

**B**ased on preliminary data on national accounts, the value-added growth of the construction sector fell by 13.1 percent to Rls. 303.5 trillion (at constant 1390 prices). This reduction was mainly attributable to the recessionary conditions affecting the construction activities by the private sector. Gross fixed capital formation in this sector decreased by 7.4 percent in 1395 at constant 1390 prices.

The private sector started the construction of 94.2 thousand new buildings with a total floor space of 58.3 million square meters and completed 98.0 thousand buildings with a total floor space of 63.2 million square meters in 1395. Total floor space of housing starts and completed buildings fell by respectively 15.5 and 28.4 percent compared with 1394.

In this year, land price index in urban areas and construction services price index registered 2.4 and 9.2 percent growth (base year: 1395). Producer Price Index (PPI) for construction materials increased by 5.2 percent compared with the year before (base year: 1390).

#### Private Sector Investment in New Buildings in Urban Areas

In 1395, private sector investment in the buildings of urban areas fell by 14.1 percent (at current prices) to reach Rls. 602.2 trillion. Private sector investment in new buildings in Tehran declined by 25.6 percent to reach Rls. 133.2 trillion. In other large cities and other urban areas, this variable decreased by 11.9 and 8.3 percent.

**Table 5.1. Private Sector Investment in New Buildings in Urban Areas<sup>1</sup>**  
(at current prices)

	(trillion rials)							
				Percentage change		Share (percent)		Contribution to the growth of investment (percent)
	1393	1394	1395	1394	1395	1394	1395	1395
Tehran	205.4	178.9	133.2	-12.9	-25.6	25.5	22.1	-6.5
Other large cities	336.2	280.6	247.3	-16.5	-11.9	40.0	41.1	-4.8
Other urban areas	269.0	242.0	221.8	-10.0	-8.3	34.5	36.8	-2.9
<b>All urban areas</b>	<b>810.6</b>	<b>701.5</b>	<b>602.2</b>	<b>-13.5</b>	<b>-14.1</b>	<b>100.0</b>	<b>100.0</b>	<b>-14.1</b>

<sup>1</sup>Excludes the cost of land.

## Chapter 5 CONSTRUCTION AND HOUSING

Private sector investment according to construction phases indicated negative growth in housing starts, semi-finished buildings, and completed buildings in 1395, at current prices. Investment in semi-finished buildings had the highest share of total investment by 60.3 percent, with the investment in housing starts and completed buildings accounting for 23.4 and 16.2 percent of total investment, respectively.

### Government Investment

According to data received from the Treasury General, a sum of Rls. 107.1 trillion was approved for the implementation of

acquisition of non-financial assets projects in the housing sector and urban and rural development in 1395. A sum of Rls. 43.4 trillion was paid for the implementation of the mentioned plans in this year, constituting 40.5 percent of the value approved in the budget for this sector. The greatest portion of credits was paid to "development of sewage equipment and wastewater treatment" and "urban and rural services" plans by 22.6 and 21.6 percent, respectively. Moreover, the highest percentage of budget performance was related to "applied research" by 88.7 percent, followed by "governance of affairs related to construction and housing sector" by 87.1 percent.

**Table 5.2. Private Sector Investment in New Buildings in Urban Areas based on Construction Phases<sup>1</sup> (at current prices)**

				Percentage change		Share (percent)		Contribution to the growth of investment (percent)
	1393	1394	1395	1394	1395	1394	1395	1395
Housing starts	188.3	155.1	141.0	-17.6	-9.1	22.1	23.4	-2.0
Semi-finished buildings	448.7	394.5	363.4	-12.1	-7.9	56.2	60.3	-4.4
Completed buildings	173.6	151.9	97.8	-12.5	-35.6	21.6	16.2	-7.7
<b>Total investment</b>	<b>810.6</b>	<b>701.5</b>	<b>602.2</b>	<b>-13.5</b>	<b>-14.1</b>	<b>100.0</b>	<b>100.0</b>	<b>-14.1</b>

<sup>1</sup>Excludes the cost of land.

**Table 5.3. Credits for Acquisition of Non-financial Assets in Housing Sector, Urban and Rural Development in 1395<sup>1</sup>**

	Performance	Share (percent)	Approved <sup>2</sup>	Performance (percent)
Housing sector	1,800.7	4.1	2,068.5	87.1
Urban and rural services and development	24,551.4	56.5	63,937.3	38.4
Water and sewage	16,941.2	39.0	40,733.6	41.6
Research and development in housing sector, urban and rural development	132.4	0.3	384.3	34.5
<b>Total</b>	<b>43,425.7</b>	<b>100.0</b>	<b>107,123.7</b>	<b>40.5</b>

Source: Treasury General, Ministry of Economic Affairs and Finance.

<sup>1</sup>Due to the change in classification of program headings in the Budget Law for 1395, the performance figures of this year are not comparable with those of previous years.

<sup>2</sup>The approved figure is acquired from Treasury General data classified as "amended credit".

## Banking Facilities

The outstanding facilities extended by banks and credit institutions to the non-public and public housing sectors indicated respectively 2.7 and 312.7 percent growth to reach Rls. 1,661.3 trillion for the non-public and Rls. 6.9 trillion for the public sector at end-1395. The outstanding facilities extended by banks and non-bank credit institutions to the non-public and public construction sectors showed respectively 144.6 and 20.6 percent increase to reach Rls. 146.5 trillion and Rls. 4.5 trillion.

Of total Rls. 5,483.7 trillion loans and facilities extended by banks and non-bank credit institutions to various economic sectors in 1395, Rls. 501.2 trillion was extended to the construction and housing sector, indicating 16.2 percent increase compared with the year before.

In 1395, Bank Maskan (Housing Bank), as the sole specialized bank in the housing

sector, extended Rls. 160.2 trillion worth of loans and facilities (excluding profit and revenue receivables) to 385.3 thousand projects, indicating respectively 51.7 and 32.8 percent increase compared with the year before. The mentioned facilities, including profit and revenue receivables, reached Rls. 236.5 trillion, showing 57.7 percent rise compared with the previous year. In 1395, the average facilities extended by Bank Maskan for the purchase of housing units amounted to Rls. 447.9 million, showing 41.5 percent growth compared with the previous year. The amount of facilities extended in the form of installment sale contracts for housing purchase (excluding profit receivables) rose by 72.2 percent compared with 1394 to reach Rls. 60.1 trillion. Furthermore, a total of 26.9 thousand loans and facilities valuing at Rls. 71.9 trillion were extended in the form of civil partnership contracts, the value of which indicated 43.0 percent increase compared with the year before.

**Table 5.4. Net Outstanding Facilities Extended by Banks and Non-bank Credit Institutions<sup>1</sup> to Housing and Construction Sectors** (trillion rials)

	Year-end		1395		
	1394	1395	Change in balance	Percentage change	Relative share <sup>2</sup> (percent)
<b>Housing</b>	<b>1,618.7</b>	<b>1,668.1</b>	<b>49.5</b>	<b>3.1</b>	<b>3.2</b>
Non-public sector	1,617.0	1,661.3	44.3	2.7	3.1
Public sector	1.7	6.9	5.2	312.7	5.5
<b>Construction</b>	<b>63.7</b>	<b>151.1</b>	<b>87.4</b>	<b>137.3</b>	<b>5.7</b>
Non-public sector	59.9	146.5	86.6	144.6	6.0
Public sector	3.8	4.5	0.8	20.6	0.8

<sup>1</sup> Net outstanding facilities are calculated after deduction of outstanding debts of customers and extended facilities related to the exchange rate differential, profit receivables, profit and commission receivables, receipts from Mudarabah, civil partnership (bank's share), outstanding profit, and outstanding commission. Moreover, net outstanding facilities include legal partnership and direct investment contracts.

<sup>2</sup> Indicates the shares of construction and housing sectors in change in total outstanding facilities extended to all economic sectors.

### Construction Permits

In 1395, construction permits issued by municipalities in urban areas indicated 12.1 percent increase in number and reached 113.8 thousand. The total floor space stipulated in construction permits rose 3.1 percent to 63.9 million square meters. The number of construction permits in Tehran and other urban areas increased by 6.7 and 20.4 percent while in other large cities, it decreased by 6.4 percent. The total floor space of buildings stipulated in construction permits increased by 7.4 and 14.2 percent for Tehran and other urban areas while for other large cities, it fell by 13.1 percent.

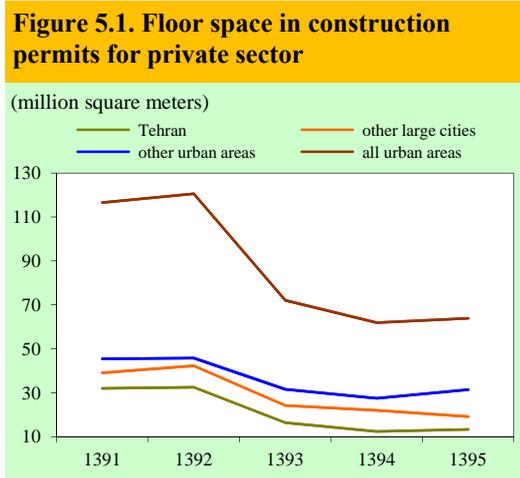


Table 5.5. Facilities Extended by Bank Maskan<sup>1</sup>

	(billion rials)								
				Percentage change		Share (percent)			
	1393	1394	1395	1394	1395	1394	1395	1394	1395
Civil partnership-housing construction <sup>2</sup>	32,878	50,283	71,890	52.9	43.0	47.6	44.9		
Installment sale-housing purchase	33,908	34,917	60,137	3.0	72.2	33.1	37.5		
Installment sale-other purchases	180	2,514	6,132	⊠	143.9	2.4	3.8		
Murabaha	309	55	4,050	-82.3	⊠	0.1	2.5		
Hire purchase	71	75	9	5.3	-88.6	0.1	*		
Ju'alah	12,308	11,434	9,502	-7.1	-16.9	10.8	5.9		
Gharz-al-hasaneh (marriage, housing deposit, and housing completion)	1,505	235	5,489	-84.4	⊠	0.2	3.4		
Gharz-al-hasaneh (other)	4,514	5,562	1,975	23.2	-64.5	5.3	1.2		
Debt purchase (rial equivalent)	106	0	60	-100.0	0	0.0	*		
Others	216	549	1,004	154.5	82.8	0.5	0.6		
<b>Total</b>	<b>85,996</b>	<b>105,625</b>	<b>160,248</b>	<b>22.8</b>	<b>51.7</b>	<b>100.0</b>	<b>100.0</b>		
<b>Installment sale-share of Bank Maskan from civil partnership contracts<sup>3</sup></b>	<b>112,364</b>	<b>85,944</b>	<b>62,204</b>	<b>-23.5</b>	<b>-27.6</b>	<b>-</b>	<b>-</b>		

Source: Bank Maskan.

<sup>1</sup> Excludes profit and revenue receivables.

<sup>2</sup> Figures refer to concluded contracts, part of which was disbursed and the remaining part was the commitment of the bank. Cash payments for civil partnership contracts totaled Rls. 68,312 billion in 1395.

<sup>3</sup> Based on the new Guideline by Housing Bank, facilities extended under installment sale contracts (share of Bank Maskan out of conversion of civil partnership contracts to installment sale contracts) have been excluded from the sum total of extended facilities.

Table 5.6. Construction Permits Issued by Municipalities in Urban Areas

	1393	1394	1395	Percentage change	
				1394	1395
Number of permits (thousand)	117.2	101.5	113.8	-13.4	12.1
Total floor space (million square meters)	72.1	61.9	63.9	-14.1	3.1
Average floor space (square meters)	615	610	562	-0.8	-8.0

### Housing Starts by Private Sector in Urban Areas

Private sector started the construction of 94.2 thousand buildings with a total floor space of 58.3 million square meters and an investment of Rls. 141.0 trillion (at current prices) in urban areas in 1395. The number and total floor space in housing starts in all urban areas fell by 12.7 and 15.5 percent, respectively. The number and total floor space of housing starts in Tehran declined even further by 14.6 and 40.1 percent. In other large cities, these variables decreased by 4.9 and 11.9 percent. The average cost for the construction of new buildings (excluding the cost of land) was estimated at Rls. 8,735 thousand per square meter in 1395, down by 2.8 percent compared with 1394. In Tehran, the average construction cost reached Rls. 10,904 thousand, showing 2.4 percent decrease compared with 1394.

### Buildings Completed by Private Sector in Urban Areas

A total of 98.0 thousand buildings, with a total floor space of 63.2 million square meters, were completed by the private sector

in 1395, down by respectively 32.1 and 28.4 percent compared with 1394. Of total completed buildings, 84.6 percent were residential, 8.0 percent residential with a commercial purpose, and the remaining non-residential buildings. Private sector investment in completed buildings totaled Rls. 97.8 trillion, accounting for 16.2 percent of total private sector investment in this sector.

In 1395, the share of Tehran in total floor space of completed buildings was 22.0 percent, that of other large cities 36.5 percent, and other urban areas 41.5 percent. The average floor space of completed buildings increased by 5.5 percent in 1395 to reach 645 square meters. In Tehran, the average floor space of completed buildings increased by 17.9 percent to 1,408 square meters. The average cost of completed buildings per square meter in all urban areas, excluding the cost of land, rose 10.2 percent to Rls. 7,879 thousand. In Tehran, other large cities, and other urban areas, the average construction cost registered 4.1, 8.3, and 11.0 percent growth, respectively.

**Table 5.7. Housing Starts by Private Sector in Urban Areas**

	1393	1394	1395	Percentage change	
				1394	1395
Number (thousand)	157.6	107.9	94.2	-31.5	-12.7
Total floor space (million square meters)	94.0	69.0	58.3	-26.6	-15.5
Average floor space (square meters)	596	640	619	7.3	-3.3
Average cost per square meter (thousand rials)	7,959	8,983	8,735	12.9	-2.8

**Table 5.8. Buildings Completed by Private Sector in Urban Areas**

	1393	1394	1395	Percentage change	
				1394	1395
Number (thousand)	196.9	144.4	98.0	-26.7	-32.1
Total floor space (million square meters)	108.1	88.2	63.2	-18.4	-28.4
Average floor space (square meters)	549	611	645	11.3	5.5
Average cost per square meter (thousand rials)	6,239	7,149	7,879	14.6	10.2

### Residential Units Completed by Private Sector in Urban Areas

A total of 381.5 thousand residential units, with a total floor space of 56.3 million square meters, were completed by the private sector in 1395, down by 30.3 and 28.5 percent. The average floor space of these units increased by 2.8 percent compared with 1394, to 148 square meters.

### Land Price Index

In 1395, land price index in all urban areas increased by 2.4 percent compared with the previous year (1395=100). This index showed a rise of 1.6 percent in Tehran.

### Mehr Housing Program

In implementation of Note 6 to the Budget Law for 1386, the government took measures to implement the Mehr Housing Program aimed at housing provision for the low-income groups. Ratification of the Law

on Organization and Support for House Construction in 1387 facilitated the implementation of Mehr Housing Program in the following years. Reviewing the performance of the agent bank, Bank Maskan, in terms of the extending of facilities by end-1395 reveals that a sum of Rls. 476.5 trillion was allocated for the construction of 2.36 million residential units through "land preparation", "land allocation on a 99-year lease", "housing construction in old urban texture", and "renovation and refurbishment of rural housing" projects. "Land allocation on a 99-year lease" enjoyed the highest share of the value of facilities by 86.7 percent.

### Housing Rental Index in Urban Areas

In 1395, housing rental index surged by 9.8 percent in all urban areas (1395=100). This index grew by 10.3 percent in Tehran and 9.9 percent in other large cities.

**Table 5.9. Residential Units Completed by Private Sector in Urban Areas**

	1393	1394	1395	Percentage change	
				1394	1395
Number (thousand)	718.6	547.7	381.5	-23.8	-30.3
Total floor space (million square meters)	98.0	78.8	56.3	-19.6	-28.5
Average floor space (square meters)	136	144	148	5.9	2.8

**Table 5.10. Land Price Index by Urban Areas**

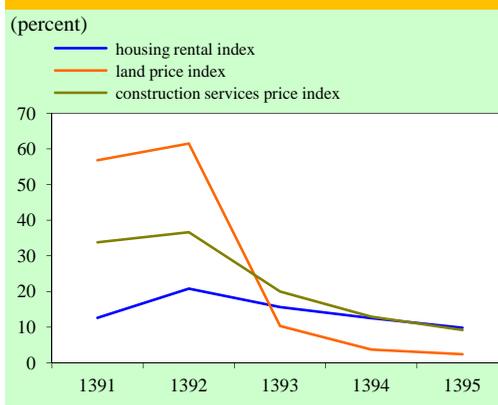
(1395=100)

	1393	1394	1395	Percentage change	
				1394	1395
Tehran	97.0	98.4	100.0	1.4	1.6
Other large cities	93.2	97.8	100.0	4.9	2.2
Other urban areas	80.5	93.1	100.0	15.7	7.4
<b>All urban areas</b>	<b>94.2</b>	<b>97.7</b>	<b>100.0</b>	<b>3.7</b>	<b>2.4</b>

## Construction Indices

Construction services price index, an indicator of wage developments in the construction and housing sector, indicated 9.2 percent increase compared with the year before (1395=100). The highest growth rates in the subgroups of this index were related to "wage of skilled electrician" by 12.2 and "wage paid for asphalting" by 12.0 percent. The PPI for construction materials increased by 5.2 percent in 1395 compared with the year before (1390=100). Accordingly, the PPI for metallic and non-metallic construction materials recorded respectively 5.8 and 4.3 percent increase.

**Figure 5.2. Growth in housing sector indices (1395=100)**



**Table 5.11. Facilities Allocated by Bank Maskan to Mehr Housing Program as of Implementation in 1386 until End-1395**

	End-1395		Share (percent)	
	Number (thousand units)	Value (trillion rials)	Number	Value
Land preparation	747 <sup>1</sup>	7.4	24.0	1.6
Land allocation on a 99-year lease	1,846	410.1	59.4	86.7
Housing construction in old urban texture	82	14.8	2.6	3.1
Renovation and refurbishment of rural housing	432	40.6	13.9	8.6
<b>Total</b>	<b>2,359.9</b>	<b>476.5<sup>2</sup></b>	<b>100.0</b>	<b>100.0</b>

Source: Bank Maskan. <sup>1</sup> A total of 747 thousand units included in the list of loan receivers at the land preparation phase were also included under "land allocation on a 99-year lease". Therefore, this figure has been excluded from the sum total to avoid double counting. <sup>2</sup> The Rls. 3.7 trillion difference between the sum total of components with the total is due to the budgetary facilities allocated for unexpected disasters.

**Table 5.12. Housing Rental Index in Urban Areas**

(1395=100)

	1393	1394	1395	Percentage change	
				1394	1395
Tehran	81.7	90.7	100.0	11.0	10.3
Other large cities <sup>1</sup>	80.9	91.0	100.0	12.5	9.9
Medium-sized cities	82.0	91.4	100.0	11.5	9.4
Small cities	79.6	90.7	100.0	13.9	10.3
<b>All urban areas</b>	<b>81.0</b>	<b>91.1</b>	<b>100.0</b>	<b>12.5</b>	<b>9.8</b>

<sup>1</sup> Includes Tehran.

**Table 5.13. Construction Indices**

	1393	1394	1395	Percentage change	
				1394	1395
Construction services price index (1395=100)	81.1	91.6	100.0	12.9	9.2
PPI for construction materials (1390=100)	194.9	182.9	192.4	-6.2	5.2

**5<sup>th</sup> Five-Year Development Plan (1390-1395)**

The construction and housing policies stipulated in the 5<sup>th</sup> FYDP were formulated in accordance with the Vision Plan 1404 and the general policies of the Islamic Republic of Iran. Reinforcement of buildings and the reform of the consumption pattern, especially energy consumption in the construction and housing sector, provision of housing for the newly-married couples and the low-income groups, and reconstruction and refurbishment of the old urban and rural textures were among targets projected in the 5<sup>th</sup> FYDP.

In the first year of the implementation of the 5<sup>th</sup> FYDP, a remarkable improvement in the housing market was witnessed which in turn led to the rise of prices. This upward trend continued until 1391 and the first months of 1392. However, sharp decline in households' income from the beginning of 1392 led to sluggish and slow activities in the housing market which continued until 1395. Given the significance of the construction and housing activities for the economy as well as their linkages with other economic activities, the improvement of the income of households was put on the top of the government's agenda and supportive programs of the banking system over the course of the

plan were projected. The continuation of Mehr Housing Program and the funding of this program were a major decision by government in this regard. Other measures related to Mehr Housing Program such as the increase in individual ceilings for housing loans and facilities and the rise in total housing loans and facilities through installment sale contracts of Bank Maskan were also adopted. The government also authorized the commercial banks to extend home purchase loan facilities and establish housing savings funds for first-time home buyers. Executive guidelines on creation, operation, and oversight of institutions involved in housing savings funds and facilities were also ratified and dispatched to related agencies.

Over the course of the plan, the value-added growth of the construction sector experienced an annual average decline of 6.7 percent at constant 1390 prices compared with 1389 base year.

Reviewing the data on gross fixed capital formation in construction segments (including public and private sectors) indicated an annual average decrease of 4.4 percent (at constant 1390 prices) over the years of the plan.

**Table 5.14. Value-added Growth in Construction Sector during the 5<sup>th</sup> FYDP** (percent)

	Base year		Performance					Annual average growth
	1389	1390	1391	1392	1393□	1394□	1395□	
At constant 1390 prices								
Construction	2.0	5.1	-3.2	-9.2	-0.9	-17.0	-13.1	-6.7
GDP	5.7	3.1	-7.7	-0.3	3.2	-1.6	12.5	1.3

**Table 5.15. Gross Fixed Capital Formation in Construction Sector during the 5<sup>th</sup> FYDP** (trillion rials)

	Base year		Performance				
	1389	1390	1391	1392	1393	1394	1395
Gross fixed capital formation (1390=100)	1,056	1,100	981	913	976	871	807
Growth rate (percent)	1.4	4.2	-10.8	-6.9	6.9	-10.7	-7.4

The number of construction permits issued by municipalities for urban areas indicated an annual average decline of 7.4 percent over the course of the 5<sup>th</sup> FYDP, falling from 181.0 thousand in 1389 to 113.8 thousand in 1395. Moreover, the total floor space of buildings stipulated in the construction permits issued for urban areas decreased by an annual average rate of 9.2 percent to 63.9 million square meters in 1395.

The construction of a total of 3,800.5 thousand residential units, with a total floor space of 517.0 million square meters and an average floor space of about 136 square

meters, was completed during the 1390-1395 period.

During the course of the 5<sup>th</sup> FYDP, banks continued to extend facilities to the construction and housing sectors. Therefore, net outstanding facilities extended to the non-public "construction" and "housing" sectors increased by respectively 17.3 and 26.1 percent on an annual average basis, raising the total amount of net outstanding facilities extended to the non-public construction and housing sectors from Rls. 674.1 trillion in 1389 to Rls. 1,807.8 trillion at the end of 1395.

**Table 5.16. Residential Units Completed in Urban Areas during the 5<sup>th</sup> FYDP**

	Base year	Performance						Annual average growth (percent)
	1389	1390	1391	1392	1393	1394	1395	
Number of residential units	550,777	564,761	753,830	834,077	718,561	547,717	381,535	-5.9
Total floor space (thousand square meters)	71,050	73,984	98,364	111,468	98,038	78,817	56,325	-3.8
Average floor space (square meters)	129	131	130	134	136	144	148	2.3