

# CHAPTER SIX

## CONSTRUCTION AND HOUSING

The prevailing recession in the housing sector contagiously affected the activities of the construction sector in Tehran and other large cities in 1383. Gross fixed capital formation in the construction sector fell by 3.5 percent. The reduction of investment in the real estate by 9.1 percent, largely reflected in the private sector investment in the urban areas, was the main driving force for the reduction of investment in the construction sector.

The private sector started the construction of 139.5 thousand new buildings with 56.2 million square meters floor space in the urban areas, besides completing 146.9 thousand semi-finished buildings of 55.6 million square meters. Completion of semi-finished buildings indicated a reduction of 22.1 and 7.1 percent in the number and floor space, respectively. These figures were 10.6 in number and 4.0 percent in floor space for building starts. Moreover, the number of housing units completed by the private sector fell by 13 percent to 402.5 thousand in the urban areas. Data related to permits issued by the municipalities, a leading indicator of future trend in the housing sector activities, confirmed the recessionary condition prevailing in this sector. In 1383, the number and the total floor space of buildings stipulated in permits issued by the municipalities fell by 8.6 and 5.8 percent respectively.

In 1383, the price indices of the construction and housing sector inputs, especially land price index for the urban areas, went up by 21.4 percent (based on 1376 prices) as compared to the previous year. Moreover, the construction services index and the wholesale price index of the construction materials grew by 25.8 and 23.9 percent, respectively. This, together with the stagnant housing market, raised the index for the rental housing units to 18.4 percent, still above the inflation rate.

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

The year 1383 witnessed a moderate growth in the private sector investment in Tehran by 7.2 percent as compared to 22.8 percent reduction of the previous year. The pace of growth was relatively high in the large cities and other urban areas. The share of Tehran in the private sector investment in new buildings of the urban areas fell by 3.3 percentage points to 21.1 percent in the review year.

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

	(at current prices)						(billion rials)		
	1381	1382	1383	Percentage change		Share (percent)		Contribution to the growth of investment (percent)	
				1382	1383	1382	1383	1382	1383
Tehran	18,886.9	14,576.6	15,628.7	-22.8	7.2	24.4	21.1	-8.2	1.8
Other large cities	18,540.7	24,920.2	29,987.0	34.4	20.3	41.7	40.5	12.1	8.5
Other urban areas	15,176.9	20,267.6	28,483.7	33.5	40.5	33.9	38.4	9.7	13.7
<b>All urban areas</b>	<b>52,604.5</b>	<b>59,764.4</b>	<b>74,099.4</b>	<b>13.6</b>	<b>24.0</b>	<b>100.0</b>	<b>100.0</b>	<b>13.6</b>	<b>24.0</b>

(1) Excludes the cost of land.

Private sector investment according to construction phases at current prices indicates the growth in the construction of the various buildings. However, the downward trend of number and total floor space of building starts and completed buildings indicates high construction cost.

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

**BY CONSTRUCTION PHASES (at current prices)**

(billion rials)

	1381	1382	1383	Percentage change		Share (percent)		Contribution to the growth of investment (percent)	
				1382	1383	1382	1383	1382	1383
Building starts	16,282.6	16,057.9	20,214.8	-1.4	25.9	26.9	27.3	-0.4	7.0
Semi-finished buildings	26,805.5	31,373.0	39,374.2	17.0	25.5	52.5	53.1	8.7	13.4
Completed buildings	9,516.3	12,333.5	14,510.5	29.6	17.7	20.6	19.6	5.3	3.6
<b>Total investment</b>	<b>52,604.5</b>	<b>59,764.4</b>	<b>74,099.4</b>	<b>13.6</b>	<b>24.0</b>	<b>100.0</b>	<b>100.0</b>	<b>13.6</b>	<b>24.0</b>

(1) Excludes the cost of land.

### Government Investment

Data released by the Treasury General for 1383 indicates that the government spent Rls. 4,753.9 billion for the implementation of acquisition of non-financial – national assets projects in the construction, housing, urban development and the housing research program. This amount was 99.5 percent of the approved budget in this sector. The mentioned credit grew by 14.3 percent as compared to the paid credits in the previous year.

**GOVERNMENT ACQUISITION OF NON-FINANCIAL – NATIONAL ASSETS**

**(DEVELOPMENT EXPENDITURES) IN CONSTRUCTION,**

**HOUSING AND URBAN DEVELOPMENT**

(billion rials)

	1381	1382	1383	Percentage change		Share (percent)	
				1382	1383	1382	1383
Government buildings and establishments	1,360.6	603.7	996.9	-55.6	65.1	14.5	21.0
Provision of housing	781.9	442.5	296.0	-43.4	-33.1	10.6	6.2
Urban development	1,906.3	3,108.2	3,457.0	63.0	11.2	74.8	72.7
Research on housing	7.0	4.0	3.9	-42.4	-2.0	0.1	0.1
<b>Total</b>	<b>4,055.8</b>	<b>4,158.4</b>	<b>4,753.9</b>	<b>2.5</b>	<b>14.3</b>	<b>100.0</b>	<b>100.0</b>

Source: Treasury General

### Banking Facilities

According to the Money and Credit Council (MCC) approval, share of the housing and construction sectors out of total increase in the outstanding of the non-public sector facilities in 1383, after deducting free uses, legal obligations and facilities from Gharz-al-hasaneh deposits, was determined at 28 percent. In this year, the MCC approved the following measures, aimed at strengthening the demand side and reviving the housing market:

- Increase in ceiling of banking facilities in the framework of installment sale from Rls. 40 million to Rls. 80 million for all commercial and specialized banks.

- Investment Deposit Account Plan in Bank Maskan, extending facilities up to the ceiling of Rls. 200 million.

Outstanding facilities extended by banks and credit institutions to housing and construction sectors especially in non-public sector grew by 27.2 and 38.2 percent, respectively to Rls. 112.7 and 8.3 trillion as compared to 1382 year-end.

**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 total change in outstanding	
	1382 ▲	1383	1382	1383	1382	1383	1382	1383
<b>Construction</b>	<b>18,646.5</b>	<b>22,064.6</b>	<b>19.2</b>	<b>18.3</b>	<b>2,999.2</b>	<b>3,418.1</b>	<b>2.6</b>	<b>2.2</b>
Non-public sector	6,028.9	8,329.2	25.7	38.2	1,231.1	2,300.3	1.1	1.6
Public sector	12,617.6	13,735.4	16.3	8.9	1,768.1	1,117.8	32.8	8.8
<b>Housing</b>	<b>89,422.3</b>	<b>113,605.7</b>	<b>30.7</b>	<b>27.0</b>	<b>20,985.2</b>	<b>24,183.4</b>	<b>18.5</b>	<b>15.6</b>
Non-public sector	88,613.0	112,753.3	31.0	27.2	20,948.4	24,140.3	19.4	17.0
Public sector	809.3	852.4	4.8	5.3	36.8	43.1	0.7	0.3

(1) Excludes profit and revenue receivables.

In 1383, about 29.8 percent of change in outstanding facilities extended to the non-public housing sector was related to Bank Maskan (Housing Bank) as the sole specialized bank in this sector. Bank Maskan extended 208.8 thousand facilities at Rls. 11.3 trillion (excluding profit and revenue receivables) in this year, showing 37.6 percent reduction and 11 percent growth, respectively as compared to the previous year. The stagnant housing market and an upward trend in price of the housing units, which was incompatible with the banking facilities, were the main driving forces for Bank Maskan performance.

**FACILITIES EXTENDED BY BANK MASKAN (1)**

	1381	1382	1383	Percentage change	
				1382	1383
Number of facilities (thousand)	372.0	334.8	208.8	-10.0	-37.6
Amount of facilities (billion rials)	15,748.8	14,488.6	17,584.3	-8.0	21.4

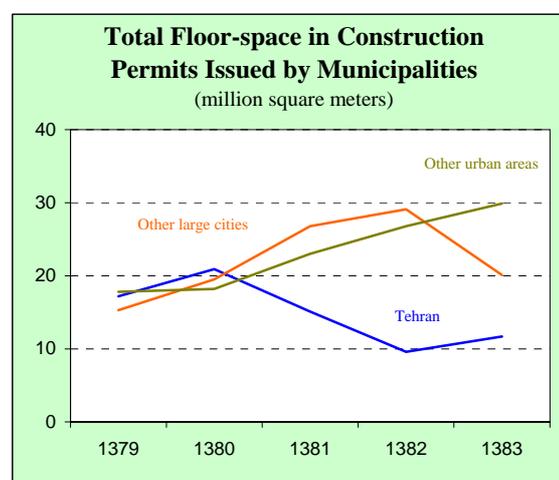
Source: Bank Maskan

(1) Includes profit and revenue receivables.

Distribution of facilities according to the contracts indicates that the number and amount of facilities in the form of installment sale fell by 8.9 and went up by 34.1 percent, respectively. The reduction in the number of facilities was mostly observed in the facilities related to purchase of housing units by 19.9 percent. Investment deposit account of housing savings fund posted the highest growth among the outstanding of Bank Maskan deposits in 1383.

**Building Starts by the Private Sector in Urban Areas**

In 1383, construction of 139.6 thousand new buildings, with total floor space of 56.2 million square meters and investment of Rls. 20.2 trillion (at current prices), was started by the private sector. Building starts faced reduction in the number and total floor space by 10.6 and 4 percent in the urban areas as compared to the previous year. Tehran faced 2.6 percent reduction in the number and



1.6 percent rise in the floor space of building starts. The slow pace of construction is indicative of the continued sluggishness in this sector.

#### BUILDING STARTS BY THE PRIVATE SECTOR IN URBAN AREAS

	1381	1382	1383	Percentage change ○	
				1382	1383
Number (thousand)	173.8	156.1	139.6	-10.2	-10.6
Estimated total floor space (million square meters)	64.9	58.5	56.2	-9.9	-4.0
Average floor-space (square meters)	374.0	375.0	403	0.3	7.5
Average cost per square meter (thousand rials)	801	960.0	1,205	19.8	25.5

Composition of building starts shows that out of total building starts, 87.2 percent was related to residential buildings, 7.0 percent to residential buildings with business permit and the remaining to non-residential buildings.

#### Buildings Completed by the Private Sector in Urban Areas

The number of completed buildings declined in 1383 as compared with the previous year. The noticeable rise in the production cost which in turn was the result of the increase in price of land, construction expenses, and price of other inputs was among factors behind this trend.

In this year, private sector invested Rls. 14.5 trillion for completing semi-finished buildings, which constituted 19.6 percent of total private sector investment in new constructions in urban areas. In the review year, 146.9 thousand buildings with total floor space of 55.6 million square meters were completed by the private sector.

#### BUILDINGS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1381	1382	1383	Percentage change ○	
				1382	1383
Number (thousand)	196.6	188.6	146.9	-4.1	-22.1
Total floor-space (million square meters)	58.0	59.8	55.6	3.2	-7.1
Average floor-space (square meters)	295.0	317.0	378	7.6	19.2
Average cost per square meter (thousand rials)	664.0	797.0	1,004	20.0	26.0

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

In 1383, private sector completed 402.5 thousand residential units with total floor space of 49.5 million square meters. In this year, average floor space of completed residential units grew by 3.4 percent to 123 square meters, still higher than the figure set in the 3<sup>rd</sup> FYDP (100 square meters).

#### RESIDENTIAL UNITS COMPLETED BY THE PRIVATE SECTOR IN URBAN AREAS

	1381	1382	1383	Percentage change ○	
				1382	1383
Number (thousand)	446.0	462.7	402.5	3.7	-13.0
Total floor-space (million square meters)	53.1	55.1	49.5	3.8	-10.2
Average floor-space (square meter)	119.0	119.0	123.0	0	3.4

In 1383, land price index in urban areas faced an increase of 21.4 percent, as compared to the previous year. This index in other large cities and other urban areas was higher than the inflation rate (15.2 percent).

#### LAND PRICE INDEX BY URBAN AREAS

(1376=100)

	1381	1382	1383	Percentage change	
				1382	1383
Tehran	217.8	257.2	284.9	18.1	10.8
Other large cities	261.4	406.3	509.3	55.5	25.4
Other urban areas	318.6	460.7	624.7	44.6	35.6
<b>All urban areas</b>	<b>246.9</b>	<b>335.7</b>	<b>407.4</b>	<b>36.0</b>	<b>21.4</b>

#### Construction Indices

Construction services index, an indicator of labor market, grew by 25.8 percent, which was higher than the inflation rate of 15.2 percent.

#### CONSTRUCTION INDICES

(1376=100)

	1381	1382	1383	Percentage change	
				1382	1383
Construction services index	184.0	227.2	285.8	23.5	25.8
Wholesale price index of construction materials	192.1	216.9	268.8	13.0	23.9

