

CHAPTER SIX

CONSTRUCTION AND HOUSING

The value-added of construction sector at constant 1376 prices declined by 1.3 percent in 1382. However, the gross fixed capital formation of this sector grew by 2.9 percent at constant 1376 prices. Increase in the production cost and decline in the effective demand, following hike in housing prices, along with change of rules and regulations related to supply of land and construction, affected private sector investment in new buildings of urban areas, especially Tehran. These factors slackened the growth of investment in construction of new buildings in other large cities. Reduction in investment growth in this sector indicates the beginning of a sluggish period in construction activities in urban areas.

In this year, the private sector, in addition to completing 188.6 thousand semi-finished buildings with a total floor space of 59.8 million square meters, started the construction of 156.1 thousand new buildings with total floor-space of 58.5 million square meters in urban areas. Moreover, number of residential units completed by the private sector in urban areas reached 462.7 thousand units which showed 3.8 percent increase compared to the previous year. This performance was less than the targeted figure of the 3rd Plan (480 thousand units) by 3.6 percent in 1382. Data related to construction permits, which is a leading indicator for future trend of this sector, indicates recession in construction activities. During the year 1382, number of permits issued plummeted by 7.6 percent and total floor-space grew moderately by 0.6 percent.

In the review year, outstanding of facilities extended by banks and credit institutions to non-public construction and housing sectors amounted to Rls. 6.1 and 89 trillion, respectively, showing 26.8 and 31.6 percent growth compared to the previous year-end. Despite reduction of investment by the private sector, the volume of government investment registered a negligible growth in this year. Based on the Treasury General data, performance of national development credits in construction, housing and urban development chapters increased merely by 2.5 percent compared to the previous year.

In 1382, the price indices of housing inputs especially land price index went up. Land price index for urban areas (based on 1376 prices) increased by 36 percent compared with the previous year. Moreover, construction services index and wholesale price index of construction materials grew by 23.5 and 13 percent, respectively. Growth in these price indices together with the sluggishness in housing market raised the rental housing index by 19.4 percent.

Private Sector Investment in New Constructions in Urban Areas

Private sector invested Rls. 59.8 trillion in construction and housing sector in urban areas in 1382. The mentioned investment in Tehran faced a reduction of 22.8 percent compared

to the previous year. Based on the data related to private sector construction activities, share of Tehran out of private sector investment in the newly-started constructions in urban areas fell by 11.5 percentage points to 24.4 percent in the review year.

PRIVATE SECTOR INVESTMENT IN NEW BUILDINGS IN URBAN AREAS (1)
(at current prices) (billion rials)

	1380	1381	1382	Percentage change ○		Share (percent)		Share of investment growth (percent)	
				1381	1382	1381	1382	1381	1382
Tehran	13,836.5	18,886.9	14,576.6	36.5	-22.8	35.9	24.4	13.5	-8.2
Other large cities	12,508.7	18,540.7	24,920.2	48.2	34.4	35.2	41.7	16.2	12.1
Other urban areas	10,947.4	15,176.9	20,267.6	38.6	33.5	28.9	33.9	11.4	9.7
All urban areas	37,292.6	52,604.5	59,764.4	41.1	13.6	100.0	100.0	41.1	13.6

(1) Excludes the cost of land.

The private sector investment according to construction phases, which registered the highest growth for the newly started buildings in the previous year shifted more to completing the semi-finished buildings, so that investment in completed buildings grew by 29.6 percent to Rls. 12.3 trillion. However, investment in the newly started buildings declined by 1.4 percent.

PRIVATE SECTOR INVESTMENT IN NEW BUILDINGS IN URBAN AREAS(1)
BY CONSTRUCTION PHASES (at current prices) (billion rials)

	1380	1381	1382	Percentage change ○		Share (percent)		Share of investment growth (percent)	
				1381	1382	1381	1382	1381	1382
Newly-started buildings	11,341.9	16,282.6	16,057.9	43.6	-1.4	31.0	26.8	13.3	-0.4
Semi-finished buildings	18,809.9	26,805.5	31,373.0	42.5	17.0	51.0	52.5	21.4	8.7
Completed buildings	7,140.8	9,516.3	12,333.5	33.3	29.6	18.0	20.6	6.4	5.3
Total investment	37,292.6	52,604.5	59,764.4	41.1	13.6	100.0	100.0	41.1	13.6

(1) Excludes the cost of land.

Government Investment

Based on the Treasury General data for 1382, the government spent a total of Rls. 4,158.4 billion for implementation of national development projects in housing and construction sector. This amount was about 99.9 percent of approved budget in this sector. The mentioned credit compared to the credits paid in the previous year grew by 2.5 percent.

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

	1380	1381	1382	Percentage change ○		Share (percent)	
				1381	1382	1381	1382
National expenditures	1,916.6	4,055.8	4,158.4	111.6	2.5	100.0	100.0
Government buildings and establishments	312.3	1,360.6	603.7	335.7	-55.6	33.5	14.5
Provision of housing	286.8	781.9	442.5	172.6	-43.4	19.3	10.6
Urban development	1,305.4	1,906.3	3,108.2	46.0	63.0	47.0	74.8
Research on housing	12.1	7.0	4.0	-42.6	-42.4	0.2	0.1

Source: Management and Planning Organization for 1380 and Treasury General payments for 1381-82 data

Banking Facilities

Based on the approval of the Money and Credit Council, share of housing and construction sectors out of total increase in the outstanding of non-public sector facilities after deduction of reserve requirements, was determined to be 20 and 8.5 percent for 1382. According to the mentioned approval, the minimum expected profit rate for facilities of housing sector (housing savings fund of Bank Maskan) was 15 percent and for housing facilities was 18 percent.

The outstanding of facilities extended by banks and credit institutions to non-public housing and construction sectors at the end of 1382, compared to the previous year-end grew by 31.6 and 26.8 percent to Rls. 89 and 6.1 trillion, respectively.

OUTSTANDING FACILITIES EXTENDED BY BANKS AND CREDIT INSTITUTIONS

TO CONSTRUCTION AND HOUSING SECTORS (1)

(billion rials)

	Year-end		Percentage change		Change in outstanding		Share of change in outstanding	
	1381	1382	1381	1382	1381	1382	1381	1382
	Construction	15,647.3	18,483.0	20.6	18.1	2,673.6	2,835.7	100.0
Non-public sector	4,797.8	6,083.8	47.7	26.8	1,548.5	1,286.0	57.9	45.3
Public sector	10,849.5	12,399.2	11.6	14.3	1,125.1	1,549.7	42.1	54.7
Housing	68,437.1	89,824.9	31.6	31.3	16,451.1	21,387.8	100.0	100.0
Non-public sector	67,664.6	89,015.6	31.7	31.6	16,301.0	21,351.0	99.1	99.8
Public sector	772.5	809.3	24.1	4.8	150.1	36.8	0.9	0.2

(1) Excludes profit and revenue receivables.

The Bank Maskan (Housing Bank) extended 334.8 thousand facilities valuing at Rls. 14.5 trillion (including profit and revenue receivables), which shows 10 and 8 percent reduction, respectively, as compared to the previous year. This was largely attributable to the stagnant housing market together with low share of banking facilities in financing housing, despite noticeable price rise of housing units.

FACILITIES EXTENDED BY BANK MASKAN (1)

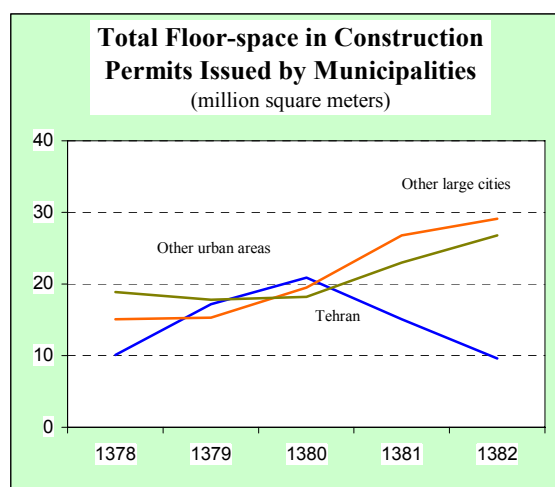
	1380	1381	1382	Percentage change	
				1381	1382
Number of facilities (thousand)	239.5	372.0	334.8	55.3	-10.0
Value of facilities (billion rials)	12,456.6	15,748.8	14,488.6	26.4	-8.0

Source: Bank Maskan

(1) Includes profit and revenue receivables.

Building Starts by the Private Sector in Urban Areas

During the review year, construction of 156.1 thousand new buildings with 58.5 million square meters total floor space and Rls. 16.1 trillion investment (at current prices) was started by the private sector in urban areas. The number and the total floor-space of the newly started buildings in urban areas fell by 10.2 and 9.9 percent, respectively compared to the previous year.



BUILDING STARTS BY THE PRIVATE SECTOR IN URBAN AREAS

	1380	1381	1382	Percentage change○	
				1381	1382
Number (thousand)	168.6	173.8	156.1	3.1	-10.2
Estimated total floor-space (million square meters)	57.1	64.9	58.5	13.7	-9.9
Average floor-space (square meter)	339.0	374.0	375.0	10.3	0.3
Average cost per square meter (thousand rials)	664.0	801.0	960.0	20.6	19.8

The composition of the newly started buildings according to use shows that 87.3 percent of total newly started buildings were residential buildings, 7.3 percent residential with trade permit and the remainder non-residential ones.

Buildings Completed by the Private Sector in Urban Areas

Sluggishness in the housing sector in 1382 and instability in housing market helped reduce the number of completed buildings compared to the previous year. This was largely attributable to the marked rise in construction costs which was itself due to hike in price of land, increase in construction levies and other price indices. In the review year, 188.6 thousand buildings with a total floor-space of 59.8 million square meters were completed by the private sector. The mentioned data shows 4.1 percent reduction and 3.2 percent increase, respectively compared to the previous year. Out of total completed buildings 87.7 percent were residential buildings, 7.5 percent residential with trade permit and 4.8 percent non-residential buildings.

BUILDINGS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1380	1381	1382	Percentage change○	
				1381	1382
Number (thousand)	169.0	196.6	188.6	16.3	-4.1
Estimated total floor-space (million square meters)	48.5	58.0	59.8	19.5	3.2
Average floor-space (square meter)	287.0	295.0	317.0	2.7	7.6
Average cost per square meter (thousand rials)	579.0	664.0	797.0	14.7	20.0

Residential Units Completed by the Private Sector in Urban Areas

In 1382, private sector completed 462.7 thousand residential units with a total floor-space of 55.1 million square meters in urban areas. This number with respect to quantitative target of the fourth year of the 3rd Plan, i.e. 480 thousand units, indicates 96.4 percent realization of the target. In this year, average floor-space of completed residential units reached 119 square meters which remained unchanged compared with the previous year. This figure is still above the projected figure for this index (103 square meters) targeted in the 3rd Plan, however.

RESIDENTIAL UNITS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1380	1381	1382	Percentage change○	
				1381	1382
Number (thousand)	370.7	446.0	462.7	20.3	3.8
Total floor-space (million square meters)	44.1	53.1	55.1	20.4	3.8
Average floor-space (square meter)	119.0	119.0	119.0	0	0

Construction Indices

In 1382, construction services index, an indicator of labor market in housing and construction sectors, grew by 23.5 percent compared with the previous year. The growth of the mentioned index is still higher than inflation rate of 15.6 percent.

CONSTRUCTION INDICES

	(1376=100)				
	Percentage change				
	1380	1381	1382	1381	1382
Construction services index	156.1	184.0	227.2	17.9	23.5
Wholesale price index of construction materials	160.9	192.1	216.9	19.4	13.0

