Thailand's Growing Housing Loan Market

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I. Introduction

Japanese companies have been beefing up their "China plus one" strategy and shifting some of their production capacity from China to ASEAN countries ever since employment costs in China began to rise and tensions between the two countries over the disputed Senkaku/Diaoyu Islands began to mount. Thailand is one ASEAN country that is likely to attract considerable attention from Japanese companies—as both an industrial base and a consumer market.

According to figures from the International Monetary Fund (IMF), Thailand's GDP has grown rapidly, from $115.5 billion in 2001 to $345.7 billion in 2012. With a per capita GDP of $1,854 in 2001, Thailand was classified as a lower middle income country. However, with per capita GDP steadily growing to $4,151 in 2009, $4,992 in 2010, and $5,395 in 2011, it has succeeded in becoming an upper middle income country[1].

As Thailand's economy has expanded, its population has grown by an average of 540,000 people/year (an annual rate of 0.80%) over the past 10 years and stood at 64 million in 2011. 13% of its population lives in Bangkok, which covers less than 1% of its land area. There is also a wide disparity in population density, with an average of 128.6 people per square kilometer in the country as a whole but 5,294.3 per square kilometer in Bangkok. The country's housing problems, such as the formation of slums as a result of a population influx, can be said to be concentrated in Bangkok. The housing situation has improved out of all recognition, and this paper looks at housing policy and housing finance in Thailand in general.

II. Housing situation in Thailand

1. Thailand's housing boom

According to the 2010 census, Thailand has a very high owner occupancy rate (81%). Housing shortages are therefore said to be less of a problem there than housing

[1] According to the World Bank's Atlas method of classification, countries with a per capita GNI of less than $1,025 in 2011 were classified as low-income countries, those with a per capita GNI of $1,026–4,035 as lower-middle-income countries, and those with a per capita GNI of $4,036–12,475 as upper-middle-income countries.

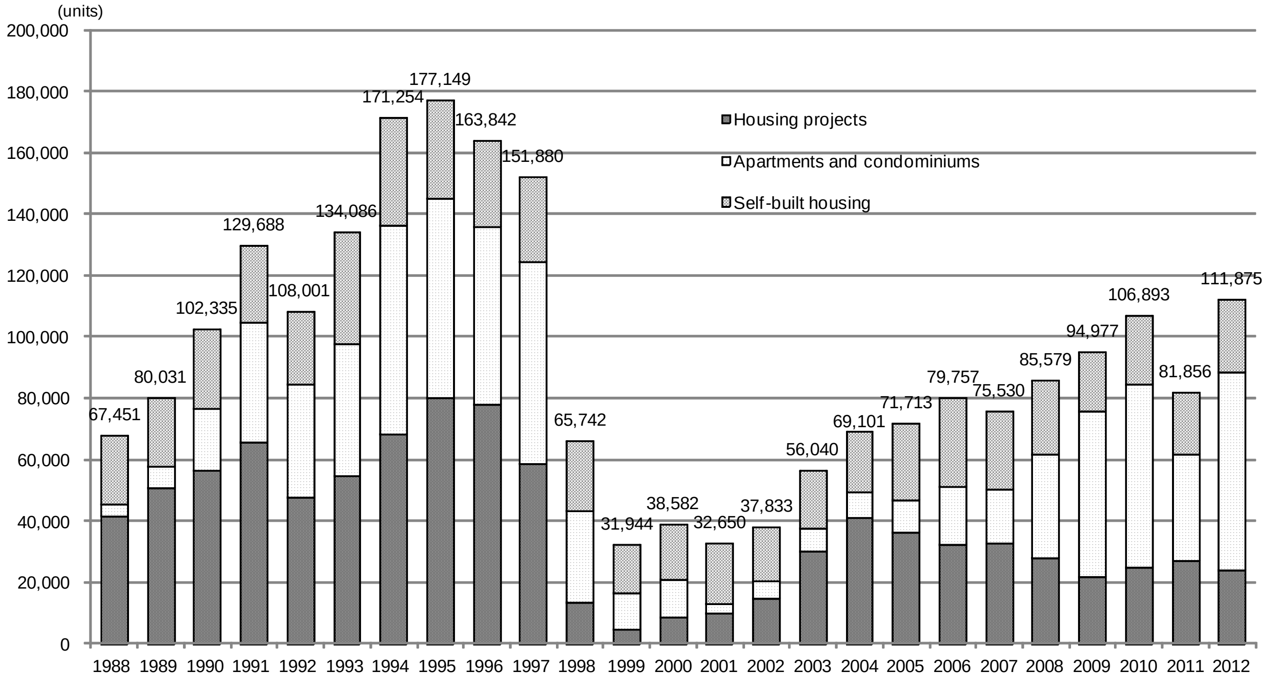
gluts. For example, the country's Seventh National Economic and Social Development Plan (1992–1996) estimated that the demand for housing in Bangkok and the surrounding area was approximately 380,000 units, and more than 150,000 units a year were built in 1994–1997[2]. Following the Asian Currency Crisis, however, many of these remained unsold, and the number of new housing units coming onto the market in Bangkok and the surrounding area underwent a long adjustment, declining to just 30,000 units a year in 1998–2003. In 2004–2007, when 70,000–90,000 units a year came onto the market, the market appeared to be in equilibrium; but the supply began to increase again in 2008 and topped the 100,000 level in 2010, when 106,893 units came onto the market. Recently the trend has been an increase in the number of condominiums (including apartments) coming onto the market. In 2010 56.1% of the housing units that came onto the market in Bangkok and the surrounding area were condominiums. In January 2011 the Bank of Thailand tightened the rules on mortgage lending because it was concerned that a sharp increase in the supply of condominiums in Bangkok and the surrounding area in 2008–2010 might have created a bubble in the housing market. In particular, it increased from 35% to 75% the risk weight for a bank's exposure to (1) mortgages on condominiums and detached houses worth less than THB10 million (¥31.6 million[3]) where the loan-to-value (LTV) ratio in the case of condominiums was 90% or more and that in the case of detached houses was 95% or more, and (2) mortgages on condominiums and detached houses worth THB10 million or more where the LTV in both cases was 80% or more. This led to a reduction in the supply of condominiums, and, as a result of this and the floods that hit the country later that year, the number of housing units coming onto the market in 2011 declined by 23.4% year on year. However, the supply increased again to over 100,000 units (111,875 units) in 2012, partly as a result of the increase in demand created by flood restoration work (Figure 1).

2. Acceleration in supply of condominiums

The price of houses, and especially condominiums, in Thailand has been rising. The Bank of Thailand's house price index shows that house prices rose sharply for most of 2010 and 2012. The price of detached houses has also been rising but more slowly than that of condominiums (Figure 2). As a rule, foreigners are not allowed to buy or register land or detached houses in Thailand. However, they are allowed to buy condominiums. The strong demand for condominiums created by the growing number of Japanese and other foreign companies in Thailand has probably contributed to the rise in condominium prices, and this, in turn, may have accelerated the increase in supply.

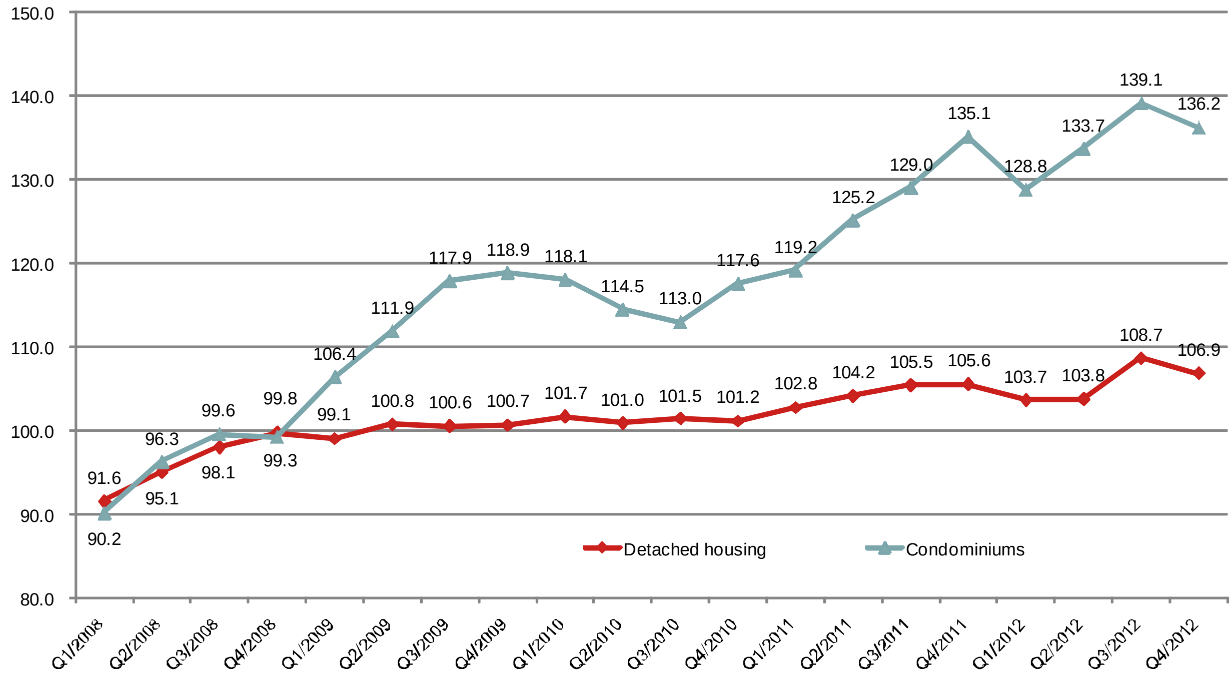
[2] The number of housing units completed is regarded as the number supplied.
[3] Converted at an exchange rate of THB1 = ¥3.16. Similarly below.

Figure 1: Housing completions (Bangkok and surrounding area)



Source: Nomura Institute of Capital Markets Research, from Real Estate Information Center data

Figure 2: House price index



Note: January 2009 = 100.
Source: Nomura Institute of Capital Markets Research, from Bank of Thailand data

Although most new housing units in Thailand are condominiums, most (73%) of the existing housing stock in the country as a whole consists of detached houses, with condominiums accounting for only 2.4%. However, detached houses account for only 53.5% of the housing stock in urban areas, with condominiums and other types of housing unit accounting for 4.6%. We therefore expect the proportion of condominiums to increase[4].

3. Rental housing in Thailand

Some 12% of Thai households live in rental housing. Many financial institutions now provide loans for construction rental housing, and the total value of outstanding rental housing loans more than quadrupled from THB14.7 billion (¥46.5 billion) in 2006 to THB63.2 billion (¥199.7 billion) in 2011. Broadly speaking, there are two types of rental housing in Thailand: up-market luxury apartments and condominiums in central Bangkok, and housing for the urban poor living in slums on the outskirts of Bangkok ("squatters"). Most rental housing loans are aimed at the former group.

III. Thai housing policy

1. Two policies directed at low-income groups

Most of Thailand’s housing supply is provided by private developers. These homes are aimed at middle- and high-income groups, while two government agencies provide housing for low-income groups.

The first of these is the National Housing Authority (NHA), which was established in 1973. Between 1973 and 2003 the NHA provided a total of 430,000 housing units. However, following the Thaksin government’s commitment in 2003 to eliminate poverty, the NHA implemented its Baan Eua-Arthorn (literally, “home with care”) program to provide 600,000 housing units in the five years to 2007. Under this program, buyers enter into a five-year hire-purchase contract with the NHA to repay part of the cost of their home. If buyers pay their monthly installments regularly with no default for five years, they receive long-term Government Housing Bank (GH Bank) mortgages on the outstanding amount at a low interest rate and with a repayment period of up to 30 years. GH Bank was established in 1953 as a wholly owned, special-purpose financial institution under the Ministry of Finance. After eight years implementation, the NHA completed some 250,000 housing units (170,000 of these in Bangkok and the surrounding area). However, only 150,000 of these (worth some THB57.5 billion or ¥181.7 billion) involved hire-purchase loans. Also, 74% of the housing units provided under the program were 33 square meter condominiums.

The second government agency that provides housing for low-income groups is the Community Organization Development Institute (CODI), which was established in

4 The remainder consists of other types of housing unit such as townhouses and multi-family dwellings.

2000. The CODI also embarked on a housing program (the Baan Mankong—literally, "secured housing"—program) in 2003. The program aims to address the housing problems of the country's poorest citizens living in urban slum communities by providing government housing loans and subsidies to enable the communities to carry out their own redevelopments. Since its inception, the program has benefited more than 54,000 low-income households.

2. Tax incentives

Thailand's Board of Investment (BOI) offers tax incentives to developers to enable low- and middle-income groups in urban areas to acquire homes at affordable prices. These incentives take the form of a 30% annual exemption from corporate income tax for 5–8 years, depending on where units are built. Zone 1 includes Bangkok and its five surrounding provinces; Zone 2 includes provinces nearer to the capital; and Zone 3 covers all the other provinces. In order to qualify for the exemption in the case of Zone 1, for example, any condominium must have an area per unit of not less than 28 square meters with a sales price of not more than THB1 million (¥3.16 million). For any detached house the area per unit must not be less than 70 square meters with a sales price of not more than THB1.2 million (¥3.79 million). During the five years from 2007 to 2011, 149 housing projects, totaling some 64,000 units were built under this program.

Also, first-time buyers looking to buy a home worth up to THB5 million (¥15.8 million) are eligible for a tax-free allowance of 10% of the value of their home for the first five years.

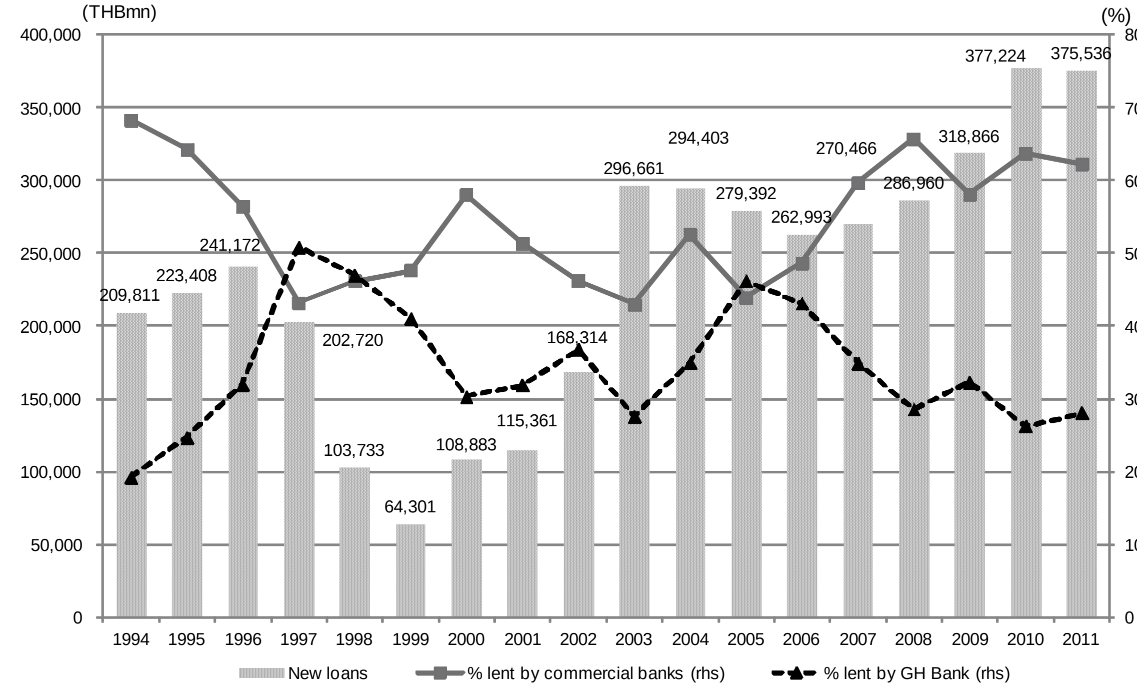
IV. Growth in housing finance

1. Growth in housing finance

Thailand's housing loan market has been growing since 2006. The value of new housing loans has risen from THB263.0 billion (¥831.1 billion) in 2006 to THB375.5 billion (¥1,186.6 billion) in 2011, an increase of more than 40% (Figure 3). Reflecting this increase, the amount of outstanding housing loans has also increased: from a low of THB687.5 billion (¥2,172.5 billion) in 2001 to THB2,036.8 billion (¥6,436.3 billion) in 2011, an increase of nearly 200% (Figure 4).

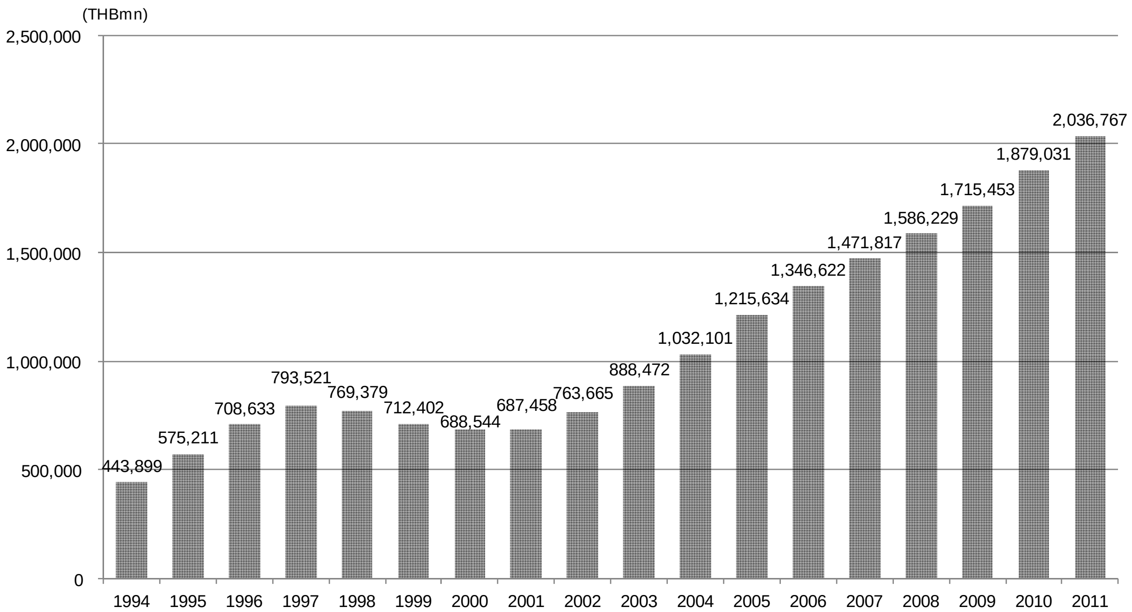
In 2011, 60% of mortgage lending was done by commercial banks and 30% by GH Bank. Lending by the private sector tends to increase when the supply of housing increases, while lending by GH Bank tends to increase when the supply of housing declines. We interpret this to mean that, whereas middle- and high-income groups' decisions to buy a home tend to be influenced by the economy and interest rates, the demand from low-income groups using GH Bank tends to be steady regardless of the economy and interest rates.

Figure 3: New housing loans



Source: Nomura Institute of Capital Markets Research, from Real Estate Information Center data

Figure 4: Outstanding housing loans



Source: Nomura Institute of Capital Markets Research, from Real Estate Information Center data

Figure 5: Outstanding housing loans as percentage of GDP

	Outstanding housing loans as % of GDP	Survey year
China	14%	2011
Hong Kong	43%	2011
Indonesia	2%	2008
Japan	38%	2011
Korea	36%	2010
Malaysia	34%	2011
Philippines	5%	2009
Thailand	19%	2011

Source: Nomura Institute of Capital Markets Research, from Housing Finance Information Network data

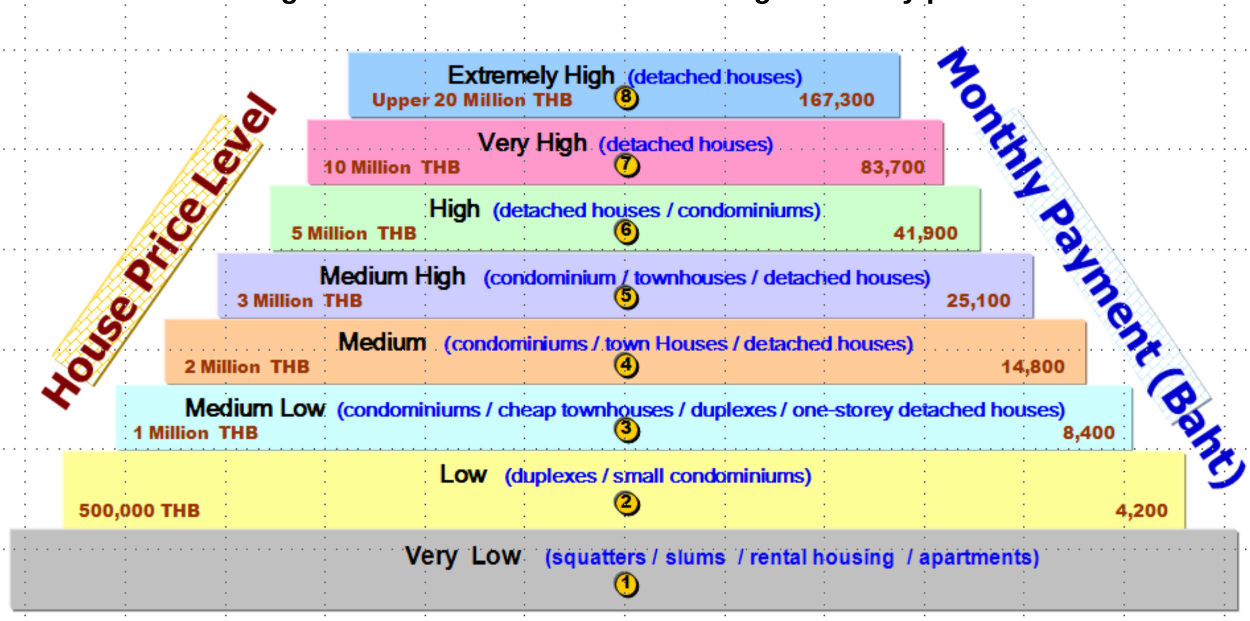
As of 1980, housing loans accounted for only 3% of outstanding bank loans. However, by 2000 this had risen to 16% as a result of the housing boom of the 1990s and the resulting increase in demand for housing loans. Following the Asian Currency Crisis there was a period of adjustment, and the ratio of housing loans to outstanding bank loans remained steady at about 16%. As of the end of 2011, it stood at 15.6%.

As of 1990, housing loans accounted for about 6% of GDP. However, by 2011 this had risen to no less than 19%. While the ratio is lower than that of countries with sophisticated retail financial services such as Hong Kong (43%), Japan (38%), and Korea (36%), it is higher than that of countries such as Indonesia and the Philippines, an indication that retail financial services in the latter group of countries are still expanding (Figure 5). According to a 2011 study of retail financial services in Asia ex Japan by JETRO, retail financial services in Thailand, just like those in Malaysia, are still expanding and services such as installment plans and credit cards are generally available to consumers. Demand for these services is expected to increase as incomes rise, and a high percentage of consumers take out loans to buy real estate.

2. Overview of Thai housing loan market

Most housing loans in Thailand charge variable interest rates. Banks have a minimum lending rate (MLR) or minimum retail rate (MRR) (as of February 2013, this was 7.125% for GH Bank and 7.00–7.38% for commercial banks) that is normally applied to housing loans. In addition, banks can offer preferential (variable) rates in order to attract business: for example, GH Banks offers housing loans at MRR-2% for the first 1–2 years, at MRR-1% for the third year, at MRR-0.5% for the fourth year, and at MRR for the fifth and subsequent years. There are also indications that competition for business among Thai banks is heating up, with one of the largest banks, Kasikorn Bank, offering housing loans with a 50-year repayment period.

Figure 6: Breakdown of Thai housing market by price



Source: Ballobh Kritayanavaj (2011)

In May 2010 GH Bank launched housing loans for first-time buyers that charged zero interest rates for the first three years[5]. THB25 billion (¥79 billion) was set aside for this program. In order to qualify, borrowers had to apply for a loan by 30 December 2011 and sign a contract to purchase a home by 30 April 2012. In addition, these loans had a maximum LTV of 100% but a cap of THB1 million and were only available for homes selling at THB3 million (¥9.48 million) or less. Repayments could be made over a maximum of 30 years but had to be completed by the time the borrower reached the age of 65. Also, a preferential rate of interest of MRR less 0.5–1.0% applied from the third year of the loan. In Thailand existing homes cost around THB3 million, while low-cost housing is available from around THB500,000 (¥1.58 million) (Figure 6). The program was therefore suitable for buying an average Thai home. As a result, there were more than 5,000 applications on the launch date even though there was only a week between the announcement of the program and its launch.

The zero interest rate period and a maximum LTV of 100% rather than the normal 90% appear to have changed people’s attitudes. According to a May 2011 online survey by the Real Estate Information Center (REIC), 50% of those surveyed said they had bought their home with a loan with an LTV of 90% or more (Figure 7).

Until the Asian Currency Crisis the repayment period was usually 20 years but is now mostly 30 years. There is a 3% penalty for paying off a housing loan during the first three years.

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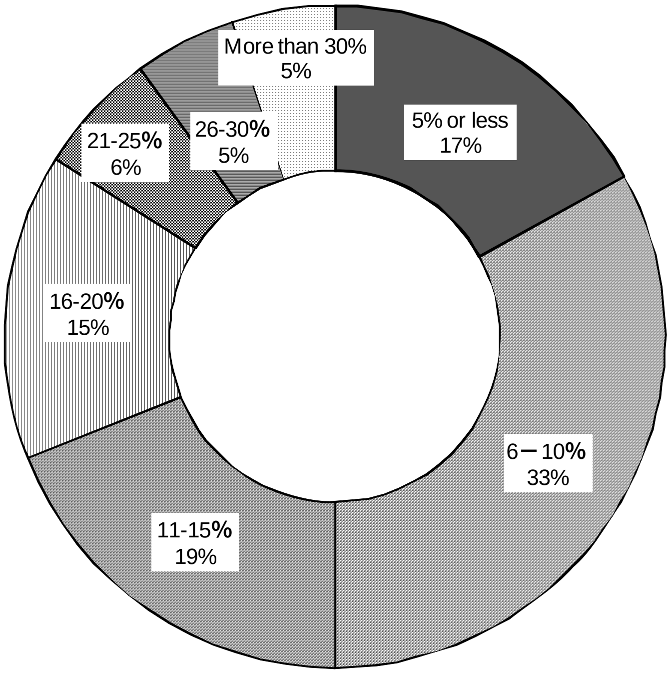
5 Although the introduction of the new loans is sometimes regarded as an economic stimulus measure, the fact that a general election was due to take place in July 2010 probably contributed to its inclusion in the Democrat Party's election manifesto.

Figure 7: Equity (deposit) as a percentage of cost of new home



Source: Nomura Institute of Capital Markets Research, from Real Estate Information Center data

As a rule, foreigners are not eligible for a housing loan in Thailand. The only way they can take one out is to apply at a branch of a foreign bank for an overseas loan.

3. Response to 2011 mega-floods

The mega-floods that hit Thailand at the end of 2011 had a serious impact on the economy, with many companies, including Japanese companies, having to suspend production and many homes damaged. In response, the government and many companies and financial institutions offered assistance to those affected. GH Bank, for example, has helped those affected to resume normal lives by, amongst other things, (1) granting borrowers a moratorium on their payments of up to six months, (2) reducing to 0.01% the rate of interest on loans taken out by borrowers who become permanently disabled or die, (3) reducing the amount to be repaid to the estimated value of the land if a home becomes uninhabitable, (4) lending borrowers whose homes have been damaged the money to build another home or repair their existing one at a fixed rate of interest of 2% for five years, and (5) lending borrowers money to repair their home at a fixed rate of interest of 4% for five years.

V. Conclusion

As we have seen, the housing situation in Thailand has improved considerably, and housing finance is now widely available. There are surely similarities between this and the situation in Japan in the post-war years, when, on the one hand, the Japan Housing Corporation sought to solve the housing shortage by providing housing while, on the other, the Government Housing Loan Corporation took the lead in providing housing loans. Just as Thailand's GH Bank was deluged with applications for its zero interest rate loans on the day of their launch, the Japan Housing Corporation sometimes had to announce that it would accept no more applications for loans on the very first day on which it was possible to apply for them. Since Thailand does not have a scheme similar to Japan's Fiscal Investment and Loan Program (FILP), there is a risk that, by issuing government-backed bonds to raise cheap loan capital and offer housing loans at more competitive rates than private-sector banks, GH Bank will face increasing criticism that it is putting pressure on the private sector just as competition for housing loan applicants intensifies.

Another possible risk is that variable interest rate loans are the main type of housing loan available. This is because the risk of an increasing number of payments falling into arrears increases if faster economic growth pushes up interest rates, thereby increasing the amount that has to be repaid. Low-income groups are probably particularly vulnerable to this risk. The reason most housing loans in Thailand are variable interest rate loans is probably that bank deposits are the main source of housing loan capital. In order to be able to offer long-term housing loans at fixed rates of interest, there would have to be long-term sources of funding. Thailand's capital markets will probably have an important role to play on this front. GH Bank was also planning to issue residential mortgage-backed securities for this purpose but aborted the plan because of the collapse of Lehman Brothers.

Here there may be some lessons for Thailand from Japan's experience. The Japan Housing Corporation was also criticized for putting pressure on the private sector and distorting the market by using FILP. The solution adopted was to replace the corporation with the Japan Housing Finance Agency, which helps private-sector financial institutions to offer fixed-rate housing loans by issuing residential mortgage-backed securities. At the time, Japan's RMBS market was still quite small. However, continued issuance of residential mortgage-backed securities by the agency has helped the market grow to more than ¥10 trillion in terms of outstanding securities. While a different economic and political situation in the two countries means that not everything will apply to the situation in Thailand, we hope that at least some of Japan's experience may prove instructive to the development of housing finance in Thailand.

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