

**THE IMPLICATIONS OF THE FAMILY
INCOME AND EXPENDITURE SURVEY ON
HOUSING DEMAND AND AFFORDABILITY**

***a Research Paper of the
Home Guaranty Corporation
(September 26, 2005)***

INTRODUCTION

For this study, the HGC Research Team chose to investigate the question of housing affordability based on the 2003 Family Income and Expenditure Survey (FIES). The objectives of this Study are:

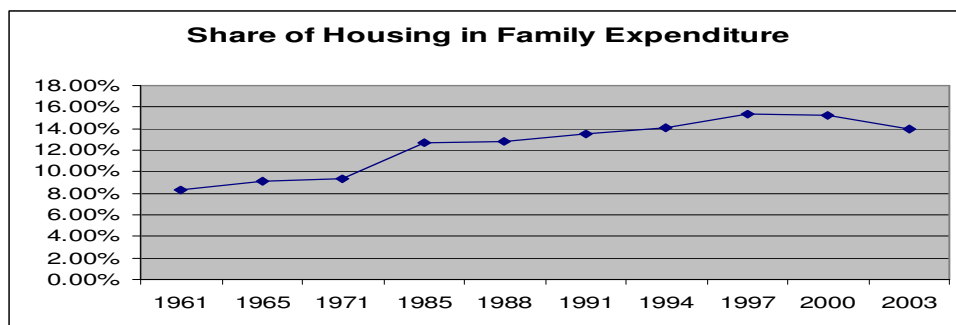
1. to determine affordability of decent housing on a per decile basis
2. to gauge who can afford what type of housing package
3. to determine how many families can afford what type of housing package

The Team used the 2003 FIES for the study. Since the FIES are given in annual figures, the average annual income, expenditures and savings were all divided by twelve to get their average monthly figures.

Housing expenditure is the amount that Filipino families allot for their dwelling needs, comprised largely of rent / rental value of the house and lot and a small portion for house maintenance and minor repairs.¹

Figure 1 shows that from 1961 up to 2000, the share of housing in total family expenditure has been increasing every survey period. From 8.3 % on 1961, the percentage share rose continually, until reaching its peak at 15.3 % in 1997. After the Asian crisis, the share went down to 14% in 2003.

Figure 1



¹ As defined in the FIES.

AFFORDABLE LOAN PACKAGES PER DECILE

Table 1

2003 Family Income & Expenditure Survey <i>(values at current price in Pesos)</i>						
	<i>Average Income (monthly)</i>	<i>Average Expenditure (monthly)</i>	<i>Average Savings (monthly)</i>	<i>Affordable Amortization (monthly)</i>	<i>Affordable Loan Package</i>	<i>(Assumed) Interest Rate</i>
First decile	1,938.17	2,093.42	-155.33	154.88	24,038.65	6%
Second decile	3,101.50	3,189.50	-88.00	238.92	37,082.76	6%
Third decile	4,031.42	4,034.58	-3.17	313.42	48,645.47	6%
Fourth decile	5,042.75	4,843.83	198.92	421.09	65,355.39	6%
Fifth decile	6,253.00	5,873.17	379.83	559.45	86,830.83	6%
Sixth decile	7,764.33	7,227.67	536.67	802.11	124,492.66	6%
Seventh decile	9,847.17	8,858.50	988.67	966.45	150,000.00	6%
Eighth decile	12,872.25	11,167.33	1,705.00	1,383.91	164,908.92	9%
Ninth decile	18,009.58	14,999.58	3,010.00	1,955.92	225,000.00	9%
Tenth decile	39,970.42	28,792.50	11,177.92	5,006.00	500,000.00	10%

Affordable loan packages for each decile were computed by assuming each decile's monthly expenditure on rent / rental value in 2003 to be their probable budget for housing amortization.

Expenditure on rent / rental value in the Philippines went down by 7.52% from 2000 to 2003.² It has been noted further that the share of rent / rental value increases as income level increases. These observations were carried into the extrapolated figures. The resulting values per decile were further assumed to be the affordable amortization for each decile. The Team deduced that this would be the

² Figures for 2003 per decile value of rent/rental values were extrapolated by deducting 7.52% from the 2000 figures. This had to be done since the 2003 figures were not broken down into deciles.

amount that families in the decile would on the average be able and willing to allot for housing.

To get the affordable loan packages (shown in table 1), we calculated the implied loan value (or present value) of the pay-outs assuming the probable budget is paid as amortization for housing at a constant annual interest rate (based on Pag-ibig interest rates and HUDCC defined housing packages) for twenty five years.³

Table 2 shows the available resources for a house and lot package for each decile. This is the sum total of the affordable loan packages plus affordable equity. Affordable equity is assumed to be twenty four times the average monthly savings. The rationale is that families who wish to buy their own home would set aside their monthly savings for a period of two years.

Results show that only families from the fourth income decile and above can afford a 25-year term housing loan. Families in the first to third deciles whose mean monthly income is P3,023.69 can only afford, on the average a 25-year, P 36,588.96 housing loan at 6% per anum with no equity or down payment required. Even by the barest minimum standards, this amount cannot afford them any decent and livable dwelling as this can buy them only six (6) square meters of socialized housing space. The families in these deciles, moreover, have negative savings (average monthly expenditure of P3,105.83). Only P 235.74 of their monthly expenditure is allotted to housing, which will not match with the monthly amortization of any known commercial lending package at present.

Families belonging to the fourth to sixth deciles, while already showing positive savings and some capacity to pay amortization, can only afford to borrow up to Php124,492.66 (for the sixth decile families), hardly sufficient for any formal package and just about equal to the CMP maximum. In other words, up to 60% of the population can only afford CMP-type financing.

For that matter, assuming that a Php150,000⁴ house and lot package is the least cost unit, then only those belonging to the seventh decile up can afford formal

³ The present value of an annuity factors used discount rates ranging from 6% to 10% depending on the amount of loan package based on HUDCC's definition.

⁴ Php150,000 is the lowest housing loan package of HDMF.

housing. This implies that up to 70% of the population is unable to access the lowest formal financial housing package.

AFFORDABLE HOUSE AND LOT PACKAGES PER DECILE

Table 2

2003 (monthly) Family Income & Expenditure Survey <i>(values at current price in Pesos)</i>				
	<i>Average Income (monthly)</i>	<i>Affordable Loan Package</i>	<i>Equity</i>	<i>Available Resources for House and Lot Package</i>
First decile	1,938.17	24,038.65	-	24,038.65
Second decile	3,101.50	37,082.76	-	37,082.76
Third decile	4,031.42	48,645.47	-	48,645.47
Fourth decile	5,042.75	65,355.39	4,774.00	70,129.39
Fifth decile	6,253.00	86,830.83	9,116.00	95,946.83
Sixth decile	7,764.33	124,492.66	12,880.00	137,372.66
Seventh decile	9,847.17	150,000.00	25,430.45	175,430.45
Eighth decile	12,872.25	164,908.92	40,920.00	205,828.92
Ninth decile	18,009.58	225,000.00	72,240.00	297,240.00
Tenth decile	39,970.42	500,000.00	268,270.00	768,270.00

PROBABLE HOUSING PACKAGE AND FINANCING SCHEME PER DECILE

The available resources for house and lot packages for each decile were then matched with the minimum standards set by Batas Pambansa 220 to get the suggested housing package for each decile. The minimum floor area allowed for socialized housing packages and low cost housing under BP 220 are 18 sq. m. and 22 sq. m., respectively. ⁵

Using the minimum standards, a finished socialized housing unit will be marketed at Php229,471.57. This therefore implies that only those families belonging to the 9th and 10th deciles can afford the minimum BP220 standards. The remaining 80% of the population cannot. Only those in the tenth decile can afford low cost and higher housing packages. Table 3 shows other assumed minimum standards:

Table 3

Cost before developer's profit	76% Hard cost + 24% soft cost
Developer's profit	30% of Hard cost + soft cost
Construction costs:	
Socialized Core house	P 3,750 per sq. m.
Socialized Finished Unit	P 6,000 per sq. m.
Low / Economic package	P10,000 per sq. m.

Based on the available resources for house and lot packages per decile and the assumed minimum standards in the preceding section, probable housing packages and financing schemes for each decile may be suggested. ⁶

Assistance and present programs design from institutions like Gawad Kalinga (GK) and Habitat for Humanity (HFH) will come in handy for families in the first to the third deciles. Families belonging to the fourth to the seventh decile may be eligible under National Housing Authority (NHA) projects or the Community Mortgage Program (CMP), assuming funds are available. Those in the eighth decile and above will be able to afford housing loan packages by government funding

⁵ On-site CMP projects and Gawad Kalinga projects are exempted from BP 220 standards.

⁶ Based on the minimum standards for housing affordable by decile. Developer's profit for CMP and Gawad Kalinga type projects were not imputed

institutions i.e. SSS, GSIS and Pag-Ibig Fund. Only families in the ninth and tenth income deciles may be entertained by private banks.

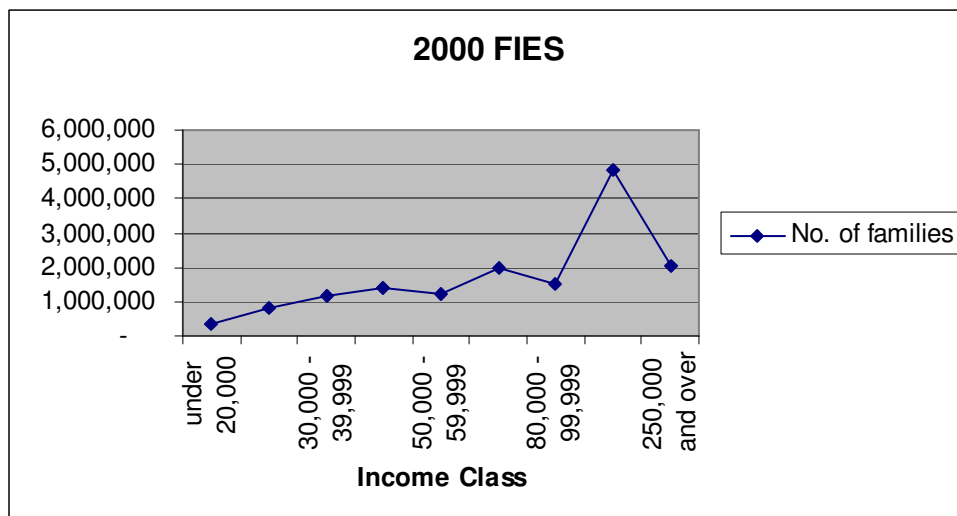
Table 4

2003 Family Income & Expenditure Survey				
(values at current price in Pesos)				
	Average Income (monthly)	Available Resources for House and Lot Package	Suggested Minimum Standard Housing Package	Suggested Program
First decile	1,938.17	24,038.65	improvement of on-site housing	GK/HFH
Second decile	3,101.50	37,082.76	improvement of on-site housing	GK/HFH
Third decile	4,031.42	48,645.47	improvement of on-site housing	GK/HFH
Fourth decile	5,042.75	70,129.39	improvement of on-site housing	CMP / NHA
Fifth decile	6,253.00	95,946.83	Core house	CMP / NHA
Sixth decile	7,764.33	137,372.66	Core house	CMP / NHA
Seventh decile	9,847.17	175,430.45	Finished Socialized	CMP / NHA
Eighth decile	12,872.25	205,828.92	Finished Socialized	Traditional Govt. Financing
Ninth decile	18,009.58	297,240.00	Finished socialized	Traditional Govt. & Bank Financing
Tenth decile	39,970.42	768,270.00	Low cost	Traditional Govt. & Bank Financing

The suggested housing packages are based on minimum standards. Homebuyers may choose other house and lot combinations. Varying land valuations pose difficulty for further suggestions.

DISTRIBUTION OF FAMILIES PER DECILE

Figure 2



The 2000 FIES was used to estimate the number of families per income level. Those earning under P20,000 a year are the smallest group, numbering to 364,569 families. They account for 2% of the total family population. Most of the families, numbering to 4,813,253 or 32% have an income of P100,000 – P249,000. The highest income group (P250,000 and higher) accounts for 13%.

Table 5 shows that 4,956,394 families or 24% of the total families in the country will not be able to avail themselves of existing credit facilities. These families have to be assisted by grants. Around 41% or 6,376,234 may access housing through the CMP or NHA programs and around 20% or 3,208,834 may avail themselves of the traditional housing credit facilities of the government i.e. SSS, GSIS and Pag-Ibig and around 13% or 2,020,509 may try bank lending facilities. (Figures may not tally due to extrapolation and rounding off.)

Table 5

2003 (monthly) Family Income & Expenditure Survey					
(values at current price in Pesos)					
	Average Income	Available Resources for House and Lot Package	Suggested Program	No of Families based on 2000 Survey	Percent Distribution of Families based on 2000 Survey
First decile	1,938.17	24,038.65	GK / HFK	1,201,220	8%
Second decile	3,101.50	37,082.76	GK / HFK	1,170,541	8%
Third decile	4,031.42	48,645.47	GK / HFK	2,584,633	17%
Fourth decile	5,042.75	70,129.39	CMP / NHA		
Fifth decile	6,253.00	95,946.83	CMP / NHA	1,983,219	13%
Sixth decile	7,764.33	137,372.66	CMP / NHA	1,496,280	10%
Seventh decile	9,847.17	175,430.45	CMP / NHA	4,813,253	32%
Eighth decile	12,872.25	205,828.92	Traditional Govt. Financing		
Ninth decile	18,009.58	297,240.00	Traditional Govt. & Bank Financing		
Tenth decile	39,970.42	768,270.00	Traditional Govt. & Bank Financing	2,020,509	13%

SUMMARY AND CONCLUSION

Based on the foregoing, we draw the following conclusions:

1. Up to 70% of the population is unable to access even the cheapest formal financial housing package of Php 150,000.00.
2. Up to 80% of the population will not be able to afford a finished socialized housing unit.

3. Around 5 million families belonging to the first three income deciles are best assisted by grants and/or programs of prominent housing NGOs such as Gawad Kalinga and Habitat for Humanity.
4. Cost-recoverable and interest-bearing government housing programs such as NHA and CMP-NHMFC programs for the poor may cater to 40% of the population or 6.4M families covering those from the fourth to seventh decile.
5. Only 20% of the population, or only those falling within the eighth to tenth deciles, can have access to formal housing finance packages.