Pakistan shared their experience with giving progressive and incremental loans to people in SAIBAN-run schemes, where people were given a sequence of smaller loans, starting with US$1000 and were able to develop credit with their repayments.

■ FUNDING SOURCES

Participants discussed various pro-poor housing finance funding sources. One suggestion included evolving systems where savings and lending for rich and poor people were combined. Market bonds and small loans from provident funds were also discussed.

Representatives from CODI, Thailand said their funds came from the government. However, the demand for these funds was much more than funds available. Hence, CODI has started negotiations with the Government Housing Bank of Thailand. However, a major challenge was ensuring low interest rates and CODI was currently in the process of talking to the government about interest rate subsidies of about 2-3% a year. Another option was to reissue bonds.

The representative from UN-HABITAT shared his experiences from a pilot project for a women’s housing group, which became a cooperative (i.e. legal entity) that directly negotiated with a bank. UN-HABITAT guaranteed the loan. To make loan repayments affordable, UN-HABITAT introduced a system where two families shared one apartment.

The representative from Malaysia explained that his country had just introduced a Housing Trading Guarantee Company, which guaranteed loans that required private sector audits and verification.
BRIDGING AND LINKING INSTITUTIONS

One main issue discussed throughout the session was how to reach poor communities. Participants recommended establishing bridging and linking institutions positioned between formal lenders and poor communities.

They said that juristic entity intermediary institutions, such as CODI or local governments were needed for bridging functions. Creating a sufficient number of such institutions they said was important so that the vast majority of the poor could be reached. Representatives from CODI explained that CODI was basically a central government organization that encouraged local governments, communities and NGOs in a town to work together to solve low income housing issues.

Another success precondition, the participants said was establishing real communities rather than just geographic or socio-economic-related groupings. The primary aim for developing savings and credit groups was not for poor people in one area to lend money to each other, but to create a community.

However, participants noted that building up such “social capital” took time and expertise in community-building practices and demanded the ability to sustain contact with these poor communities. All of which was beyond the means of most formal housing finance institutions, who therefore found it difficult to reach savings groups directly. One possibility was working through savings group federations. SPARC in India, for example, worked with the National Slum Dwellers Federation to access communities.

HBFC in Pakistan shared an interesting new “three segment model” approach. They established a social housing bank to take care of funding, a social housing company was asked to promote the incremental housing approach (taking care of the supply side) and NGOs were asked to manage the scheme and received a 5-10% share in the social housing company.

GOVERNMENT’S ROLE

Government’s role was a recurring issue. Participants said development policies that clearly defined household, local government, national government and private sector responsibilities were needed. Solutions had to be holistic, including technical, planning/development and cost aspects. Some participants said that government should not be relied upon and investments should be market-based, while others said poor communities could handle much of the responsibilities themselves.

However, everyone agreed that governments needed to create enabling legislative frameworks. Governments, they said had also an important role in providing land and basic infrastructure and were an important source of funds and subsidies. Local governments could also conduct surveys on what kind of housing was needed in their cities.

ENABLING LEGISLATIVE ENVIRONMENTS

Enabling legislative environments, many participants said must be revised to consider the poor. Others said that tenancy laws needed to be changed because they were unfavourable for landlords/investors. One participant said the deposit renting system was an interesting option for low-income groups to by-pass tenancy laws. Another idea was to create a condominium - if tenants paid the rent, they would eventually become flat owners. Others suggested amending legislation allowing formal housing financial institutions to lend directly to the poor.

SUBSIDIES AND FUNDS

Participants agreed that subsidies needed to be designed carefully to target specific needs.
For example, maintenance costs were often still too high for low-income occupants in subsidized rental units. This often resulted in rapid property dilapidation and the property being on-rented to other income groups. CODI representatives said government subsidies and funds should be used to provide basic infrastructure. With many countries in the region decentralizing, participants said many local governments now had more money at their disposal and could be encouraged to provide housing-financing for the poor.

**LAND AND BASIC INFRASTRUCTURE**

Participants noted that the poor often didn’t own the land they occupied and land in urban centres was scarce and expensive. They suggested that governments could contribute land at discount rates or reserve plots in city centres. Because the poor often settled on the outskirts of existing cities, providing basic infrastructure would also have to be an important government responsibility.

The participants also said that pro-poor housing finance mechanisms needed to be combined with measures that made housing itself cheaper, such as introducing new building technologies and materials or having communities make whatever materials they could themselves and contribute their labour.

**4.5 SESSION 4: NEED FOR NETWORKING AND INFORMATION EXCHANGE**

Participants agreed on the need to network and exchange information between formal and MFI/NGO/CBO financial institutions. Consensus was reached to set up a network such as an Asia-Pacific Federation for Housing Finance (or Association, Union, Network).

This regional network’s role would be linking institutions across the entire housing finance spectrum. It would also research and analyze innovative practices in pro-poor housing finance, policy options and frameworks that will enable the establishment and successful functioning of wide-spread pro-poor housing finance mechanisms in Asia and the Pacific. The regional network would not only allow for better information exchange, but would also offer collaborative opportunities between various housing finance institutions. Training and capacity building at all levels would be another key function. In addition to virtual communication, participants stressed the importance of face-to-face exchanges. They also saw a need for region-wide advocacy of pro-poor housing finance issues.

It was decided that NHB and UNESCAP would jointly coordinate further exchanges and discussions as well as establishing of the regional network. As a first step, UNESCAP agreed to provide an online discussion forum on pro-poor housing finance on its website: www.housing-the-urban-poor.net. UNESCAP and NHB were further requested to organize a high-level regional meeting to establish the regional network. The idea of an Asia-Pacific Ministerial Meeting was widely supported in this regard.

**5. CONCLUSIONS AND FOLLOW-UP**

The RPD was very fruitful. For most participants it was the first time they discussed pro-poor housing finance issues in a forum where both formal and NGO/MFI/community-based housing finance institutions were present. Discussions focused on critical and emerging Asia and the Pacific housing issues. They discussed how to make housing finance more accessible to the poor and possibilities for promoting a regional exchange of experience and networking.

Participants agreed that providing large-scale housing finance to low-income groups was a vital emerging issue in Asia and the Pacific. Pre-requisites for succeeding in this immense task must include overhauling legal and policy frameworks, stakeholder
capacity building at national and local levels and in depth research and comparative analysis of pro-poor housing policies, institutions and practices.

They stressed that new housing-finance funding sources must also be found and agreed that establishing secondary housing-finance markets must be encouraged across the Asia-Pacific region so that large-scale local and international capital markets can be developed. They also suggested creating mutual funds and investment trusts and tapping into provident and pension funds as well as into poor people’s savings. Participants agreed that governments had an important role because of their ability to fund and subsidize pro-poor housing finance.

In order to establish successful pro-poor housing finance policies and mechanisms, the participants agreed that innovative approaches adapted to low-income groups were needed. Based on initial successes by pioneering housing finance institutions in Asia, the need to link formal housing finance institutions (which can raise funds) with NGO/MFI/community-based housing finance mechanisms (which provide sustained access to poor communities) was broadly acknowledged. Participants agreed that it was important to explore alternative approaches. Thus, they were strongly convinced that because individual lending to poor people was fraught with difficulties, one major approach would be lending to poor people in groups - in communities that would empower and control their members, provide social collateral and lower loan processing costs for housing finance institutions to competitive rates. Another approach was combining low-income housing issues into incremental “holistic packages” that funded pro-poor housing infrastructure and settlements.

The participants strongly agreed to establish a regional pro-poor housing finance network consisting of both formal and NGO/MFI/community-based housing finance institutions. UNESCAP and NHB were requested to organize a high-level regional meeting to establish the regional network.

UNESCAP has now established an online housing finance discussion group, where participants of the Regional Policy Dialogue and other housing-finance practitioners can continue to discuss pro-poor housing finance issues, exchange experiences and provide ideas on the modalities of the planned regional network on pro-poor housing finance. The online discussion forum is open and persons wishing to register should visit the following link: http://www.housing-the-urban-poor.net/forum/default.asp. Basic instructions for using the online forum can be downloaded from: http://www.housing-the-urban-poor.net/docs/Instructions_Forum.pdf.