
Taming the World's Affordable Housing Crisis



By Pierre Mabilie , INSEAD

Everyone deserves a roof over their head. This World Habitat Day, we outline a roadmap for getting there.

The world is knee-deep in a housing crisis. According to the [United Nations](#), 1.6 billion people – one in every five – lack adequate housing, and the number could rise to 3 billion by 2030. It is a problem that plagues rich and poor countries alike, from Burundi to the United States, [damaging well-being](#), distorting economic choices and worsening inequality.

The crisis impacts not only individuals but also weakens economies and social cohesion. When a large chunk of the population is priced out of areas with desirable amenities and well-paying jobs, inequality and resentment inevitably rise. Businesses suffer, too, since secure and accessible housing is often the wellspring of a stable, quality workforce.

At the heart of the problem lies a fundamental mismatch between supply and demand. Decades of rural-urban migration around the world has created a situation of too little affordable housing for too many who need it. Increasing supply may seem like the laughably easy solution, but making

this happen requires a multilayered, nuanced approach that is anything but simple.

For starters, the solution ought to balance short-term relief with long-term sustainability. Targeted **rent stabilisation** measures such as capping rental hikes can provide immediate relief, but it's not a panacea. To address the root causes and create lasting change, we need to focus on three areas: promoting investment in new affordable housing, improving incentives for developers and landlords, and coordinating housing and other policies.

Affordable housing as impact investing

Building more affordable housing requires money. Yet, these projects, typically perceived as low-yield and high-risk, often struggle to attract capital.

How can we get around this roadblock? By taking a leaf out of the playbook of ESG (environmental, social and governance) investing. Although ESG considerations entered mainstream investment strategies only in the 1990s, global ESG assets surpassed US\$30 trillion in 2022 and are on track to top **US\$40 trillion by 2030**, or over 25 percent of total assets under management.

Such tremendous growth could not have happened without sustained marketing and communication efforts. Asset managers, seizing the zeitgeist of rising climate awareness and social responsibility, have successfully marketed green investments and ESG stocks by highlighting their positive social and **financial** impact. **Doing well while doing good** has become very lucrative.

Affordable housing deserves similar treatment. By framing investment in these projects as **impact investing** and emphasising its potential for long-term financial gains, we could unlock significant capital flows from a wider range of investors, from institutional to retail players. An accessible entry point for the latter could be real estate investment trusts (REITs).

That said, improving transparency and helping investors understand the risk-return profile of these projects is crucial to sustaining interest and confidence in the long run. Educating investors about the opportunities outside major cities could further attract investment.

Sweetening the deal for developers and landlords

Further down the supply chain, developers and landlords hold the keys to increasing the stock of affordable housing. What policymakers can do is nudge them with targeted incentives. For example, the US and Germany offer **tax breaks** and **incentives** to developers of low-cost housing. A more targeted approach might be to link rewards to creating a specific number of cheap units or building in more desirable areas. This would also help enhance supply where it's most needed.

Meanwhile, landlord insurance guarantees and other innovative programmes could nudge property owners to open their doors to lower-income and other precarious tenants. France's **Visale** scheme, for instance, is a free rental deposit scheme that guarantees rent and utility payments in case of non-payment. Talk about win-win: On the one hand, the scheme protects landlords and property owners against unpaid rent and possible rental damages; on the other, it helps tenants in precarious situations to have a home.

Devising policies that work (together)

Whatever measures policymakers propose, one thing is for sure: We can't consider housing policies – or any policy for that matter – in isolation. All too often, well-intentioned policies work at cross-purposes. Take central banks' moves to cool inflation by raising interest rates. Higher rates can inadvertently worsen housing affordability. How? People with low fixed-rate mortgages become **reluctant to move**, reducing housing supply and driving up prices – the opposite of what monetary policy intends for most goods.

Housing in turn affects people's choices about where to live, work and even whether to have children, which is a key element of social policies. Understanding interactions among policy measures is crucial for crafting effective solutions. Policymakers should coordinate among housing agencies, central banks and other government bodies to optimise policy outcomes and avoid unintended consequences.

Learning from Paris

Besides the three long-term solutions outlined above, there are other ways to boost affordable housing supply. Relaxing zoning regulations to accommodate low-cost housing remains a powerful tool. But, as always, the devil is in the implementation.

To preempt not-in-my-backyard backlash from existing residents, it is important that municipal authorities strike a balance between increasing housing supply and respecting the unique characteristics of each neighbourhood.

Paris has done a little more than most major cities in this regard. Since the 1990s, the City of Light has built or renovated more than 82,000 apartments for families with children. Buildings such as the former offices of the defence ministry and a police barracks constructed during the French Revolution have been converted into public housing. Rents for a two-bedroom apartment in the city centre can go for as little as €600 a month.

The affordable housing crisis is a complex puzzle, but it's not unsolvable. By combining short-term relief measures like targeted rent stabilisation with long-term strategies such as investing for impact and incentivising developers and landlords, we can create a future where everyone has a place to call home.

Find article at

<https://knowledge.insead.edu/economics-finance/taming-worlds-affordable-housing-crisis>

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