

CHAPTER SIX

CONSTRUCTION AND HOUSING

The performance figures for the construction and housing sector indicate a relative boom in this sector for the first year of the 3rd FYDP. The average projected figure for growth in value-added for this sector in the Plan was 9.9 percent. According to preliminary data, the growth of 10.4 percent at constant 1369 prices can be considered to be relatively favorable. Due to excess demand a market boom occurred in this sector which caused the rise in housing prices to continue in 1379. This was especially the case in Tehran where this trend had started at the end of the previous year. Due to relative stability in the gold, foreign exchange, and automobile markets, the growing trend in construction and housing activities continued and gave impetus to further private sector investment in this sector.

Private sector investment in new constructions in urban areas grew by 30.4 percent in 1379 and amounted to Rls. 28.8 thousand billion. This was Rls. 20.9 thousand billion in excess of forecasted target figures in the 3rd FYDP. Tehran housing construction, which plays a pivotal role in construction activities and represents the largest housing market, attracted 32.6 percent of private sector investment and registered a substantial increase of 55.9 percent. Increase in the production of construction materials, including construction steel, pane glass, cement, and tiles in 1379 are all indicative of the boom in construction activities.

Private sector investment in urban areas by type of new constructions, indicates an upturn in the housing construction market and reflects the private sector's willingness to make further investments in this sector. The growth of investment in construction starts and completed buildings increased respectively by 33.4 and 28.9 percent.

The number of new construction permits issued by the municipalities is the leading indicator in forecasting construction sector activities and indicates the continuation of boom, especially in Tehran. On the basis of this data, the number and the total floor-space of new constructions in Tehran grew respectively by 60.2 and 61 percent. Favorable expectations of contractors in future market developments, positive results of newly implemented credit policies, and firm city management policies resulted in the growth of these indices in Tehran.

Government development expenditures for the construction and housing sector increased in 1379. Government expenditures for construction, housing, urban development and research on housing chapters, in both national and provincial programs, grew by 39 percent and reached Rls. 3,244.9 billion.

The outstanding facilities extended by banks and credit institutions to construction and housing sector grew by 15.6 and 31.7 percent compared to the previous year and amounted to Rls. 11.5 and 40.4 thousand billion, respectively.

In this year, the 'National Land and Housing Organization' transferred 28.8 and 32.1 million square meters of residential and non-residential land to applicants including individual households, major contractors, and housing cooperatives, registering 134.1 percent increase

compared to the previous year. This policy positively affected construction, geographical distribution and type of construction undertaken in the housing sector. In this year, 15,756 residential rental units were completed, 8,618 units of which were leased out.

Land price index at constant 1376 prices in urban areas grew by 31.7 percent in this year. The growth of this index is closely related to the upturn in housing construction. Construction services index and the wholesale price index for construction materials indicated an increase of 10.7 and 15.1 percent respectively. The relatively small rises in these indices compared with previous year's figures are due to the excess supply of labor and the relative price stability in construction materials market.

Private Sector Investment in New Constructions in Urban Areas

Private sector investment in new constructions in urban areas grew noticeably, especially in Tehran, indicating higher rate of return on this investment compared with other investments. Private sector investment in new constructions in the urban areas grew as follows: Tehran, 55.9 percent; large cities, 5.3 percent; and small and medium-sized cities, 36.6 percent. The noticeable increase in private sector investment in this year was due to the boom in Tehran's housing construction and its leading role in the national economy as well as the positive expectations of investors in the continuation of growth in this sector in the future.

PRIVATE SECTOR INVESTMENT IN NEW BUILDINGS IN URBAN AREAS(1)

(billion rials)

	1377	1378	1379	Percentage change		Share (percent)	
				1378	1379	1378	1379
Tehran	4,842.6	6,020.0	9,384.4	24.3	55.9	27.3	32.6
Large cities	5,831.0	8,085.7	8,517.5	38.7	5.3	36.6	29.6
Other urban areas	7,276.1	7,963.4	10,879.9	9.4	36.6	36.1	37.8
All urban areas	17,949.7	22,069.1	28,782.2	22.9	30.4	100.0	100.0

(1) Excludes cost of land.

A review of the composition of private sector investment by urban areas shows a positive sizeable change in Tehran and in the small and medium-sized cities. The share of investment in Tehran grew from 27.3 percent in 1378 to 32.6 percent in 1379. The share of investment in construction for large cities declined by 7 percentage point in the same period. Investment in small and medium size cities grew by 36.6 percent.

PRIVATE SECTOR INVESTMENT IN NEW BUILDINGS IN URBAN AREAS(1)

BY CONSTRUCTION PHASES (At Current Prices)

(billion rials)

	1377	1378	1379	Percentage change		Share (percent)	
				1378	1379	1378	1379
Newly-started buildings	4,974.4	6,377.0	8,504.5	28.2	33.4	28.9	29.5
Semi-finished buildings	9,383.2	10,944.6	14,157.7	16.6	29.4	49.6	49.2
Completed buildings	3,592.1	4,747.5	6,120.0	32.2	28.9	21.5	21.3
Total investment	17,949.7	22,069.1	28,782.2	22.9	30.4	100.0	100.0

(1) Excludes cost of land.

Government Investment

In 1379, government national development expenditures for construction, housing and urban development program as well as the housing research program was by 31.5 percent higher than the previous year figure according to budget performance figures. The greater part of these expenditures was allocated to the urban development program, accounting for 59 percent or Rls. 1,223.2 billion, which was 112.8 percent increase over the previous year. Focusing resources on improvement of urban transportation, environmental issues, and installation and

expansion of drainage systems are the reasons for this sizeable increase. In the year under review, under ‘technical and credit assistance’ program, Rls. 339.6 billion was provided mainly for the construction of rental housing units and preferential banking facilities for the subsidized housing program. This constituted 16.4 percent of the total national expenditures in the construction and housing sector and 78.6 percent of national expenditures in housing provision chapter.

Provincial expenditures in construction, housing and urban development program grew by 54.7 percent due to the emphasis in the 3rd FYDP Law on decentralization and autonomy of city management within the context of the Law of City Councils.

**GOVERNMENT DEVELOPMENT EXPENDITURES IN CONSTRUCTION,
HOUSING AND URBAN DEVELOPMENT**

(billion rials)

				Percentage change		Share (percent)	
	1377	1378	1379	1378	1379	1378	1379
National expenditures	830.9	1,577.2	2,074.0	89.8	31.5	100.0	100.0
Government buildings and establishments	391.2	621.3	404.4	58.8	-34.9	39.4	19.5
Provision of housing	203.9	370.5	432.3	81.7	16.7	23.5	20.8
Urban development	228.3	574.9	1,223.2	151.8	112.8	36.4	59.0
Research on housing	7.6	10.5	14.0	39.1	32.9	0.7	0.7
Provincial expenditures	616.9	756.7	1,170.9	22.7	54.7	100.0	100.0
Government buildings and establishments	100.7	140.3	198.6	39.3	41.5	18.5	16.9
Provision of housing	88.9	75.3	107.3	-15.2	42.5	10.0	9.2
Urban development	427.3	541.1	865.0	26.7	59.8	71.5	73.9
Total	1,447.8	2,333.9	3,244.9	61.2	39.0		

Source: Budget laws for 1379-1380 and Budget Bill for 1381

Banking Facilities

Despite limitations in the financial resources of some banks, especially the Housing Bank, banks’ contribution to financing construction and housing sector activities grew noticeably in 1379. The outstanding facilities provided by the banks and non-bank credit institutions to the non-public construction and housing sectors grew respectively by 22.7 and 32.1 percent compared to the previous year and amounted to Rls. 3.2 and 39.9 thousand billion. The outstanding facilities provided by banks to the public construction and housing sectors grew respectively by 13 and 8.1 percent. Data on changes in the outstanding facilities extended by banks and non-bank credit institutions indicate that 99.6 percent of these facilities were provided to the non-public sector. The Housing Bank’s share of change in the outstanding facilities extended, out of the total change in the outstanding facilities extended by banks and non-bank credit institutions to the non-public housing sector, was 45.8 percent.

An executive by-law in the 3rd FYDP Law requires that the equivalent of one percent of the outstanding in banks’ reserve requirements at the end of the previous year be placed at the disposal of the Housing Bank at the beginning of the next year. These facilities are to be extended to construction and residential building projects that tend to create new job opportunities.

OUTSTANDING FACILITIES EXTENDED BY BANKS AND CREDIT INSTITUTIONS

TO CONSTRUCTION AND HOUSING SECTORS(1)

(billion rials)

	End-year outstanding		Percentage change	Change in the balance	Share of change in the balance
	1378	1379	1378	1379	1379
	Construction	9,952.4	11,502.5	15.6	1,550.1
Non-public sector	2,607.8	3,200.9	22.7	593.1	38.3
Public sector	7,344.6	8,301.6	13.0	957.0	61.7
Housing	30,703.8	40,446.9	31.7	9,743.1	100.0
Non-public sector	30,211.6	39,914.7	32.1	9,703.1	99.6
Public sector	492.2	532.2	8.1	40.0	0.4

(1) Excludes profit and revenues receivable.

The Housing Bank extended 217 thousand facilities valued at Rls. 10.4 thousand billion, which includes profit and revenue receivables. The number of facilities extended to the construction and housing sector fell by 16 percent, while the amount of these facilities grew by 10.5 percent. Approximately 86.7 percent of these facilities were provided for home purchase down payments on sales contracts and sales of bank partnership shares, which together registered a 16.9 percent growth over the previous year. The average amount of extended facilities for home purchasing, excluding profit and revenue receivables, grew by 20.9 percent and amounted to Rls. 33.6 million.

The geographical distribution of the number and amount of the total facilities extended by the Housing Bank, including profit and revenue receivables, in 1379 indicates that the major portion of these facilities by number and amount, i.e. 46.9 and 39.6 percent, respectively, has been provided in small and medium-sized cities. The average amount of extended facilities in Tehran was 1.86 times that of small and medium-sized cities. Tehran received a total of 33.5 percent of the overall facilities. The increase in the price ceiling for extended facilities in comparison with the required down payment in small and medium-sized cities, was the major incentive in people's use of these facilities.

DISTRIBUTION OF HOUSING BANK'S FACILITIES ACCORDING TO CONTRACTS(1)

(billion rials)

				Percentage change		Share (percent)	
	1377	1378	1379	1378	1379	1378	1379
	Housing	6,476.5	9,342.8	10,415.1	44.3	11.5	98.8
Civil partnership	979.4	1,335.4	994.3	36.3	-25.5	14.1	9.5
Installment sale	5,119.4	7,747.0	9,054.8	51.3	16.9	82.0	86.7
Hire purchase	0	0	202.3	0	0	0	1.9
Joaleh	270.6	189.8	112.9	-29.9	-40.5	2.0	1.1
Gharz-al-hasaneh	13.4	59.9	30.7	347.1	-48.7	0.6	0.3
Other facilities	93.8	10.8	19.9	-88.5	85.0	0.1	0.2
Other sectors	12.6	109.9	30.6	☐	-72.2	1.2	0.3
Total	6,489.1	9,452.7	10,445.6	45.7	10.5	100.0	100.0

Source: Housing Bank

(1) Includes profit and revenues receivable.

The balance of individual's housing deposits held by the Housing Bank at year-end showed that investment deposits constituted 89.5 percent of the total deposits. Since the introduction of the new 'Youth Housing Savings Account' program, 170 thousand individuals have subscribed to this program, resulting in the sum total balance of this account to stand at

Rls. 104.3 billion. Geographically, Tehran held 38.9 percent of the deposits in the Housing Bank with the largest number of individual deposits. The share of large cities and other cities out of this amount is 29.2 and 31.9 percent, respectively. This data indicates that the average amount deposited by individuals in Tehran is more than other urban areas.

FACILITIES EXTENDED BY HOUSING BANK

	1377	1378	1379	Percentage change	
				1378	1379
Number of facilities (thousand)	285.8	258.2	217.0	-9.7	-16.0
Amount of facilities (billion rials)(1)	6,489.1	9,452.7	10,445.6	45.7	10.5

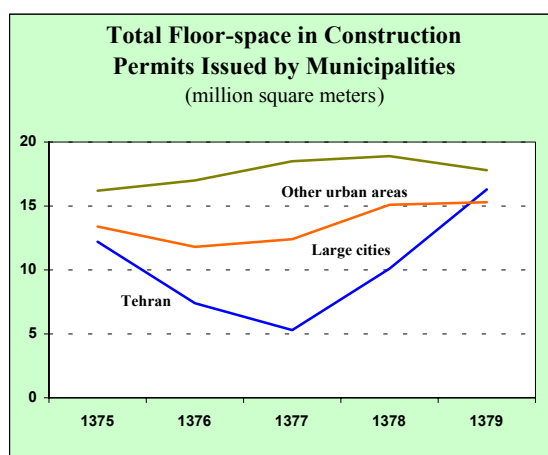
Source: Housing Bank

(1) Includes profit and revenues receivable.

Construction Permits

The increased number of construction permits by municipalities is indicative of the boom in construction activities, especially in Tehran. The number of permits issued and total floor-space of constructions authorized in these permits grew respectively by 60.2 and 61 percent in Tehran. The overall number of construction permits issued in urban areas declined by 3.1 percent due to a reduction in the number of permits issued in small and medium-sized cities, while total square-meterage of construction increased by 12 percent.

A review of the building permits according to number of stories indicates that there was an increase in the share of three and more storied buildings in urban areas. This share has increased from 25.1 percent in 1378 to 32.2 percent in 1379. In Tehran, 94.6 percent of the construction permits issued are for three or more storied buildings. The shortage of land and the high value-added for these buildings are among the major reasons for this trend. The shortage of land has raised land prices especially in Tehran.



CONSTRUCTION PERMITS ISSUED BY MUNICIPALITIES IN URBAN AREAS

	1377	1378	1379	Percentage change	
				1378	1379
Number of permits (thousand)	132.9	138.8	134.5	4.5	-3.1
Total floor-space (million square meters)	36.2	44.1	49.4	21.9	12.0
Average floor-space (square meters)	272	318	368	16.6	15.7

Building Starts by the Private Sector in Urban Areas

During the year under review, 171.5 thousand new buildings, with 49.6 million square meters of total new space were started by the private sector in urban areas. The number of these

buildings declined by 0.2 percent, while the total new square-meterage increased by 16.9 percent. The increase in the price of land has created incentive for developers to optimize land utilization and thereby tending to construct high rises than one-storey buildings. The average per square meter cost of new constructions in this year was estimated to be Rls. 580 thousand, which shows a 15.8 percent increase over the previous year.

The geographical distribution of new building starts indicates that construction activities in Tehran showed the largest increase, in that the number and total floor-space of buildings grew respectively by 47 and 58.3 percent. Tehran's share of the total number and total floor-space of new constructions, was 9.5 and 27.4 percent, respectively. Small and medium-sized cities overall share of new starts declined this year. The average per square meter cost of construction for buildings in Tehran was projected at Rls. 774 thousand showing 11.4 percent increase over the previous year. The average overall square-meterage for new building starts in all urban areas grew by 17.1 percent. This index for Tehran grew by 7.7 percent and was 834 square meters. This was due to the shortage of land, and the increase in the land price index, which tended towards construction of more high-rise buildings.

BUILDING STARTS BY THE PRIVATE SECTOR IN URBAN AREAS

	1377	1378	1379	Percentage change	
				1378	1379
Number (thousand)	173.8	171.9	171.5	-1.1	-0.2
Estimated total floor-space (million square meters)	40.6	42.4	49.6	4.6	16.9
Average floor-space (square meters)	233	247	289	5.8	17.1
Average costs per square meter (thousand rials)	430	501	580	16.5	15.8

Buildings Completed by the Private Sector in Urban Areas

The upturn in the housing market, which started in the last months of the 1378, continued in the year under review. Favorable expectations of building and housing contractors for the current trend of increase in housing prices to continue resulted in the completion of semi-finished buildings by the private sector. In this year, 179.1 thousand semi-finished buildings comprising 44.9 million square meters of new constructions were completed registering 20.5 and 13.3 percent growth, respectively. The respective shares of this figure for Tehran, the large cities and other urban areas out of the total floor-space of completed buildings were 6.7, 32.2 and 44.7 percent. The average floor-space for completed buildings in all urban areas declined by 6 percent. This was due to policies encouraging downsizing of housing units.

The average cost per square meter of completed buildings in all urban areas increased by 9.5 percent to equal Rls. 505 thousand. Tehran, large cities, and other urban areas, respectively showed price increases of 15.4, 6.4 and 9.3 percent. This average cost was Rls. 725 thousand in Tehran, which was higher than in the large and medium-sized cities.

BUILDINGS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1377	1378	1379	Percentage change	
				1378	1379
Number (thousand)	120.2	148.6	179.1	23.6	20.5
Estimated total floor-space (million square meters)	30.4	39.6	44.9	30.1	13.3
Average floor-space (square meters)	253	266	251	5.3	-6.0
Average costs per square meter (thousand rials)	415	461	505	11.1	9.5

Residential Units Completed by the Private Sector in Urban Areas

In the year under review, 339.7 thousand residential units with a total floor-space of 41.4 million square meters were completed by the private sector in urban areas, showing 16.7 and 14.7 percent growth respectively in the number and total floor-space. The average floor-space of completed residential units declined by 1.6 percent to 122 square meters.

Categorization of the number of completed residential units in urban areas by floor-space shows that 41.5 percent of these units are under 100 square meters, 17.2 percent between 100 to 120 square meters and the remainder larger than 120 square meters.

	RESIDENTIAL UNITS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS			Percentage change	
	1377	1378	1379	1378	1379
Number (thousand)	211.0	291.0	339.7	37.9	16.7
Total floor-space (million square meters)	27.2	36.1	41.4	32.6	14.7
Average floor-space (square meters)	129.0	124.0	122.0	-3.9	-1.6

Urban Land

Public sector activities, laws and regulations governing the housing sector, and the supply and demand for housing generally affect the price of land. During 1358-1378, the National Land and Housing Organization as the executive body for the Urban Land Act, transferred a total of 350.9 million square meters of land to applicants. This policy will be continued to earn resources for the execution of the law for 'Encouraging Establishment and Supply of Rental Residential Units', as approved in 1377, within the context of the 3rd FYDP Law and budget laws.

On the basis of the 3rd FYDP Law, in 1379, the National Land and Housing Organization transferred 28.8 million square meters of land to applicants registering a 134.1 percent increase over the previous year. As per law, the National Land and Housing Organization is authorized to sell urban land in its possession, either by auction or through negotiation, at current values. This has had a positive effect in increasing the supply of land in the first year of the 3rd FYDP. According to data released by the National Land and Housing Organization, 8,618 residential rental units were leased in this year, more than 40 percent of which, were located in Tehran, Khorasan, and Esfahan Provinces. Contracts have been concluded for construction of 13.5 thousand residential units in 1379, while a further 14.5 thousand units are currently under construction.

	LAND PRICE INDEX BY URBAN AREAS			(1376=100)	
	1377	1378	1379	Percentage change	
	1377	1378	1379	1378	1379
Tehran	98.1	106.9	141.3	9.0	32.2
Large cities	104.6	113.1	144.8	8.1	28.0
Other urban areas	118.1	142.2	198.8	20.4	39.8
All urban areas	103.2	114.3	150.5	10.8	31.7

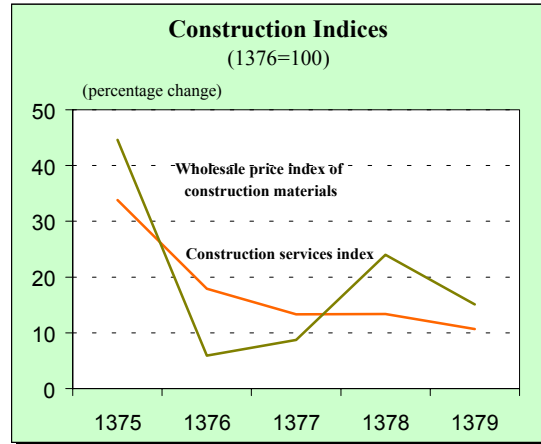
Studies indicate that the price of land has a close relationship to fluctuations in housing sector activities and the housing market. The land price index during the period 1378/79 shows that in 1379, due to the rise in demand for housing and the consequent increase in construction activities, land prices increased significantly by 31.7 percent in urban areas and 32.2 percent in

Tehran. The increase in land prices has increased the ratio of three and more storied buildings in new constructions in urban areas and reduced the average floor-space of these residential units. This trend indicates that contractors are tending to optimize land use in urban areas, especially in Tehran and large cities.

Construction Indices

Construction services index at 1376 base year prices grew by 10.7 percent and reached 142.3 in the year under review, which was lower than the inflation rate. This mild increase is due to the excess supply of labor that continues to migrate to urban areas from rural areas owing to the drought in most areas.

The wholesale price index for construction materials at 1376 base year prices grew by 15.1 percent over the previous year and reached 155.2. The growth in the wholesale price index of metal construction materials was less than the growth in the price index for non-metal materials due to a reduction in and elimination of various charges on metallic materials and a marked increase of 50.8 percent in the value of imported ironware.



	CONSTRUCTION INDICES			(1376=100)	
	1377	1378	1379	Percentage change	
				1378	1379
Construction services index	113.3	128.5	142.3	13.4	10.7
Wholesale price index of construction materials	108.7	134.8	155.2	24.0	15.1