

CHAPTER SIX

CONSTRUCTION AND HOUSING

Trend of economic indices in the construction and housing sector indicates a boom in housing market and improvement in the activities of this sector, which helped realize the targets set for the second year of the 3rd FYDP. Based on the preliminary data for 1380, the value-added of construction sector, at constant 1369 prices, grew by 12.3 percent, showing a noticeable growth as regards the targeted growth of 9.2 percent in the Third Plan. Moreover, gross fixed capital formation in 1380, in the mentioned sector grew by 20.3 percent at constant 1369 prices.

In 1380, private sector, in addition to completing 169,000 semi-finished buildings, with a total floor space of 48.5 million square meters, started the construction of 168.6 thousand new buildings with a total floor space of 57.1 million square meters in urban areas.

In the review year, banks and credit institutions extended more facilities to the construction and housing sector. Thus, the outstanding facilities extended to construction and housing sector grew by 37.1 and 28.7 percent, respectively, compared with the previous year and reached Rls. 3.2 and 51.4 thousand billion. Moreover, the Money and Credit Council approved a total of Rls. 1,000 billion credit in Esfand 1380 for the financing of the “1380 Settlement Plan”.

The growth in volume of facilities extended by banks and in the liquidity, along with the boom in housing market and investors’ positive expectations on the continuation of the promising trend and profitability of activities in this sector, resulted in the private sector’s tendency to invest in housing sector. The relatively stable status in the foreign exchange, gold, automobile and cell phone markets was among other reasons for private sector incentive in construction and housing sector. In the year under report, in accordance with 3rd FYDP guidelines, a new payment mechanism, i.e. back loaded, was approved by the Cabinet for the repayment of housing facilities.

In 1380, government national development expenditures on construction, housing and urban development, declined by 7.6 percent, compared with the previous year. Moreover, amount of residential land transferred by the “Housing and Land Organization” with a decline of 79.2 percent reached 6 million square meters. During 1380, approximately 8.6 thousand rental residential units came on stream, which indicates a 20.3 percent growth as compared to the last year performance.

The price index of construction materials, especially urban land price index increased during the year under report, due to the growth of construction activities and the boom in the housing market. The urban land price index faced an increase of 20.2 percent compared with the previous year. Moreover, construction services index, which is indicative of labor force market

conditions, with an increase of 9.7 percent reached 156.1, while wholesale price index of construction materials faced a moderate growth of 3.8 percent.

Private Sector Investment in New Constructions in Urban Areas

Private sector investment in the newly-started constructions in urban areas, with an increase of 29.6 percent, reached Rls. 37.3 thousand billion in 1380, as compared with the previous year. In the year under review, Tehran attracted more than one third of the said investments and faced a growth of 47.4 percent compared to the previous year. Population density and centralizing of the administrative and economic activities in Tehran as a metropolitan, and the gap between supply and demand for housing, together with a boom in housing market all were among reasons for increase in the private sector investment.

Investment in the large cities grew by 46.9 percent in 1380, whose share out of total investment in the new buildings amounted to 33.5 percent. The relatively mild equilibrium in the supply and demand for housing in these regions and the rise in migration toward large cities were among reasons for the negligible growth in the private sector investment in these cities.

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

	(billion rials)						
	1378	1379	1380	Percentage change ○		Share (percent)	
				1379	1380	1379	1380
Tehran	6,020.0	9,384.8	13,836.5	55.9	47.4	32.6	37.1
Large cities	8,085.7	8,517.5	12,508.7	5.3	46.9	29.6	33.5
Other urban areas	7,963.4	10,879.9	10,947.4	36.6	0.6	37.8	29.4
All urban areas	22,069.1	28,782.2	37,292.6	30.4	29.6	100.0	100.0

(1) Excludes cost of land.

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

	(billion rials)						
	BY CONSTRUCTION PHASES (at current prices)						Share (percent)
	1378	1379	1380	Percentage change ○			
				1379	1380	1379	1380
Newly-started buildings	6,377.0	8,504.5	11,341.9	33.4	33.4	29.5	30.4
Semi-finished buildings	10,944.6	14,157.7	18,809.4	29.4	32.9	49.2	50.4
Completed buildings	4,747.5	6,120.0	7,140.8	28.9	16.7	21.3	19.2
Total investment	22,069.1	28,782.2	37,292.6	30.4	29.6	100.0	100.0

(1) Excludes cost of land.

Government Investment

Government development expenditures in housing and construction sector amounted to Rls. 1,916.6 billion in 1380, showing 7.6 percent decrease, compared with the previous year. The highest share of the national expenditures by 68.1 percent (Rls. 1,305.6 billion) was allocated to urban development in 1380, which indicated a 6.7 percent increase compared to the previous year. In the review year, Rls. 228.3 billion was spent in the framework of “technical and creditary aids” program, focusing mainly on housing sector subsidies and supporting the downsizing and mass production policy.

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

(billion rials)

				Percentage change ○		Share (percent)	
	1378	1379	1380 (1)	1379	1380	1379	1380
	National expenditures	1,577.2	2,074.0	1,916.6	31.5	-7.6	100.0
Government buildings and establishments	621.3	404.5	312.3	-34.9	-22.8	19.5	16.3
Provision of housing	370.5	432.3	286.8	16.7	-33.7	20.8	15.0
Urban development	574.9	1,223.2	1,305.3	112.8	6.7	59.0	68.1
Research on housing	10.5	14.0	12.2	32.9	-13.2	0.7	0.6
Provincial expenditures	756.7	1,170.9	..	54.7	0	100.0	..
Government buildings and establishments	140.3	198.6	..	41.5	0	16.9	..
Provision of housing	75.3	107.3	..	42.5	0	9.2	..
Urban development	541.1	865.0	..	59.8	0	73.9	..
Total	2,333.9	3,244.9	..	39.0	0		

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

(1) Figures are Treasury payments.

In 1380, in accordance with the general budget law, the Ministry of Housing and Urban Development attempted to conclude contracts for the establishment of rental units. In this year, a total of 8.6 thousand rental units were established by the government and came to the phase of transfer. Meanwhile, mass producers, with the government participation, also completed a total of almost 6,000 rental units in the year under report.

Banking Facilities

Outstanding facilities extended by banks and credit institutions to non-public sector in housing and construction sector increased as compared with the previous year-end, and amounted to Rls. 3.2 and 51.4 thousand billion, respectively. Moreover, outstanding facilities extended to the public sector in construction sector faced 17.4 percent growth and amounted to Rls. 9.7 thousand billion, as compared with the end of 1379. Bank Maskan (Housing Bank) allocated 42.2 percent of changes in outstanding facilities to non-public housing sector.

OUTSTANDING FACILITIES EXTENDED BY BANKS AND CREDIT INSTITUTIONS

TO CONSTRUCTION AND HOUSING SECTORS(1)

(billion rials)

	End Esfand		Percentage change		Change in the outstanding		Share of change in outstanding facilities	
	1379	1380	1379	1380	1379	1380	1379	1380
	Construction	10,622.1	12,936.8	6.7	21.8	669.7	2,314.7	100.0
Non-public sector	2,354.0	3,227.4	-9.7	37.1	253.8	873.4	-37.9	37.7
Public sector	8,268.1	9,709.4	12.6	17.4	923.5	1,441.3	137.9	62.3
Housing	40,445.1	51,986.0	31.7	28.5	9,741.3	11,540.9	100.0	100.0
Non-public sector	39,912.9	51,363.6	32.1	28.7	9,701.3	11,450.7	99.6	99.2
Public sector	532.2	622.4	8.1	16.9	40.0	90.2	0.4	0.8

(1) Excludes profit and revenue receivables.

In 1380, a total of 239.5 thousand facilities were extended by Bank Maskan which amounted to Rls. 12.4 thousand billion (including profit receivables), indicating respective growths of 10.4 and 19.3 percent, as compared with the previous year. In the year under report, average facilities extended for purchasing housing units (excluding profit receivables), in the form of “installment sale” grew by 12.7 percent and amounted to Rls. 37.9 million. Facilities extended in the form of “civil partnership” fell by 10.4 percent in number and increased by 12.9 percent in amount. Increase in the ceiling of facilities to Rls. 70 million in the framework of “Settlement Plan”, targeted the mass-producers only, affected the growth of payments in the form of “civil partnership” contract.

DISTRIBUTION OF BANK MASKAN FACILITIES ACCORDING TO CONTRACTS(1)
(billion rials)

	1378	1379	1380	Percentage change		Share (percent)	
				1379	1380	1379	1380
Civil partnership	1,343.1	1,003.5	1,124.2	-25.3	12.0	16.9	16.0
Installment sale	3,528.1	4,572.5	5,275.4	29.6	15.4	77.1	75.1
Joaleh	114.0	65.7	126.6	-42.4	92.7	1.1	1.8
Gharz-al-hasaneh	59.9	30.7	175.4	-48.7	471.3	0.5	2.5
Other facilities	154.6	256.9	325.0	66.2	26.5	4.4	4.6
Total	5,199.7	5,929.3	7,026.6	14.0	18.5	100.0	100.0

Source: Bank Maskan

(1) Excludes profit receivables.

In 1380, in line with 3rd FYDP and to support the low income groups, repayment of housing facilities through “back-end loaded” mechanism was approved by the Central Bank and announced to the Housing Bank. On the basis of an agreement between Central Bank and the Ministry of Housing and Urban Development, Rls. 1,000 billion was allocated in the framework of the Settlement Plan, which was funded through interbank and Housing Bank resources for purchasing housing units from mass producers. Facilities extended through this mechanism were considered to be respectively Rls. 70 and 50 million for the applicants with and without down payment.

FACILITIES EXTENDED BY BANK MASKAN

	1378	1379	1380	Percentage change	
				1379	1380
Number of facilities (thousand)	258.2	217.0	239.5	-16.0	10.4
Amount of facilities (billion rials)(1)	9,452.7	10,445.6	12,456.6	10.5	19.3

Source: Bank Maskan

(1) Includes profit receivables.

Construction Permits

Construction permits issued by the municipalities in 1380 indicated the boom in construction activities in urban areas, particularly in Tehran. Number of permits and expected total floor-space grew by 22.8 and 27.6 percent, respectively in Tehran, as compared with the previous year. In the year under review, total floor-space registered in the construction permits in small and medium-size cities grew by 1.9 percent, as compared with the corresponding figure of the previous year (5.5 percent reduction).

CONSTRUCTION PERMITS ISSUED BY MUNICIPALITIES IN URBAN AREAS

	1378	1379	1380	Percentage change	
				1379	1380
Number of permits (thousand)	138.8	136.3	147.9	-1.8	8.5
Total floor-space (million square meters)	44.1	50.3	59.6	14.1	18.5
Average floor-space (square meters)	318.0	369.0	403.0	16.2	9.2

Building Starts by the Private Sector in Urban Areas

In 1380, a total of 168.6 thousand buildings with 57.1 million square meters floor-space were started by the private sector in urban areas. In this year, number of building starts, affected by a relatively mild decline in the private sector activities in small and medium size cities, and a tendency toward constructing buildings with more than one story, faced a 1.7 percent reduction. Tehran, as before, recorded the highest growth in building starts, so that the number of building starts and their total floor-space grew by 22.4 and 23.7 percent, respectively.

During the year under review, the average cost of constructing new buildings in urban areas was predicted to be Rls. 664 thousand per square meter, which indicates a 14.5 percent growth compared with the year before. The mentioned cost, with 7 percent increase amounted to Rls. 828 thousand in Tehran.

BUILDING STARTS BY THE PRIVATE SECTOR IN URBAN AREAS

	1378	1379	1380□	Percentage change○	
				1379	1380
Number (thousand)	171.9	171.5	168.6	-0.2	-1.7
Estimated total floor-space (million square meters)	42.4	49.4	57.1	16.9	15.1
Average floor-space (square meters)	247.0	289.0	339.0	17.1	17.2
Average cost per square meter (thousand rials)	501.0	580.0	664.0	15.8	14.5

Buildings Completed by the Private Sector in Urban Areas

The boom in housing market, being started since the second half of 1378, which continued during the years 1379 and 1380, was among the main incentives for completion of semi-finished buildings by the private sector within this period. During the year under review, a total of 169 thousand construction units with a total floor space of 48.5 million square meters were completed by the private sector. The mentioned indices indicated a decline of 5.6 percent and an increase of 8.1 percent, respectively, compared with the previous year. The average floor space of completed buildings grew by 14.5 percent and reached 287 square meters, compared with the previous year, affected mainly by 12.2 percent increase in this index in small- and medium-size cities.

BUILDINGS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1378	1379	1380	Percentage change	
				1379	1380
Number (thousand)	148.6	179.1	169.0	20.5	-5.6
Estimated total floor-space (million square meters)	39.6	44.9	48.5	13.3	8.1
Average floor-space (square meters)	266.0	251.0	287.0	-6.0	14.5
Average cost per square meter (thousand rials)	461.0	505.0	579.0	9.5	14.7

The average cost per square meter of completed buildings in urban areas increased by 14.7 percent, compared with the previous year. The growth of costs of construction in Tehran, other large cities and other urban areas were 6.8, 15.8 and 14.4 percent, respectively. Increase in the subscription costs of public utilities, issuance of permits and construction services were among reasons for growth of construction costs in 1380.

Residential Units Completed by the Private Sector in Urban Areas

In 1380, a total of 370.7 thousand residential units, with 44.1 million square meters total floor space were completed and came on stream by the private sector in urban areas. This figure was lower than the targeted figure for construction of urban housing by 380 thousand units, as set in the 3rd FYDP.

RESIDENTIAL UNITS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1378	1379	1380	Percentage change	
				1379	1380
Number (thousand)	291.0	339.7	370.7	16.7	9.1
Total floor-space (million square meters)	36.1	41.4	44.1	14.7	6.5
Average floor-space (square meter)	124.0	122.0	119.0	-1.6	-2.5

Urban Land

In 1380, the National Organization of Land and Housing provided the applicants with 6 million square meters of residential land, which shows 79.2 percent decline, as compared with the previous year. Cessions of urban land, within two years of implementation of the 3rd FYDP amounted to 34.8 million square meters.

In 1380, the National Organization of Land and Housing, in accordance with the 1380 Budget Law, concerning housing development, developed and leveled a total of 88.3 thousand pieces of land, of which 81 thousand pieces were accomplished by the said organization and the rest by the private sector.

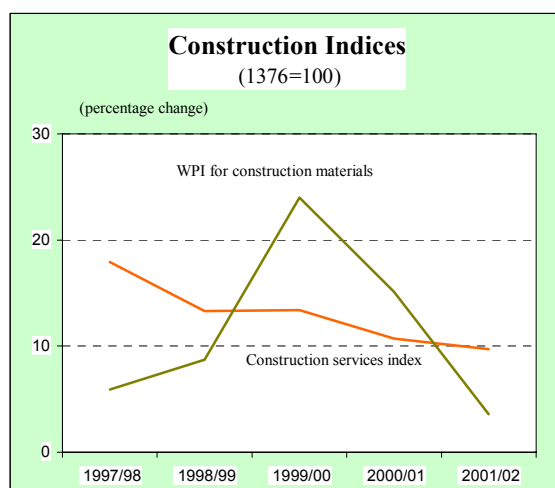
The boom in housing market and increase in new constructions, along with urban management policies regarding selling density were among other significant factors affecting the price of urban land. During the year under report, land price index in urban areas faced an increase of 20.2 percent as compared with the year before.

LAND PRICE INDEX IN URBAN AREAS (1376=100)

	1378	1379	1380	Percentage change	
				1379	1380
Tehran	106.9	141.3	171.4	32.2	21.3
Other large cities	113.1	144.8	174.4	28.0	20.4
Other urban areas	142.2	198.8	232.1	39.8	16.8
All urban areas	114.3	150.5	180.9	31.7	20.2

Construction Indices

In 1380, construction services index, which indicates the conditions prevailing labor market in housing and construction sector, registered 9.7 percent rise, compared with the previous year. Excess supply in labor force, was among the reasons for slight growth observed in mentioned indices. Moreover, in this year, wholesale price index of construction materials, faced an increase of 3.7 percent, compared with the previous year. Reduction in international steel prices in tandem with a remarkable supply of this commodity in the domestic market, were among the reasons responsible for moderate growth of this index.



CONSTRUCTION INDICES (1376=100)

	1378	1379	1380	Percentage change	
				1379	1380
Construction services index	128.5	142.3	156.1	10.7	9.7
Wholesale price index of construction materials	134.8	155.2	160.9	15.1	3.6