

Rebound in the housing market which had started in urban areas in the second half of 1385 ran into 1386 and boosted construction activities.

Based on preliminary estimates, the value-added of the construction sector increased by 11.9 percent to Rls. 23,246 billion, at constant 1376 prices. Gross fixed capital formation in the construction sector grew by 13.5 percent in the review year. Private sector completed 199.1 thousand buildings with a total floor space of 68.5 million square meters, up by 20.2 and 11.3 percent in terms of number and floor space, respectively. Moreover, 263.5 thousand new buildings, with a total floor space of 106.7 million square meters, were constructed in urban areas.

The price indices of factors affecting building activities went up in 1386. Land price index in urban areas rose by 53.3 percent

(base year =1383). Similarly, price index of construction services showed 30.5 percent growth compared with the previous year.

Private Sector Investment in New Buildings in Urban Areas

In 1386, private sector investment in all urban areas experienced a remarkable growth. However, the share of Tehran in private sector investment in new buildings in urban areas, despite an investment growth of 53.3 percent, declined by 3.5 percentage points to 19.6 percent. This was due to a more rapid growth of investment in other urban areas. Moreover, private sector investment in new buildings of small and medium-sized cities grew by 104.1 percent. The share of these regions in private sector investment increased by 6 percentage points to 51.7 percent.

Private sector investment according to construction phases at current prices indicates growth in the construction of building starts and completion of semi-finished buildings.

Private Sector Investment in New Buildings in Urban Areas ⁽¹⁾ (at current prices)

				Percentage change ○		Share (percent)		Contribution to the growth of investment (percent)
	1384	1385	1386	1385	1386	1385	1386	1386
	Tehran	21,218.9	26,199.6	40,176.4	23.5	53.3	23.1	19.6
Other large cities	31,632.1	35,458.7	58,794.9	12.1	65.8	31.2	28.7	20.5
Other urban areas	50,319.9	51,911.2	105,930.3	3.2	104.1	45.7	51.7	47.6
All urban areas	103,170.9	113,569.5	204,901.6	10.1	80.4	100.0	100.0	80.4

(1) Excludes the cost of land.

**Private Sector Investment in New Buildings in Urban Areas
by Construction Phases ⁽¹⁾ (at current prices)**

(billion rials)

	1384	1385	1386	Percentage change O		Share (percent)		Contribution to the growth of investment (percent) 1386
				1385	1386	1385	1386	
Building starts	26,058.2	31,818.3	65,638.7	22.1	106.3	28.0	32.0	29.8
Semi-finished buildings	55,558.3	60,720.7	102,267.0	9.3	68.4	53.5	49.9	36.6
Completed buildings	21,554.4	21,030.5	36,995.9	-2.4	75.9	18.5	18.1	14.1
Total investment	103,170.9	113,569.5	204,901.6	10.1	80.4	100.0	100.0	80.4

(1) Excludes the cost of land.

Moreover, private sector investment in completed buildings increased in 1386. The upward trend of number and floor space of building starts and completed buildings and rise in the number of construction permits issued by municipalities are indicative of a boom in the housing market.

6.2 percent compared with the year before. This was 136.1 percent of the approved budget in this sector. In the housing sector and urban and rural development, a great portion of credits was paid to "housing" plan (44.2 percent) and "urban and rural transportation" (38.1 percent).

Government Investment

According to the Budget Law for 1386, a sum of Rls. 10,623.3 billion was approved for the implementation of acquisition of non-financial assets projects in the housing sector, urban and rural development, and Affordable Housing Plan for the disabled and low-income groups. This amount was 16.3 percent higher than the corresponding figure of the previous year. In this year, Rls. 14,457.2 billion was paid for the implementation of the mentioned plans, down by

Banking Facilities

In 1386, the outstanding facilities extended by banks and credit institutions to public and non-public housing sectors grew by 53.8 and 23.5 percent to Rls. 1.3 and 284.9 trillion, respectively. Meanwhile, outstanding facilities extended by banks and credit institutions to public and non-public construction sectors amounted to Rls. 9.8 and 12.4 trillion, indicating 10.7 percent fall and 44.3 percent rise compared with end-1385, respectively.

**Government Acquisition of Non-financial Assets
in Housing Sector in 1386**

(billion rials)

	Performance	Share (percent)	Approved	Performance (percent)
Housing sector and urban and rural development	14,345.6	99.2	10,597.8	135.4
Affordable Housing Plan for the disabled and low-income groups (in the framework of Welfare and Social Security System)	111.6	0.8	25.5	437.5
Total	14,457.2	100.0	10,623.3	136.1

Source: Treasury General, Ministry of Economic Affairs and Finance

**Outstanding Facilities Extended by Banks and Credit Institutions
to Construction and Housing Sectors ⁽¹⁾** (billion rials)

	Year-end		Percentage change	1386	
	1385 ▲	1386		Change in outstanding	Relative share ⁽²⁾
Construction	19,497.9	22,120.6	13.5	2,622.7	0.7
Non-public sector	8,558.5	12,351.1	44.3	3,792.6	1.1
Public sector	10,939.4	9,769.5	-10.7	-1,169.9	-6.6
Housing	231,544.0	286,154.0	23.6	54,610.0	14.5
Non-public sector	230,718.6	284,884.9	23.5	54,166.3	15.0
Public sector	825.4	1,269.1	53.8	443.7	2.5

(1) Excludes profit and revenue receivables.

(2) Share in total change in outstanding facilities extended to economic sectors

In 1386, Bank Maskan (Housing Bank), as the sole specialized bank in the housing sector, accounted for 51.9 percent of change in outstanding facilities extended to the housing sector. This bank extended 393.3 thousand loans and facilities, amounting to Rls. 44.0 trillion (excluding profit and revenue receivables), down by 9.1 and 6.5 percent, respectively. These facilities, including profit and revenue receivables, declined by 5.1 percent to Rls. 69.4 trillion compared with the previous year. Rise in housing prices and low coverage of loan for the purchase of housing units led to a drastic decline in applicants' willingness for housing loan, particularly in large and metropolitan cities. Moreover, in Khordad 1386, the implementation of the project of "extension of facilities with and without depositing" came to a halt. Based on this project, Bank Maskan paid up to 50 percent of the applicants' score in the Housing Savings Fund for the purchase of housing units, without depositing. In this year, average facilities extended by this bank for the purchase of housing units amounted to Rls. 160 million, up by 2.1 percent compared with the previous year.

Distribution of facilities extended by Bank Maskan according to contracts shows

that the amount of facilities extended in the form of installment sale (excluding profit receivables) fell by 2.8 percent and the amount requested for the purchase of housing units declined by 5.4 percent. Moreover, 21.2 thousand loans and facilities, valuing at Rls. 6,052.1 billion, were extended in the form of civil partnership for the construction of 78.9 thousand residential units, showing 31.4 percent reduction compared with the previous year.

The geographical distribution of facilities extended by Bank Maskan reveals that 28 percent of facilities were extended to applicants residing in Tehran, 33 percent to applicants in large cities, and the remaining to applicants in small and medium-sized cities in 1386. The shares of banking deposits for Tehran, large cities, and other cities were 39.0, 33.4, and 27.6 percent, respectively.

Balance of Bank Maskan deposits at the end of 1386 indicates that the highest shares of bank deposits are related to the deposits in the Housing Savings Fund by 38.5 percent and long-term deposits by 26.1 percent. Therefore, balance of housing investment deposit account fell by 3.6 percent at end-1386, and amounted to Rls. 41,859.6 billion.

Facilities Extended by Bank Maskan ⁽¹⁾

	1384	1385	1386	Percentage change	
				1385	1386
Number (thousand)	299.4	432.4	393.3	44.4	-9.1
Amount (billion rials)	43,446.8	73,143.5	69,444.8	68.4	-5.1

Source: Bank Maskan

(1) Includes profit and revenue receivables.

Facilities Extended by Bank Maskan according to Islamic Contracts ⁽¹⁾

(billion rials)

	1384	1385	1386	Percentage change		Share (percent)	
				1385	1386	1385	1386
Civil partnership	7,964.3	8,824.0	6,052.1	10.8	-31.4	18.7	13.7
Installment sale	16,128.0	35,568.3	34,577.1	120.5	-2.8	75.5	78.5
Joaleh	997.5	720.8	460.7	-27.7	-36.1	1.5	1.0
Gharz-al-hasaneh	635.7	867.5	1,598.8	36.5	84.3	1.8	3.6
Other	1,314.7	1,129.7	1,336.7	-14.1	18.3	2.4	3.0
Total	27,040.2	47,110.2	44,025.4	74.2	-6.5	100.0	100.0

Source: Bank Maskan

(1) Excludes profit and revenue receivables.

Deposit Resources of Bank Maskan according to Different Types of Deposits

(billion rials)

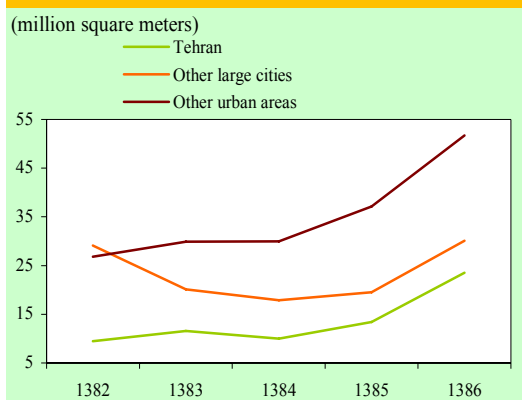
	Year-end			1386	
	1384	1385	1386	Change in outstanding	Percentage change
Gharz-al-hasaneh (current)	3,523.6	6,546.1	9,710.3	3,164.2	48.3
Share (percent)	5.3	6.8	8.9		
Gharz-al-hasaneh (savings)	1,851.8	2,356.1	3,371.1	1,015.0	43.1
Share (percent)	2.8	2.5	3.1		
Housing Savings Fund	26,941.8	43,426.3	41,859.6	-1,566.7	-3.6
Share (percent)	40.3	45.2	38.5		
Short-term	10,051.6	15,866.7	25,207.5	9,340.8	58.9
Share (percent)	15.0	16.5	23.2		
Long-term	24,318.8	27,805.7	28,403.2	597.5	2.1
Share (percent)	36.4	28.9	26.1		
Other	131.9	133.7	196.8	63.1	47.2
Share (percent)	0.2	0.1	0.2		
Total	66,819.5	96,134.6	108,748.5	12,613.9	13.1

Source: Bank Maskan

Construction Permits

In this year, construction permits issued by municipalities indicated 21.1 and 50.3 percent growth in number and total floor space, respectively. In Tehran, the number and total floor space of buildings went up by 71.0 and 75.1 percent, respectively. Total floor space of buildings in large cities, as stipulated in construction permits, grew by 54.0 percent to 30.1 million square meters. Meanwhile, average floor space of buildings in urban areas reached 504 square meters, indicating 24.1 percent rise compared with the previous year.

Figure 5.1. Total floor space in construction permits issued by municipalities



Construction Permits Issued by Municipalities in Urban Areas

	1384	1385 ▲	1386 □	Percentage change ○	
				1385	1386
Number of permits (thousand)	129.7	172.6	209.0	33.0	21.1
Total floor space (million square meters)	58.0	70.1	105.3	21.0	50.3
Average floor space (square meters)	447	406	504	-9.1	24.1

Building Starts by Private Sector in Urban Areas

In the review year, private sector started the construction of 263.5 thousand buildings, with a total floor space of 106.7 million square meters and an investment of Rls. 65.6 trillion (at current prices), in urban areas. The number and total floor space of building starts rose by 44.5 and 61.1 percent, respectively. Accordingly, number and total floor space of building starts in Tehran grew by 61.1 and 42.3 percent, respectively. Moreover, the average floor space of building starts in Tehran fell by 11.6 percent. In the review year, the average cost for construction of new buildings was estimated at Rls. 2,248 thousand per square meter, up by 34.9 percent compared with the year before. In Tehran, average construction costs went up by 35.8 percent to Rls. 2,836 thousand.

Of total building starts, 87.8 percent were residential, 6.2 percent commercial, and the remaining non-residential. The average costs for construction of residential and non-residential buildings were estimated at Rls. 2,237.3 and 2,274.9 thousand per square meter, respectively.

Buildings Completed by Private Sector in Urban Areas

In 1386, private sector investment in the completion of buildings amounted to Rls. 37 trillion. This indicates 75.9 percent growth compared with the previous year. In the review year, 199.1 thousand buildings, with a total floor space of 68.5 million square meters, were completed by private sector.

This shows 20.2 and 11.3 percent increase in terms of number and floor space, respectively.

Residential Buildings Completed by Private Sector in Urban Areas

In the review year, 491.4 thousand residential buildings, with a total floor space of 60.9 million square meters, were completed by private sector. The average floor space of these buildings remained virtually unchanged at 124 square meters, compared with the previous year.

Buildings Completed by Private Sector in Urban Areas

	1384	1385	1386	Percentage change ○	
				1385	1386
Number (thousand)	168.6	165.6	199.1	-1.8	20.2
Total floor space (million square meters)	64.9	61.6	68.5	-5.2	11.3
Average floor space (square meters)	385	372	344	-3.4	-7.5
Average cost per square meter (thousand rials)	1,317	1,477	1,879	12.1	27.2

Residential Buildings Completed by Private Sector in Urban Areas

	1384	1385	1386	Percentage change ○	
				1385	1386
Number (thousand)	479.2	448.2	491.4	-6.5	9.6
Total floor space (million square meters)	58.0	55.6	60.9	-4.1	9.5
Average floor space (square meters)	121	124	124	2.5	0

Building Starts by Private Sector in Urban Areas

	1384	1385	1386	Percentage change ○	
				1385	1386
Number (thousand)	176.2	182.4	263.5	3.5	44.5
Estimated total floor space (million square meters)	62.9	66.2	106.7	5.4	61.1
Average floor space (square meters)	357	363	405	1.7	11.6
Average cost per square meter (thousand rials)	1,412	1,667	2,248	18.1	34.9

Land Price Index

In 1386, land price index in urban areas grew noticeably by 53.3 percent compared with the previous year, mainly due to the surge in housing prices in 1385 and 1386. This index advanced by 57.3 percent in Tehran.

Land Price Index by Urban Areas
(1383=100)

	1384	1385	1386	Percentage change	
				1385	1386
Tehran	109.1	127.6	200.7	17.0	57.3
Other large cities	111.3	120.9	184.4	8.6	52.5
Other urban areas	115.1	129.2	190.9	12.3	47.8
All urban areas	111.5	125.8	192.8	12.8	53.3

Construction Indices

Construction services price index, a leading indicator of labor market, increased by 30.5 percent compared with the year before. This was attributable to a boost in construction activities, with its ensuing effect on demand for construction services. In this year

WPI of construction materials advanced 19.0 percent. Accordingly, metallic construction materials recorded 22.4 and nonmetallic construction materials 14.1 percent rise, respectively. Increase in the WPI of metallic construction materials was attributable to the rise in the price of steel products. In fact, rising prices of construction materials and services along with the marked increase in the price of land, as a major factor affecting building activities, led to the growth in housing prices in this year.

Construction Indices

	1384	1385	1386	Percentage change	
				1385	1386
Construction services price index (1383=100)	118.1	140.1	182.9	18.6	30.5
Wholesale price index of construction materials (1376=100)	285.4	342.3	407.3	19.9	19.0

Figure 5.2. Number of completed residential buildings in urban areas

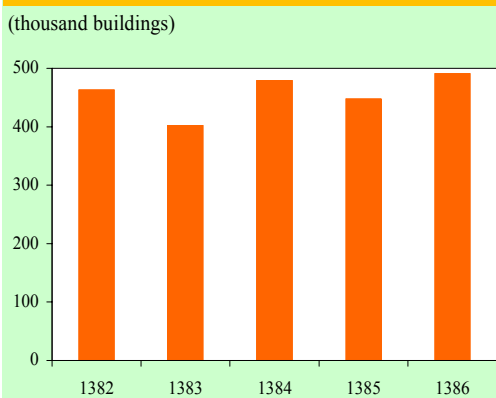
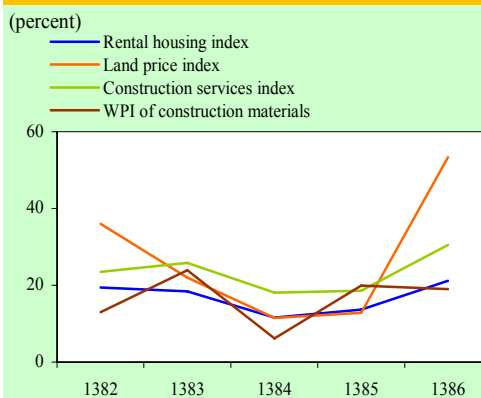


Figure 5.3. Growth in housing sector indices



Mehr Housing Project

In implementation of Note 6, Budget Law for 1386, the government took measures to implement the Mehr Housing Project, aimed at housing provision for the low-income groups. Through this project, the Ministry of Housing and Urban Development leases lands for a term of up to 99 years to

qualified members of cooperatives. Given the remarkable rise of land price during the recent decades and the high share of land in the total price of housing, eliminating the land price from housing costs in this project is a major step in provision of affordable housing for the low- and the medium-income groups.