

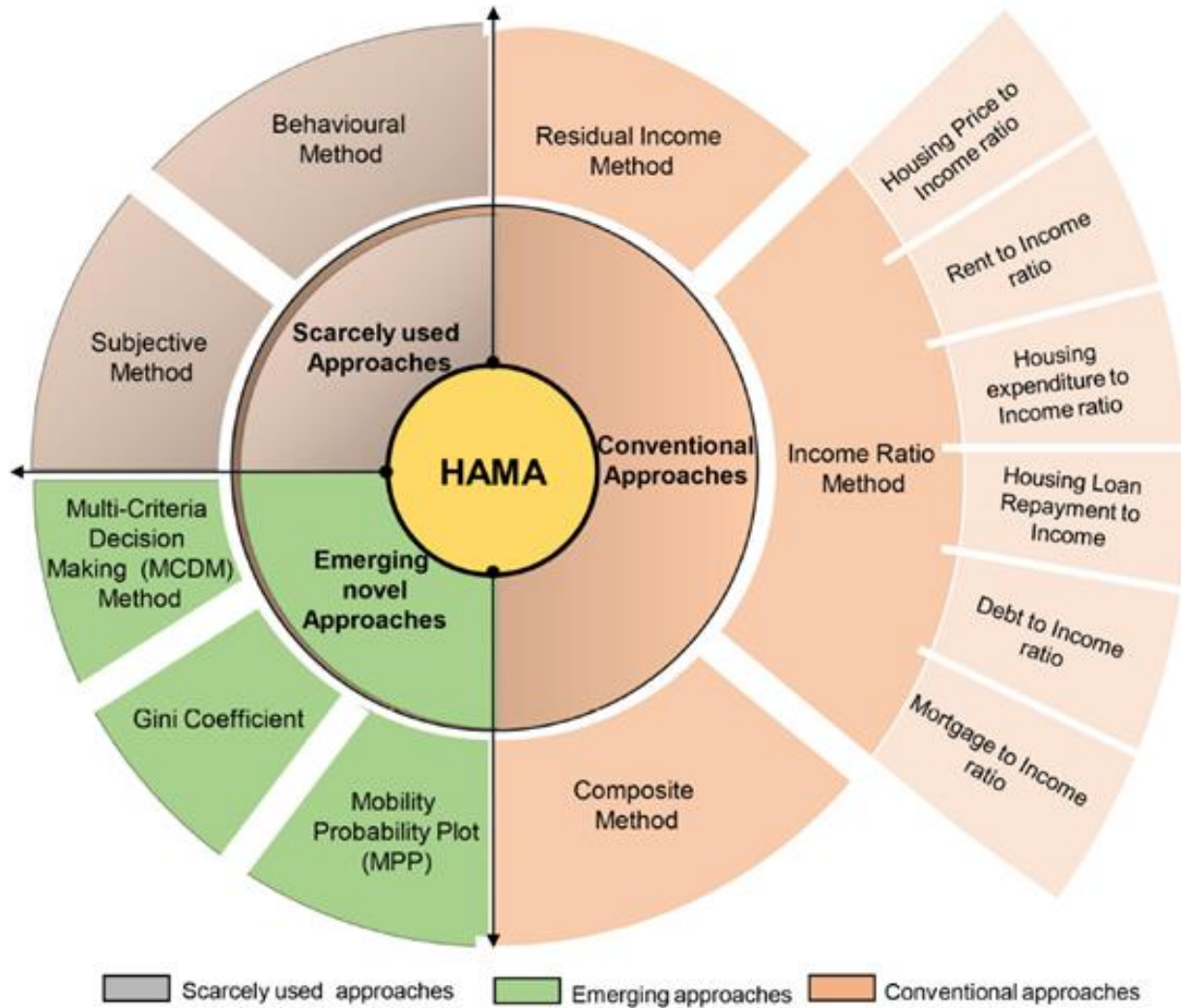
Measuring Housing Affordability in the Philippines

Marife Ballesteros, Tatum Ramos, and Jenica Ancheta



Philippine Institute for Development Studies

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas



Measures of Housing Affordability

Source: Ezennia and Hoskara (2019)

Objectives of the study

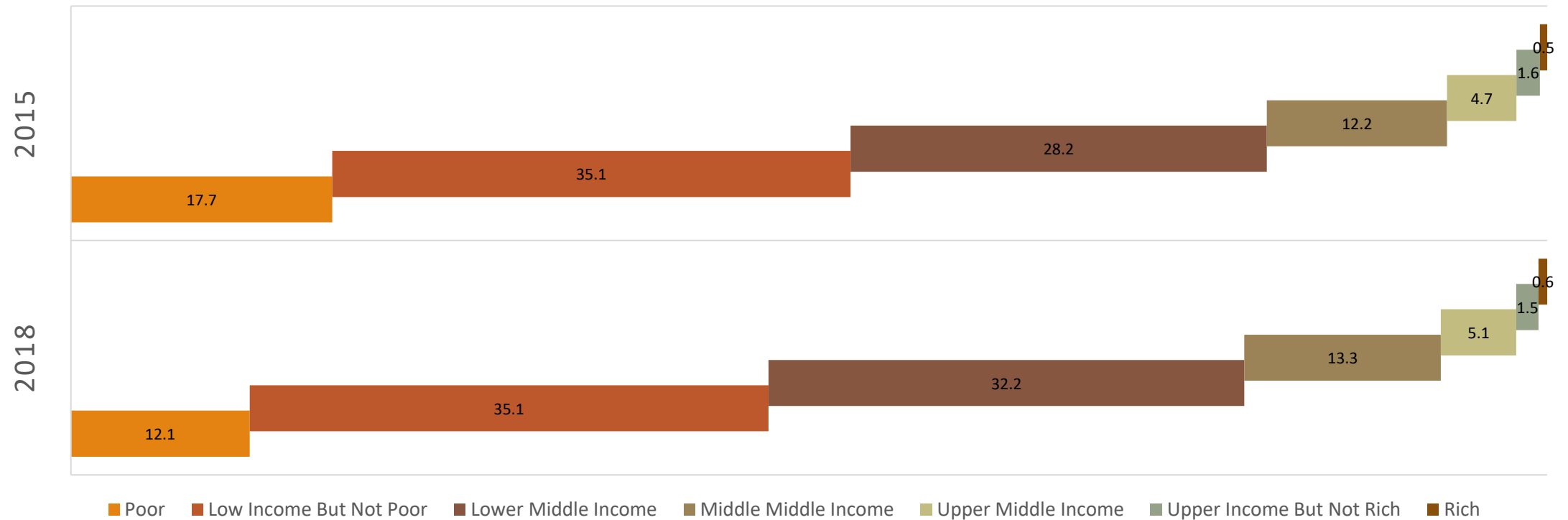
- Determine whether the 30% of income standard captures housing affordability in the Philippines
- Evaluate housing affordability in the country using other methods and suggest improvements in the measurement of housing affordability
- Recommend housing policy reforms to make housing affordable, inclusive, resilient especially in urban areas

The Philippines adopts the 30% of income standard as a measure of housing affordability

- Not a suitable measure of housing affordability in the Philippines

- The 30% is based on developed countries' experience
- These countries have low incidence of poverty; significant proportion of middle-income families
- These countries have rising real wages

Proportion of Families by Income Group



	Poor	Low Income But Not Poor	Lower Middle Income	Middle Middle Income	Upper Middle Income	Upper Income But Not Rich	Rich
2015	17.7	35.1	28.2	12.2	4.7	1.6	0.5
2018	12.1	35.1	32.2	13.3	5.1	1.5	0.6

Income Groups	Philippines				
	Annual Mean Housing Expenditure (PHP)	% of Income Allotted to Housing Expenditure	30% Standard Housing Expenditure (PHP)	Annual Residual Income Based on 30% Standard (PHP)	Comparison with Threshold for Non-Housing Basic Expenditure
Poor	8,480	7	35,738	83,388	Negative
Low Income but Not Poor	15,109	9	55,690	129,944	Slightly positive
Lower Middle Income	28,750	10	91,233	212,876	Positive
Middle Middle Income	48,471	10	148,242	345,898	Positive
Upper Middle Income	75,694	10	223,984	522,629	Positive
Upper Income but Not Rich	113,517	8	343,649	801,849	Positive
Rich	180,931	9	704,228	1,643,199	Positive

Residual Income for Non-housing Basic Expenditure based on the 30% Standard, 2018

Threshold for Non-Housing Basic Expenditure, 2018 = PHP 123,401

* Food Threshold for a Family Sized 5 = PHP 93,212

* Other basic = assumed 30% of food

Housing Affordability Index (HAI) based on Supply of Housing, 2018

Area	0% Downpayment	10% Downpayment	20% Downpayment
Metro Manila	36	40	45
Pampanga (Urban)	61	68	77
Cebu (Urban)	19	21	24
Davao del Sur (Urban)	28	31	35

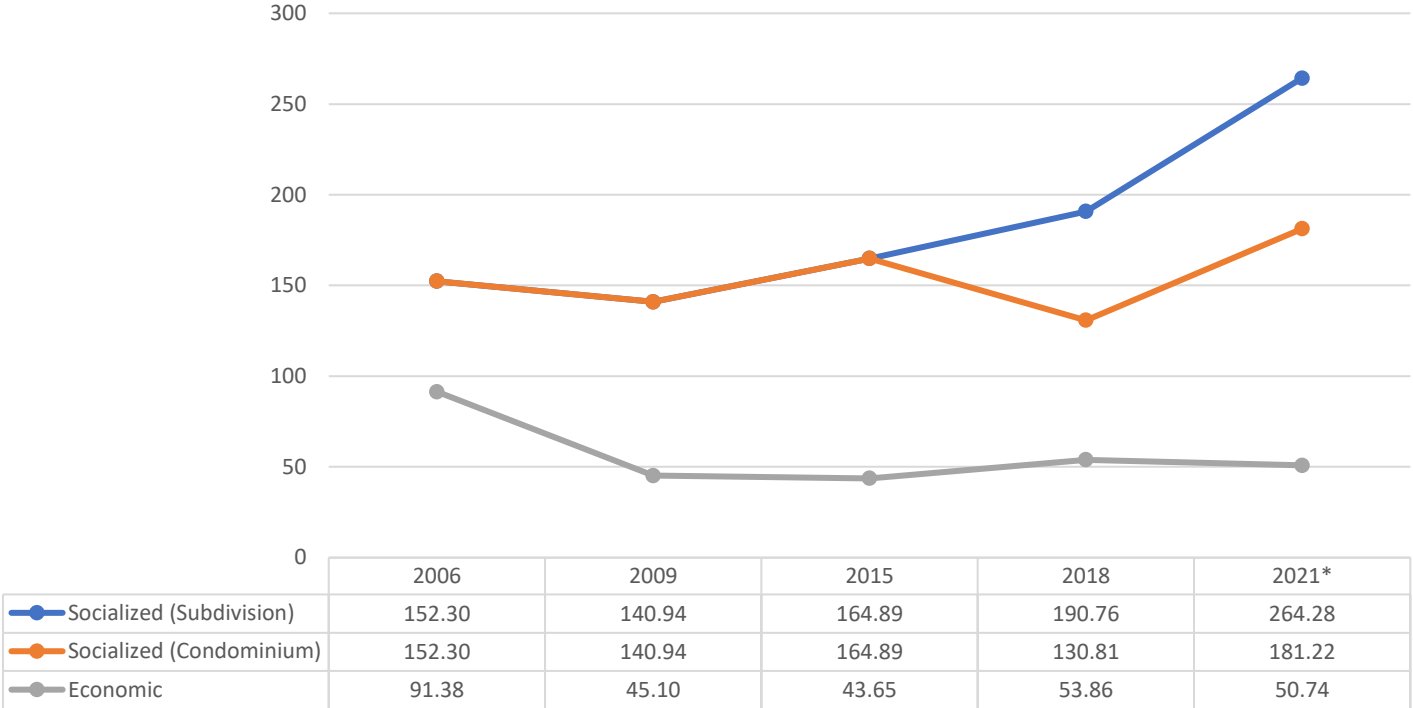
Source of basic data: PSA – FIES 2018; Colliers (2018); Colliers (2021); BSP (2022)

HAI = define as the ratio of median family income to the qualifying income required to make payment for a median-priced existing home, at the effective mortgage interest rate. A value of 100 means that the median-income family has sufficient income to purchase a median-priced existing home.

Estimates for Metro Manila, Cebu (Urban), and Davao del Sur (Urban) for condominiums; Pampanga (Urban) for house and lot

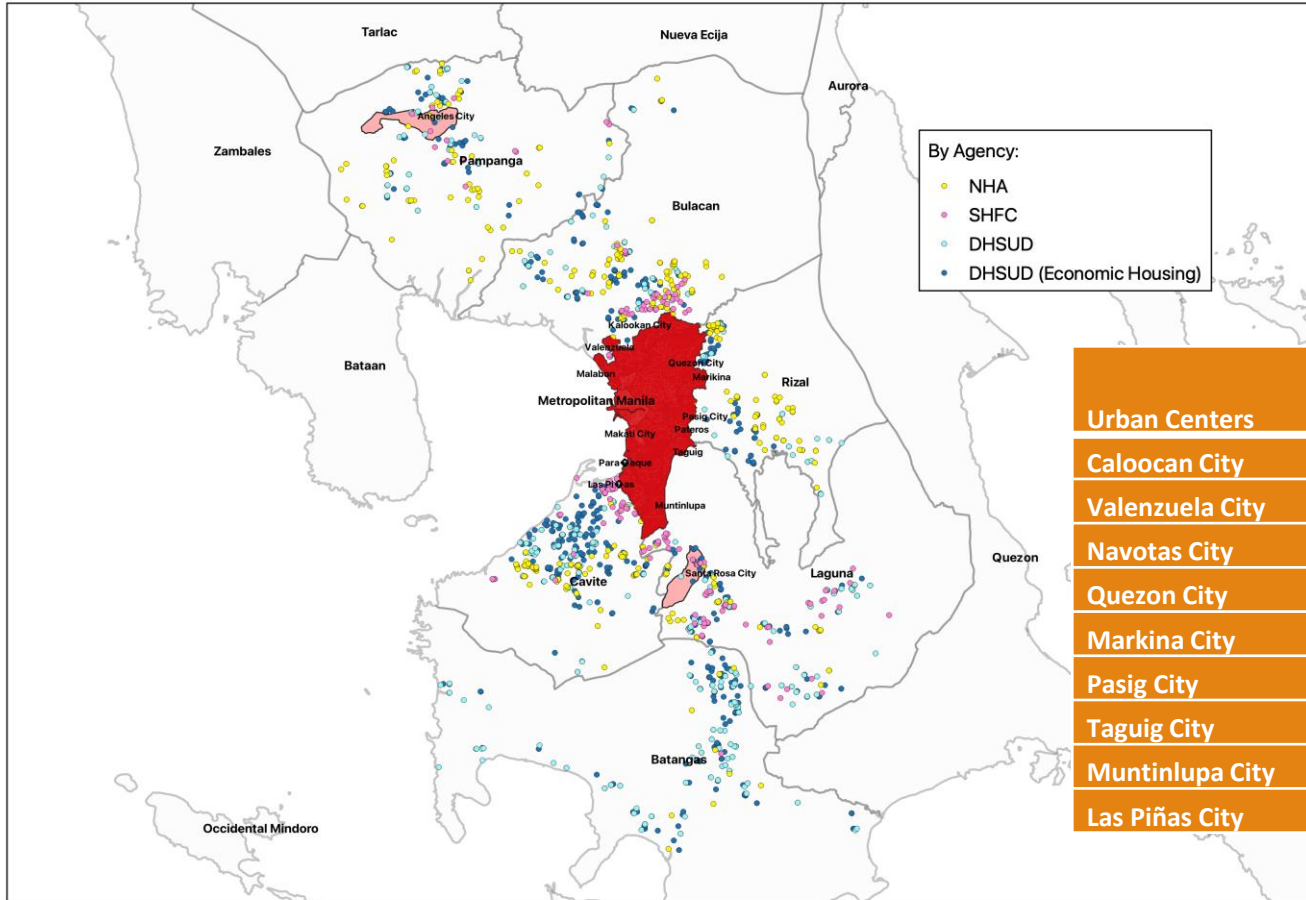
For housing prices, BSP's Residential Real Estate Price Indices (RREPI) and Colliers' estimates on average price per square meter or average total contract price for Metro Manila major central business districts, Cebu, Davao, and San Fernando City of Pampanga were used

Trend of HAI in the Philippines based on Government Price Ceilings



Year	Socialized Subdivision		Socialized Condominium		Economic Hosuing	
2006	300,000.00	MC No. 3, s. 2005	300,000.00	MC No. 3, s. 2005	500,000.00	MC No. 1, s. 2000
2009	400,000.00	HUDCC Resolution No. 1, s. 2008	400,000.00	HUDCC Resolution No. 1, s. 2008	1,250,000.00	MC No. 4, s. 2006
2015	450,000.00	HUDCC Resolution No. 1, s. 2013	450,000.00	HUDCC Resolution No. 1, s. 2013	1,700,000.00	HUDCC Resolution No. 2, s. 2015
2018	480,000.00	MC No. 1, s. 2018	700,000.00	HUDCC Resolution No. 2, s. 2018	1,700,000.00	HUDCC Resolution No. 2, s. 2015
2021	480,000.00	MC No. 1, s. 2018	700,000.00	HUDCC Resolution No. 2, s. 2018	2,500,000.00	DHSUD No. 2022.003, s. 2022

Source of basic data: PSA – FIES 2018; PSA (2022); HUDCC
 Note: * 2021 average family income was used because of lack of information on median family income



Distance of Low-Cost Housing Projects to the Nearest Urban Centers in Metro Manila (in kilometers)

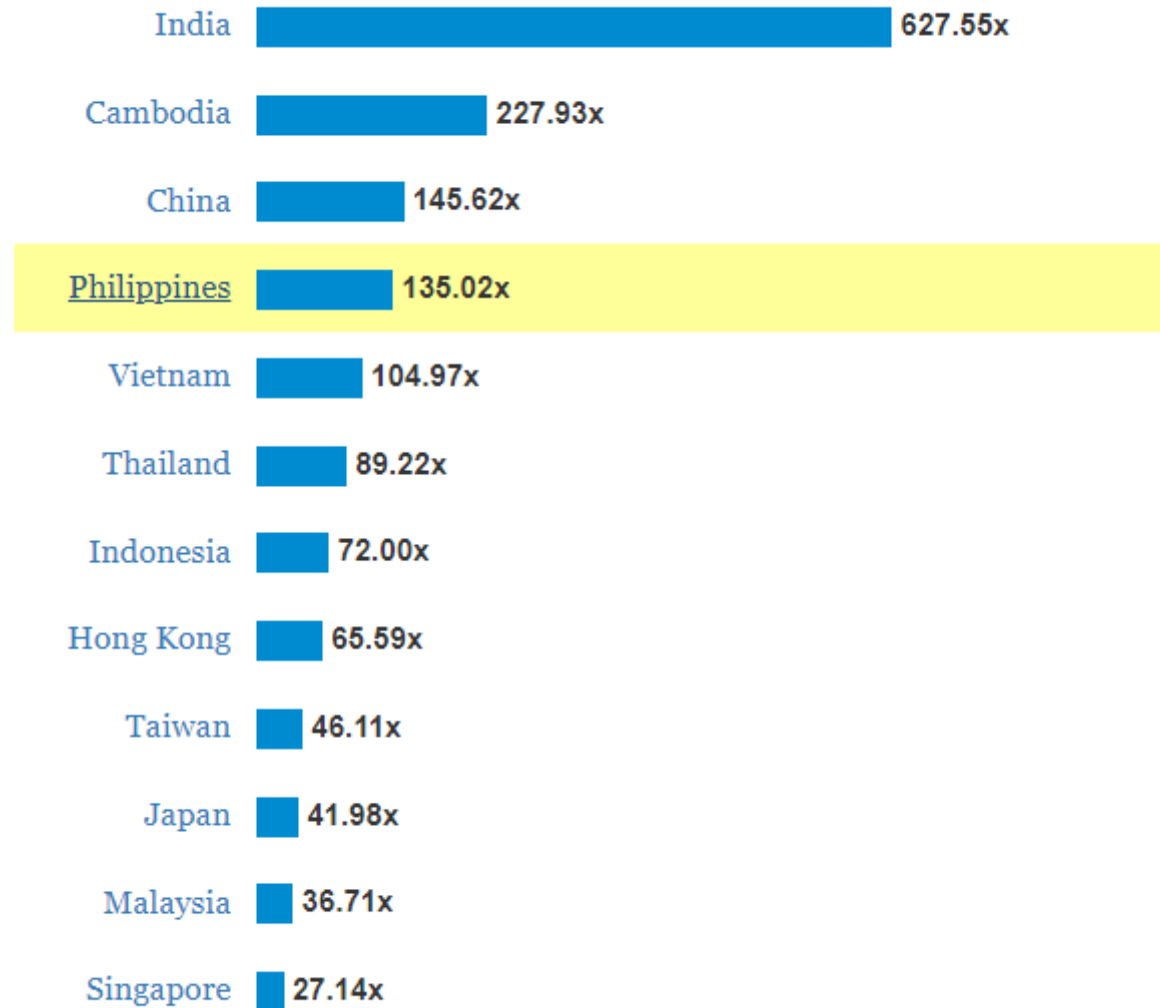
Urban Centers	Count		Minimum		Maximum		Mean		Median	
	SH	EH	SH	EH	SH	EH	SH	EH	SH	EH
Caloocan City	112	37	8.73	10.00	57.91	51.87	16.68	16.48	13.69	13.90
Valenzuela City	81	73	3.13	2.50	49.09	45.12	20.57	20.42	20.40	17.51
Navotas City	3	-	3.30	-	3.62	-	3.41	-	3.31	-
Quezon City	36	25	7.61	6.73	14.34	14.56	12.77	9.63	13.19	9.69
Markina City	41	27	6.17	4.83	33.80	31.18	17.19	10.32	17.43	8.51
Pasig City	16	9	4.34	1.61	29.54	23.87	20.75	14.15	22.45	16.43
Taguig City	5	13	11.59	11.25	49.76	49.76	33.85	21.76	32.16	16.43
Muntinlupa City	191	123	3.03	7.55	55.72	54.91	27.11	29.17	25.60	26.33
Las Piñas City	164	171	2.90	4.80	34.93	29.37	17.91	17.62	19.54	17.55

Source of data: Compiled information from NHA, SHFC, and DHSUD

*Note: Accuracy of location is up to barangay level; SH - Socialized Housing; EH - Economic Housing

*For Metro Manila, only low-cost housing projects located in Bulacan, Rizal, Laguna, and Cavite were counted. Moreover, in-city low-cost housing projects were not included.

House Price to Income Ratio in the Philippines vs. Asia



Source: Global Property Guide

Notes: *Used IMF's GDP per capita figures

*Data from Global Property Guide also featured by Behind Asia (2022)

Residual Income Method

- Measures housing affordability based on factors including non-housing expenditure and sufficiency of income after housing expenditure
 - Housing is considered affordable if $\text{Household Income} - \text{Housing Expenditure} \geq \text{Minimum Non-housing Expenditure}$
- Provides insights on extent of housing stress / shelter poverty
 - Housing stress is experienced if $\text{Household Income} - \text{Housing Expenditure} - \text{Minimum Non-housing Expenditure} < 0$

Food Expenditure Based on Food Threshold and Family Size

Clothing, Footwear and Other Wear Expenditure

Expenditure on Water Supply and Miscellaneous Services Relating to the Dwelling

Electricity, Gas and Other Fuels Expenditure

Medical Care Expenditure

Education Expenditure

Transportation Expenditure

Communication Expenditure

Non-durable Furnishings Expenditure

Personal Care and Effects Expenditure

Measuring Housing Affordability using Residual Income Method

Components of Threshold for Non-housing Basic Expenditure

Threshold for Non-housing Basic Expenditure, 2018 (PHP)

Note: Food threshold based on PSA estimates (consideration on family sizes); Non-food threshold based on average expenditures in first to fifth income deciles (poor and low-income but not poor)

Area	All Family Sizes	Family Size 2	Family Size 5 with 3 Children
Philippines	123,401	54,194	128,205
Urban	134,377	57,292	138,714
Metro Manila	152,893	64,545	155,875
CALABARZON (Urban)	144,460	63,329	146,996
Pampanga (Urban)	158,744	65,008	148,576
Cebu (Urban)	127,202	52,771	133,723
Davao del Sur (Urban)	119,578	52,258	135,332

Source of basic data: PSA – FIES 2018; PSA (2020)

Income Groups	Philippines			Urban		
	0%	10%	20%	0%	10%	20%
	Downpayment	Downpayment	Downpayment	Downpayment	Downpayment	Downpayment
Poor	-	-	-	-	-	-
Low Income but Not Poor	+	+	+	+	+	+
Lower Middle Income	+	+	+	+	+	+
Middle Middle Income	+	+	+	+	+	+
Upper Middle Income	+	+	+	+	+	+
Upper Income but Not Rich	+	+	+	+	+	+
Rich	+	+	+	+	+	+
Total	+	+	+	+	+	+

Extent of Shelter Poverty Based on Socialized Housing Price Ceiling, 2018

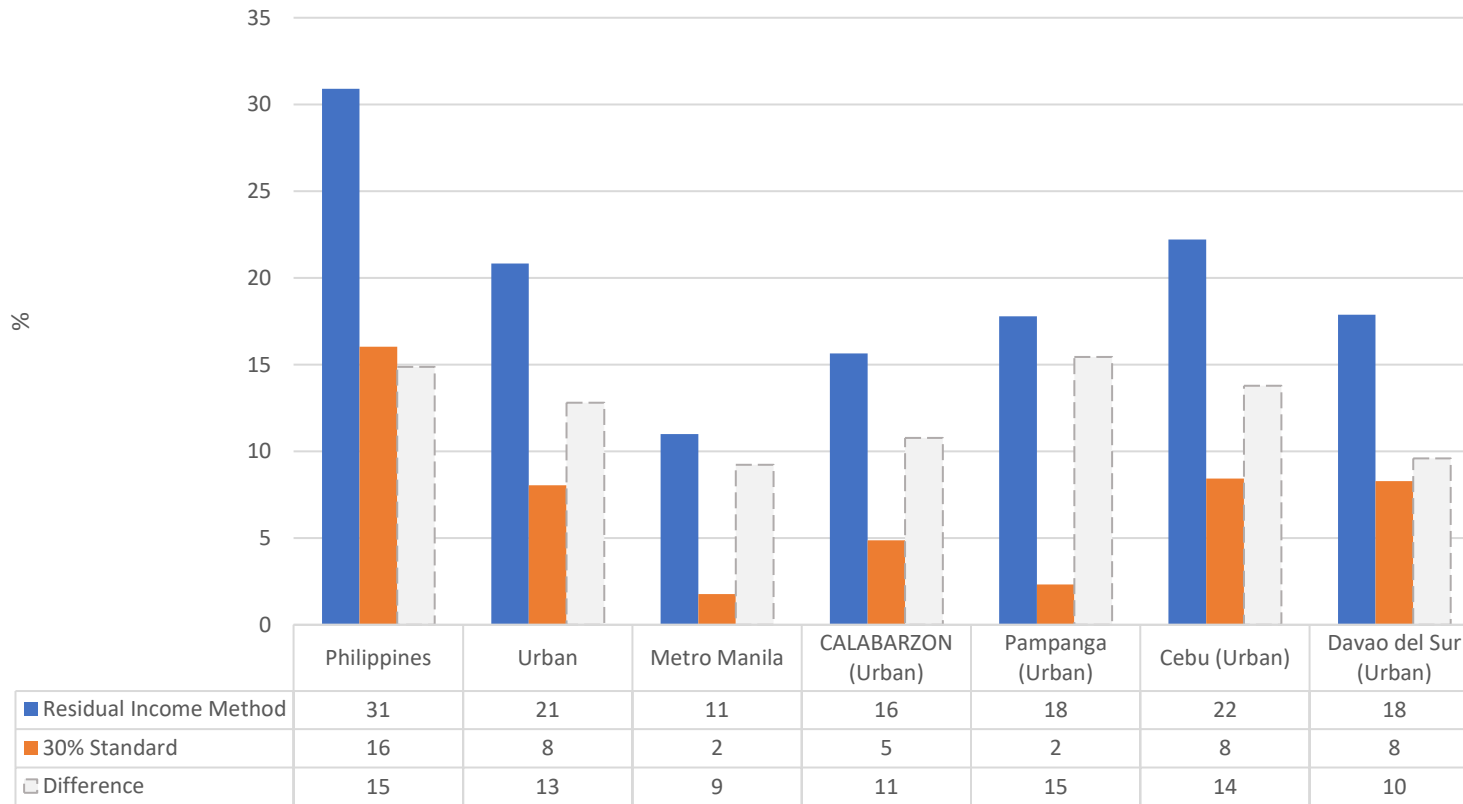
Legend: - Negative residual income after housing expenditure and threshold for non-housing basic expenditure are subtracted from income
+ Positive residual income after housing expenditure and threshold for non-housing basic expenditure are subtracted from income

Income Groups	Philippines			Urban		
	0%	10%	20%	0%	10%	20%
	Downpayment	Downpayment	Downpayment	Downpayment	Downpayment	Downpayment
Poor	-	-	-	-	-	-
Low Income but Not Poor	-	-	-	-	-	-
Lower Middle Income	+	+	+	+	+	+
Middle Middle Income	+	+	+	+	+	+
Upper Middle Income	+	+	+	+	+	+
Upper Income but Not Rich	+	+	+	+	+	+
Rich	+	+	+	+	+	+
Total	+	+	+	+	+	+

Extent of Shelter Poverty Based on Economic Housing Price Ceiling, 2018

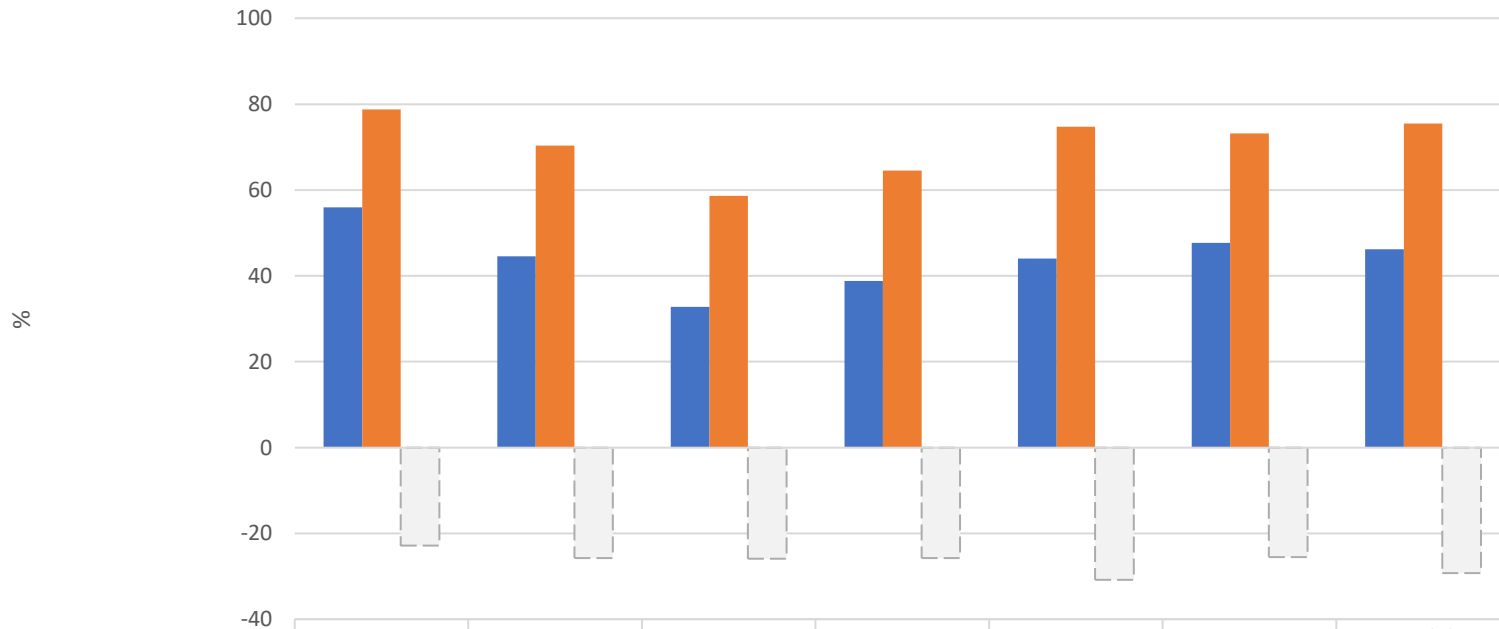
Legend: - Negative residual income after housing expenditure and threshold for non-housing basic expenditure are subtracted from income
+ Positive residual income after housing expenditure and threshold for non-housing basic expenditure are subtracted from income

Families under Socialized Housing Stress, 2018 (%)



Comparison of Residual Income Method and 30% Standard (Socialized Housing)

Families under Economic Housing Stress, 2018 (%)



	Philippines	Urban	Metro Manila	CALABARZON (Urban)	Pampanga (Urban)	Cebu (Urban)	Davao del Sur (Urban)
Residual Income Method	56	45	33	39	44	48	46
30% Standard	79	70	59	65	75	73	75
Difference	-23	-26	-26	-26	-31	-26	-29

Comparison of Residual Income Method and 30% Standard (Economic Housing)

Income Groups	Philippines		
	Mean Non-housing Basic Expenditure (PHP)	Annual Family Income for Housing (PHP)	Affordability Ratio (%)
Poor	123,401	*	*
Low Income but Not Poor	129,959	55,674	30
Lower Middle Income	181,300	122,809	40
Middle Middle Income	250,204	243,935	49
Upper Middle Income	321,719	424,893	57
Upper Income but Not Rich	407,353	738,145	64
Rich	528,299	1,819,129	77

Source of basic data: PSA – FIES 2018

Note: Estimated threshold was used for the income group of the poor instead of the mean non-housing basic expenditure

Legend: * Negative

Affordability Ratio based on Mean Annual Non-housing Expenditure, 2018

Income Groups	Philippines	
	30 Years at 6% Interest Rate	30 Years at 8% Interest Rate
Poor	*	*
Low Income but Not Poor	766,347	626,769
Lower Middle Income	1,690,442	1,382,555
Middle Middle Income	3,357,723	2,746,167
Upper Middle Income	5,848,585	4,783,357
Upper Income but Not Rich	10,160,447	8,309,881
Rich	25,040,004	20,479,360

Source of basic data: PSA – FIES 2018

Legend: * Negative

Affordable Housing Packages based on Mean Annual Non-housing Basic Expenditure, 2018 (PHP)

Priority Reforms

- ❖ Government-led socialized housing development
 - Create a public housing fund from several sources (e.g. the balance housing regulations; idle land taxes, float bonds, etc.) at the national and local levels
 - Provide a multilayered affordability housing program for the unemployed, low-income, middle income
 - Supply subsidies: Public sector projects (not on private sector); non-market solutions
 - Demand subsidies: well-targeted direct housing subsidies
 - Land community trusts: Separate land from the building also gives the government flexibility to appropriate land for affordable housing. Housing units can be purchased and transferred, but the government retains ownership of the land

- ❖ Develop the agenda for rental housing developments
 - Tax breaks and direct subsidies to qualified registered rental housing providers for low/middle-income groups
 - Repeal rent control

Priority Reforms

- ❖ Pursue land-related reforms
 - Implement a standard valuation of real estate properties
 - Effective implementation of idle land tax by all LGU; higher tax on idle lands
 - Ease of doing business in land transfers and titling, building permits and licensing
- ❖ Enable innovative housing finance for households that will not distort private market incentives
 - Tools that mitigate the risk of mortgage defaults due to interest rate volatility
 - Guarantees
- ❖ Pursue construction reforms
 - Give incentives to improve the efficiency of construction industry and delivery system that lowers the cost of housing



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EMAIL: mballesteros@pids.gov.ph