

CHAPTER SIX

CONSTRUCTION AND HOUSING

Construction and housing sector enjoyed a boom in 1381. Private sector tendency to invest in this sector, with its high rate of short-term return, compared with other economic sectors, and excess demand in housing sector were among the main reasons for the continued boom during recent years. The value-added of construction sector grew markedly in real terms by 17.4 percent, compared with (9.6 percent) the target set in the third year of the Plan. Moreover, gross fixed capital formation recorded a growth of 16.1 percent in real term, showing a significant growth as compared to other economic sectors.

Private Sector Investment in New Constructions in Urban Areas

In the review year, private sector investment (at current prices) in new building in urban areas rose by 41.1 percent as compared to the previous year. Tehran and other large cities, taking up 71 percent of the mentioned investment, were the cornerstones of private sector contribution to housing sector.

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

	(at current prices)						(billion rials)			
	1379	1380	1381	Percentage change		Share (percent)		Share of investment growth (percent)		
				1380	1381	1380	1381	1380	1381	
Tehran	9,384.8	13,836.5	18,886.9	47.4	36.5	37.1	35.9	15.5	13.5	
Other large cities	8,517.5	12,508.7	18,540.7	46.9	48.2	33.5	35.2	13.9	16.2	
Other urban areas	10,879.9	10,947.4	15,176.9	0.6	38.6	29.4	28.9	0.2	11.4	
All urban areas	28,782.2	37,292.6	52,604.5	29.6	41.1	100.0	100.0	29.6	41.1	

(1) Excludes cost of land.

Government Investment

According to the data released by the Treasury General in 1381, government paid Rls. 4,055.8 billion for implementing national development projects in housing and construction sector, which constituted 84.2 percent of the approved budget in this sector. Increase in acquisition of government non-financial assets (development expenditures) in “provision of housing” and “government buildings and establishments” by 172.6 and 335.7 percent, respectively led to an increase in the volume of government expenditures in this year. The highest share in national development expenditures for this sector was attributed to urban development and amounted to Rls. 1,906.3 billion. In the review year, “provision of housing” absorbed the greatest amount of budget in this sector by 130.7 percent.

**ACQUISITION OF GOVERNMENT NON-FINANCIAL ASSETS
(DEVELOPMENT EXPENDITURES) IN CONSTRUCTION,
HOUSING AND URBAN DEVELOPMENT**

	(billion rials)						
	1379	1380(1)	1381(1)	Percentage change ○		Share (percent)	
				1380	1381	1380	1381
National expenditures	2,074.0	1,916.6	4,055.8	-7.6	111.6	100.0	100.0
Government buildings and establishments	404.4	312.3	1,360.6	-22.8	335.7	16.3	33.5
Provision of housing	432.3	286.8	781.9	-33.7	172.6	15.0	19.3
Urban development	1,223.2	1,305.4	1,906.3	6.7	46.0	68.1	47.0
Research on housing	14.0	12.1	7.0	-13.2	-42.6	0.6	0.2

Source: Budget Laws for 1379-1380

(1) Treasury General data, Ministry of Economic Affairs and Finance

Banking Facilities

Outstanding facilities extended by banks and credit institutions to non-public sector in housing and construction sector went up in 1381, as compared with the previous year-end, to Rls. 67.7 and 4.8 trillion, respectively. Moreover, outstanding facilities extended to the public sector with 11.6 percent growth reached Rls. 10.8 trillion in construction sector, as compared with the end of 1380. In this year, 37.1 percent of change in outstanding facilities to non-public housing sector was related to Bank Maskan (Housing Bank).

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	
	1380	1381	1380	1381	1380	1381	1380	1381
	Construction	12,973.7	15,647.3	22.1	20.6	2,351.6	2,673.6	100.0
Non-public sector	3,249.3	4,797.8	38.0	47.7	895.3	1,548.5	38.1	57.9
Public sector	9,724.4	10,849.5	17.6	11.6	1,456.3	1,125.1	61.9	42.1
Housing	51,986.0	68,437.1	28.5	31.6	11,540.9	16,451.1	100.0	100.0
Non-public sector	51,363.6	67,664.6	28.7	31.7	11,450.7	16,301.0	99.2	99.1
Public sector	622.4	772.5	16.9	24.1	90.2	150.1	0.8	0.9

(1) Excludes profit and revenue receivables.

In 1381, a total of 372 thousand facilities were extended by Bank Maskan which amounted to Rls. 10.1 trillion (excluding profit receivables), showing respective growths of 55.3 and 44.3 percent, as compared with the previous year. In the review year, 53.8 percent of extended facilities was in the form of installment sale, which was paid for the purchase of housing units. These facilities recorded a 3.4 percent rise as compared with the previous year.

FACILITIES EXTENDED BY BANK MASKAN

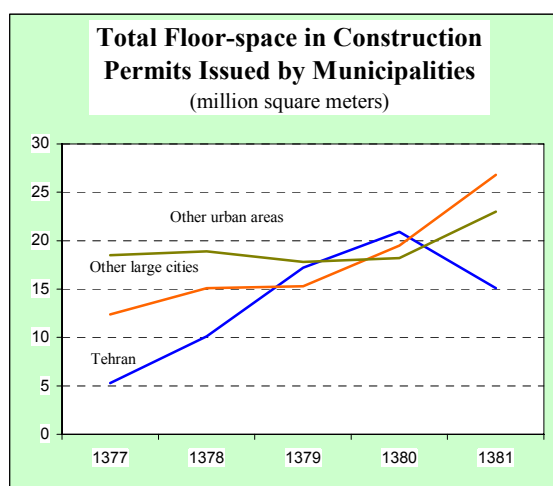
	Percentage change				
	1379	1380	1381	1380	1381
	Number of facilities (thousand)	217.0	239.5	372.0	10.6
Amount of facilities (billion rials) (1)	10,445.6	12,456.6	15,748.8	19.3	26.4

Source: Bank Maskan

(1) Includes profit receivables.

Construction Permits

Construction permits issued by municipalities in 1381 indicated the continued boom in construction activities in most urban areas. In towns and cities, total floor space grew by 26.8 percent. This indicated a growth in construction activities in these areas as compared with 1.9 percent growth of previous year. Large cities experienced a 37.2 percent growth in construction activities. Tendency towards mass construction and construction of buildings with more than five stories are among the major factors behind this trend in urban areas.



CONSTRUCTION PERMITS ISSUED BY MUNICIPALITIES IN URBAN AREAS

	1379	1380▲	1381	Percentage change○	
				1380	1381
Number of permits (thousand)	136.3	146.0	161.3	7.1	10.4
Total floor-space (million square meters)	50.3	58.6	64.9	16.3	10.9
Average floor-space (square meters)	369.0	401.0	403.0	8.6	0.4

Building Starts by the Private Sector in Urban Areas

In the review year, private sector investment in new buildings in urban areas, with 43.6 percent rise as compared to the previous year, amounted to Rls. 16.3 trillion. Share of building starts in new buildings in urban areas was 31 percent.

In 1381, private sector started 173.8 thousand new buildings with a total floor-space of 64.9 million square meters in urban areas. Building starts in urban areas grew by 3.1 percent in 1381, as compared to the previous year. Despite the 10 percent increase in the number of building starts in Tehran, the total floor-space fell by 0.9 percent due to the restrictive regulations for selling density in northern part of Tehran.

BUILDING STARTS BY THE PRIVATE SECTOR IN URBAN AREAS

	1379	1380	1381	Percentage change○	
				1380	1381
Number (thousand)	171.5	168.6	173.8	-1.7	3.1
Estimated total floor-space (million square meters)	49.6	57.1	64.9	15.1	13.7
Average floor-space (square meters)	289.0	339.0	374.0	17.2	10.3
Average cost per square meter (thousand rials)	580.0	664.0	801.0	14.5	20.6

Buildings Completed by the Private Sector in Urban Areas

The boom in housing market in 1381 encouraged private sector to complete semi-finished buildings, so that 18 percent of total private sector investment in new buildings in urban areas was allocated to completion of semi-finished buildings. In the year under report, 196.6 thousand buildings with a total floor-space of 58 million square meters were completed by the private sector, showing 16.3 and 19.5 percent rise, respectively as compared to the year before.

BUILDINGS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1379	1380	1381	Percentage change○	
				1380	1381
Number (thousand)	179.1	169.0	196.6	-5.7	16.3
Total floor-space (million square meters)	44.9	48.5	58.0	8.1	19.5
Average floor-space (square meters)	251.0	287.0	295.0	14.5	2.7
Average cost per square meter (thousand rials)	505.0	579.0	664.0	14.7	14.7

Residential Units Completed by the Private Sector in Urban Areas

In 1381, construction of 446 thousand residential units, with a total floor space of 53.1 million square meters in urban areas was completed by the private sector. With regard to the quantitative target set in the third year of the 3rd Plan for construction of urban housing by 430 thousand units, this figure indicated 103.7 percent realization. In 1381, the average floor-space of completed residential units remained unchanged at 119 square meters compared to the previous year, 105 square meters more than the target set in the 3rd Plan. However, as a result of the surge in the price of land and restrictive regulations for selling density, the floor-space of residential units in Tehran and other large cities is expected to decline.

RESIDENTIAL UNITS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1379	1380	1381	Percentage change○	
				1380	1381
Number (thousand)	339.7	370.7	446.0	9.1	20.3
Total floor-space (million square meters)	41.4	44.1	53.1	6.5	20.3
Average floor-space (square meter)	122.0	119.0	119.0	-2.5	0

Urban Land

During the first two years of the 3rd Plan, urban land cessions amounted to 37.2 million square meters. Policy changes for cession of constructed residential units instead of land cession in the form of rent and hire purchase was responsible for reduction in land cession during recent years.

LAND CESSION BY THE NATIONAL ORGANIZATION OF LAND AND HOUSING

	1379	1380	1381	(thousand square meters)	
				Percentage change	
				1380	1381
Residential	28,790.0	5,991.0	2,371.6	-79.2	-60.4
Non-residential	32,081.0	47,343.6	5,935.3	47.6	-87.5
Total	60,871.0	52,334.5	8,306.9	-14.0	-84.1

In addition to policies adopted by the National Organization of Land and Housing, the boom in housing market and increase in the number of constructions, along with urban management policies regarding selling density were among other significant factors affecting the price of urban land. In 1381, land price index in urban areas faced an increase of 36.5 percent as compared with the year before, mostly observed in large cities. This was largely due to the further migration to urban areas and a tendency toward high rise constructions.

LAND PRICE INDEX IN URBAN AREAS

(1376=100)

	1379	1380	1381	Percentage change	
				1380	1381
				Tehran	141.3
Other large cities	144.8	174.4	261.4	20.4	49.9
Other urban areas	198.8	232.1	318.6	16.8	37.3
All urban areas	150.5	180.9	246.9	20.2	36.5

Rental Housing in Urban Areas

The index for rental housing picked up by 20 percent. The price rise of housing units and a gap between supply and demand in housing market, together with the growing trend of migration to large cities especially to Tehran were the driving forces behind increase in renting price in urban areas. Further supply of housing units, control of construction expenses and supply of mass production policy, particularly constructing rental housing units were among the essential strategies to control this index.

RENTAL HOUSING INDEX IN URBAN AREAS

(1376=100)

	1379	1380	1381	Percentage change	
				1380	1381
				Tehran	166.3
Large cities (1)	164.5	200.2	240.8	21.7	20.3
Cities	164.5	187.0	223.3	13.7	19.4
Towns	172.8	194.2	227.4	12.3	17.1
All urban areas	165.0	197.9	237.5	19.9	20.0

(1) Includes Tehran.

Construction Indices

In 1381, construction services index, a leading indicator of labor market in housing and construction sector, grew by 17.9 percent, compared with the previous year, more than the inflation rate of 15.8 percent.

CONSTRUCTION INDICES

(1376=100)

	1379	1380	1381	Percentage change	
				1380	1381
				Construction services index	142.3
Wholesale price index of construction materials	155.2	160.9	192.1	3.7	19.4

