



The Construction & Housing Sector in Jordan

The Challenge of Demand & Supply Alignment
& Financing Mechanisms

October 2019



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM



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The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

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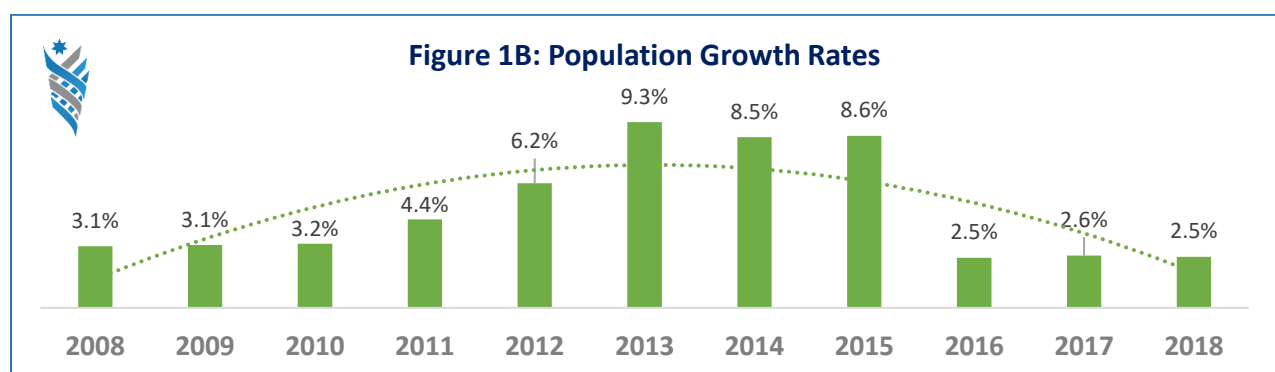
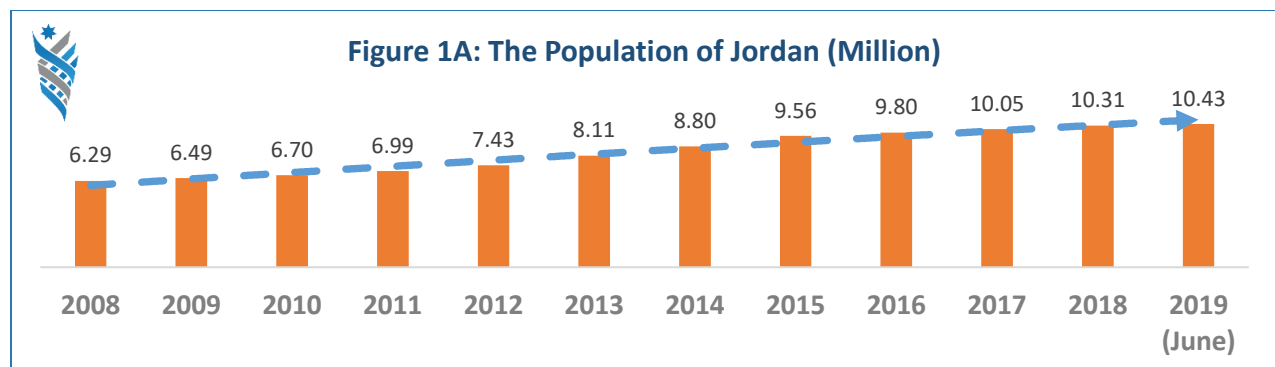
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I. Background:

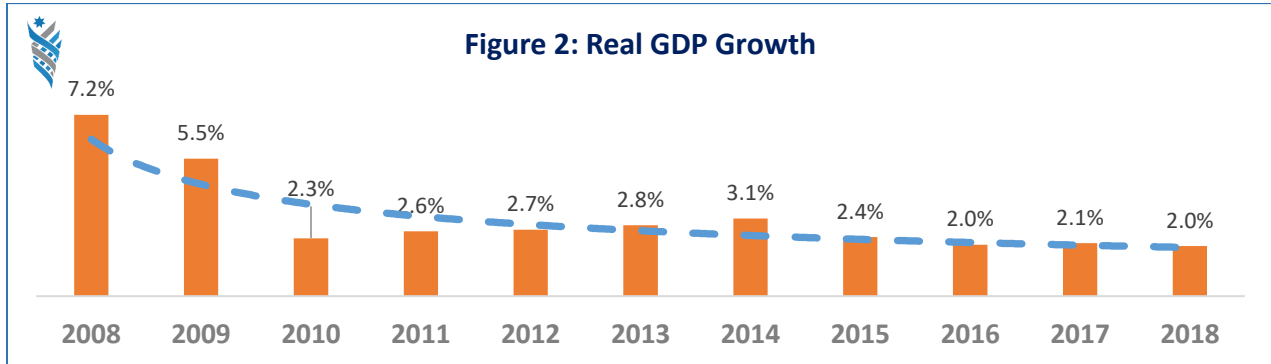
The construction industry is a critical component of any economy. The construction of houses, factories, offices and schools is part of this sector's activities. The sector also builds roads, bridges, ports, airports, railroads, and other things. The construction sector also maintains and repairs existing structures.

The construction sector is significant. It creates jobs, promotes economic growth, and even addresses social, climate, and energy challenges. In addition, the sector has direct and indirect linkages with other sectors, so that its impact on economic growth and development extends well beyond its direct contribution of construction activities. Within this context, a number of general observations can be outlined:

First, the population of Jordan has increased from 6.29 million in 2008 to more than 10.4 million in June 2019. Relative to any standard, the Kingdom has experienced high population growth rates. During the period 2012-2015, the "unusual" increases were mainly due to the Syrian refugees (Department of Statistics / DOS).

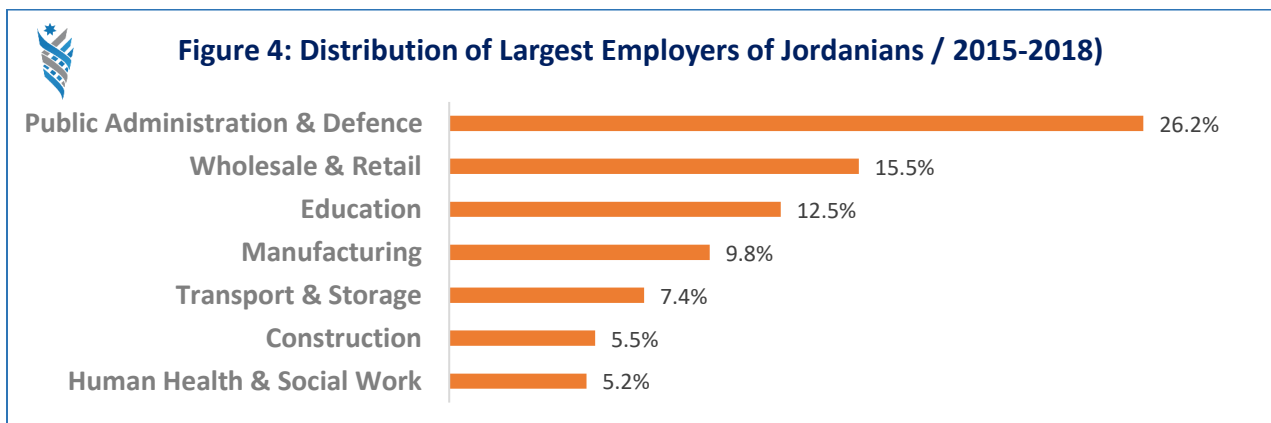
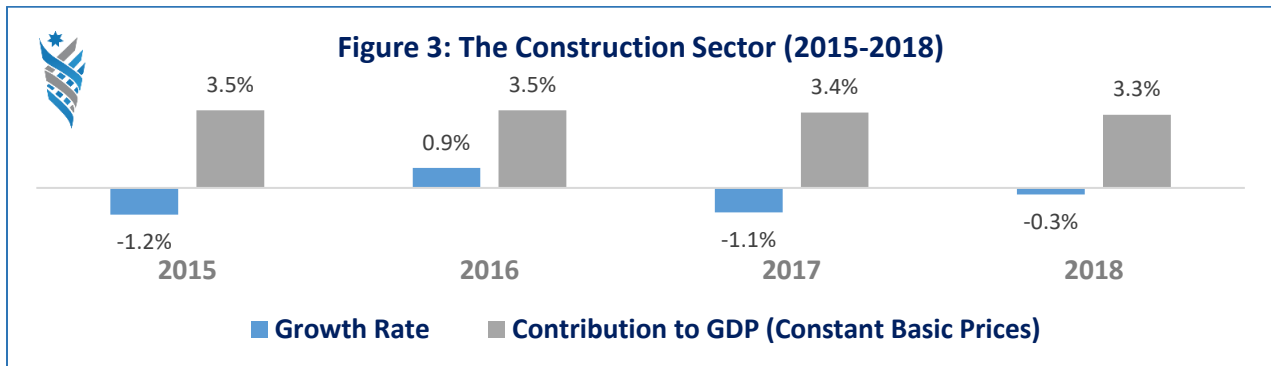


Second, notwithstanding the 2008 global recession, regional instability, and the closures of the Iraqi and Syrian borders, the economy has managed to achieve positive economic growth rates (Figure 2).

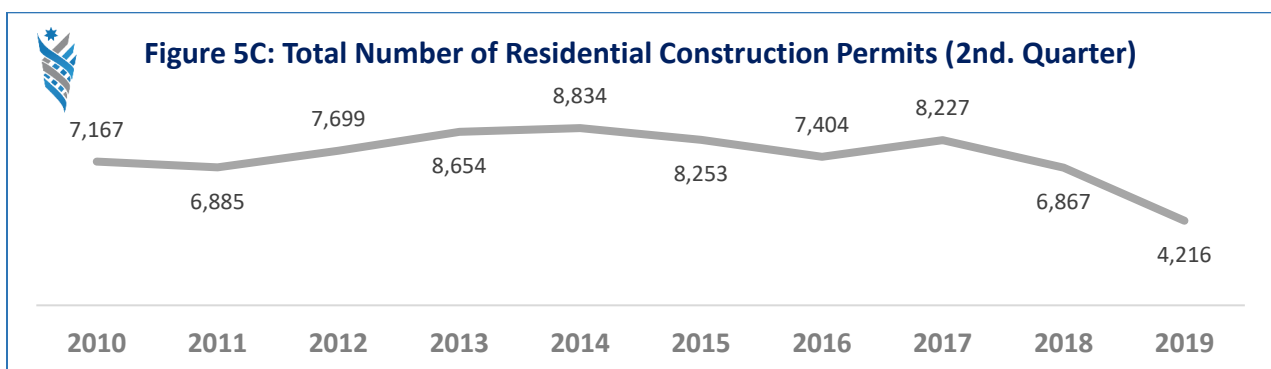
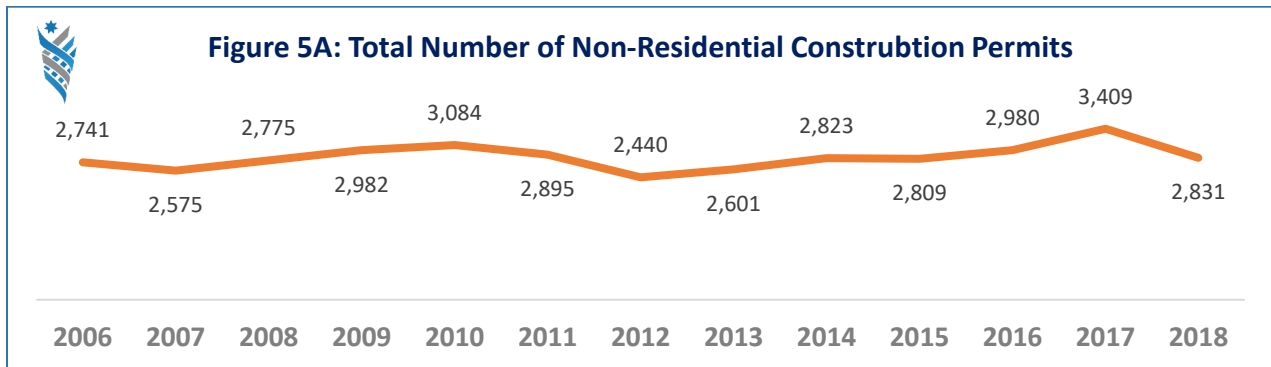


The fact that all indicators reflect that Jordan has witnessed “high population growth rates” and “positive real economic growth rates”, one would have expected the construction sector in general and the housing sector in particular, to also witness reciprocal growth rates. **However, this is has not happened.**

The construction sector has witnessed negative growth rates in 2015, 2017, and in 2018. However, its direct contribution to GDP has remained around the 3.0% to 3.5%. (Central Bank of Jordan Annual Report / 2018). In addition, Jordan’s construction sector is one of the largest employers in the economy. During the period 2015-2018, the construction industry was the 6th largest employer in Jordan (DOS).



It is interesting to note that while the construction sector (residential and non-residential) has always reflected fluctuations, the total number of permits has fallen in an unusual manner in 2018. Indeed, this decrease, in the residential permits, has continued until the end of the 2nd quarter of 2019 (DOS).



Within the context of the above-mentioned observations, this policy paper, published by the Jordan Strategy Forum (JSF), involves three objectives. **First**, to provide some general observations about Jordan's construction sector in general, and the housing sector in particular. **Second**, to provide some policy recommendations whose objective is to promote the growth of the construction sector. Third, to outline briefly the Saudi and Moroccan experiences in their respective housing sectors.

2. The Construction & Housing Sectors in Jordan: Some Observations

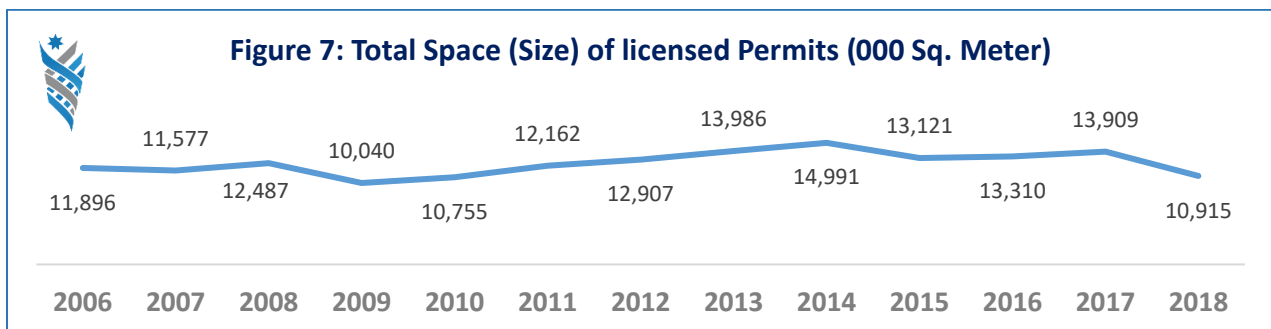
A) Construction Permits:

During the period 2006-2018, the overall number of construction permits (DOS) fluctuated between a minimum of 29,498 and a maximum of 43,201 permits. However, the year 2018 witnessed the largest decrease (-25.3%).



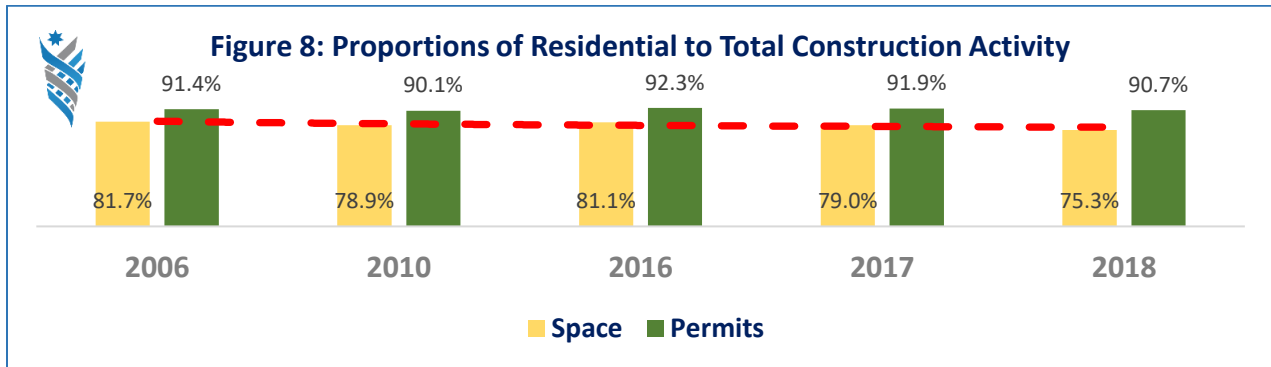
B) Space (Size) of Construction Permits

During the period 2006-2018, the total space (size) of construction permits fluctuated between a minimum of 10,040,000 square meters in 2009 and a maximum of 14,991,000 square meters in 2014. However, the year 2018 witnessed the largest decrease (-21.5%).



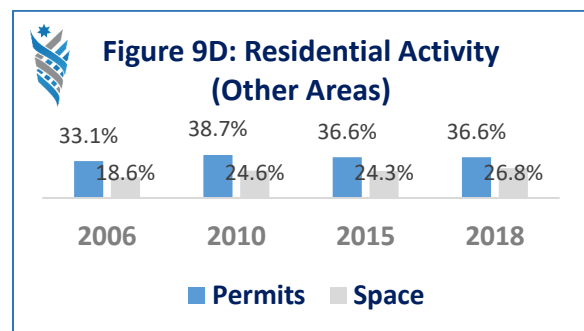
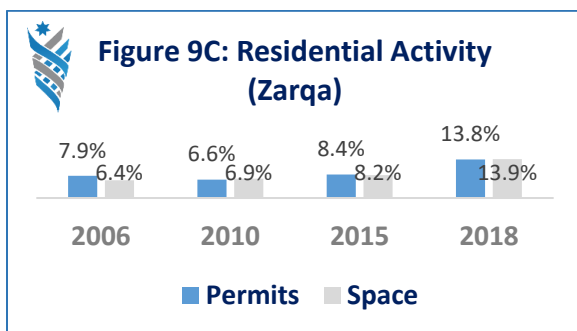
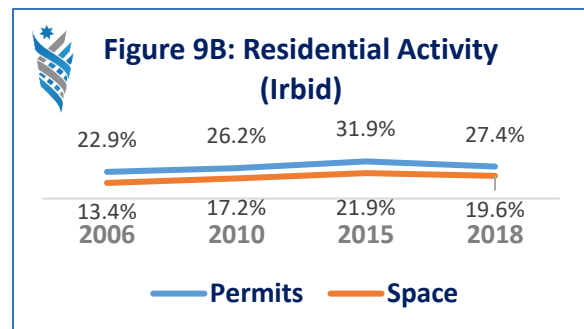
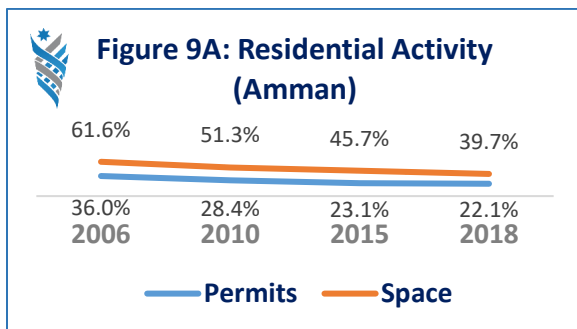
C) Residential Permits

The number of residential permits account for around 90% of total construction permits. However, **in terms of space**, the residential sector's proportion has decreased from 81.7% in 2006 to 75.3% in 2018.



D) Performance of Residential Construction in the Kingdom

During the period 2006-2018, the performance of the residential construction activity shows that Amman's share of the total number of permits and total area has fallen significantly (Figure 9A). Second, Irbid, Zarqa, and other areas have experienced growing proportions in both their number and area of permits.



E) The Residential Sector: Supply & Demand

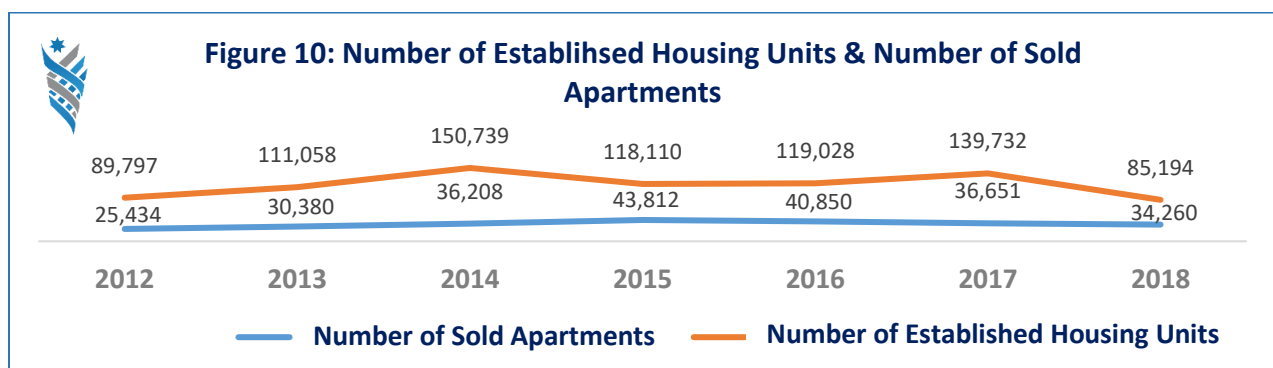
As far as the number of residential construction permits for “new buildings” and “additions to existing buildings” are concerned, DOS publishes data about their total space / size. In 2018, the mean size of a housing unit was 178.3 square meters (3,677,000 square meter/20,628 units). We can also estimate the number of housing units per permit and this is equal to 3.6 (20,628 housing units/5,786 permits).

Table 1: Permits for New Housing & Extensions to Existing Housing

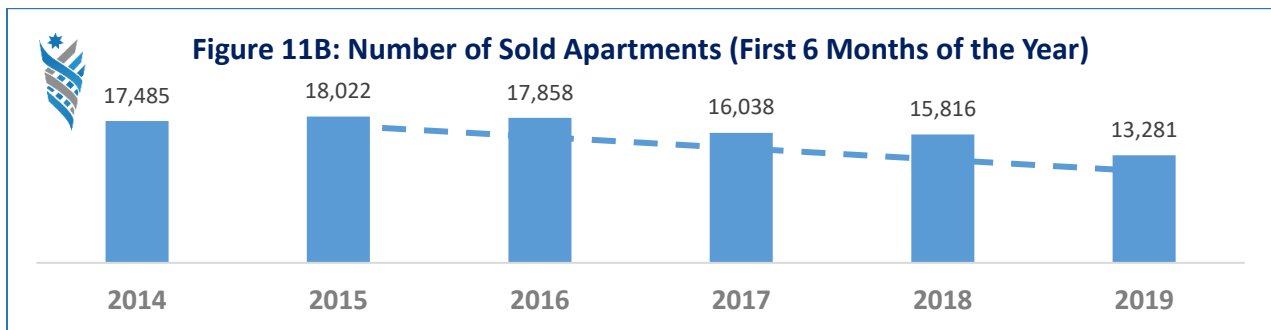
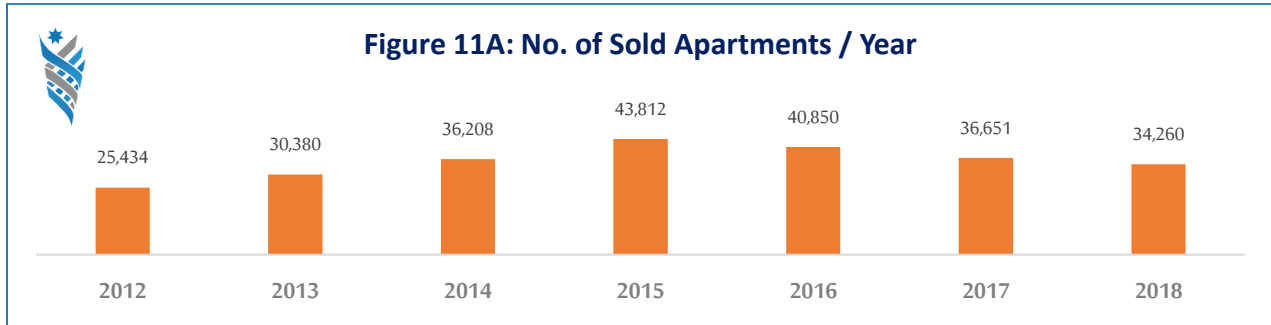
Year	No. of Permits (New & Extension to Existing)	No. of Housing Units	Total Area (Square Meter)	Mean Size of Housing Unit (Square Meter)	Mean Number of Housing Units Per Permit
2006	12,623	37,719	6,683,000	177.2	3.0
2007	10,191	30,143	5,202,000	172.6	3.0
2008	8,732	37,111	5,121,000	138.0	4.3
2009	10,677	23,658	4,200,000	177.5	2.2
2010	8,447	25,029	4,557,000	182.1	3.0
2011	8,841	38,382	6,482,000	168.9	4.3
2012	9,057	38,788	6,717,000	173.2	4.3
2013	9,763	45,319	7,192,000	158.7	4.6
2014	9,235	50,835	7,010,000	137.9	5.5
2015	7,206	33,047	5,661,000	171.3	4.6
2016	6,611	26,295	4,817,000	183.2	4.0
2017	5,711	23,624	4,290,000	181.6	4.1
2018	5,786	20,628	3,677,000	178.3	3.6

It is also interesting to note that the total number of housing units has decreased from its peak number of 50,835 units (2014) to 20,628 units by the end of 2018! It is also useful to note that the mean size of the housing unit has not really changes since 2006, and this indicates that the type of residential construction has not been adapting to the underlying social changes and the changing demand. This observation explains the available supply does not meet the requirements of the demand side of the market.

During the years 2012-2018, if we assume that the mean numbers housing units per permitted and constructed building are equal to 4.6, 5.5, 4.6, 4.0, 4.1, and 3.6 respectively (Table One), this implies that the total number of constructed housing units is equal to (number of permits for existing buildings * number of housing units per building). This implies that the total number of established housing units was equal to 85,194 in 2018. If we compare this number with the total number of sold apartments, we can conclude that supply is greater than demand in the housing market. This observation must be investigated.

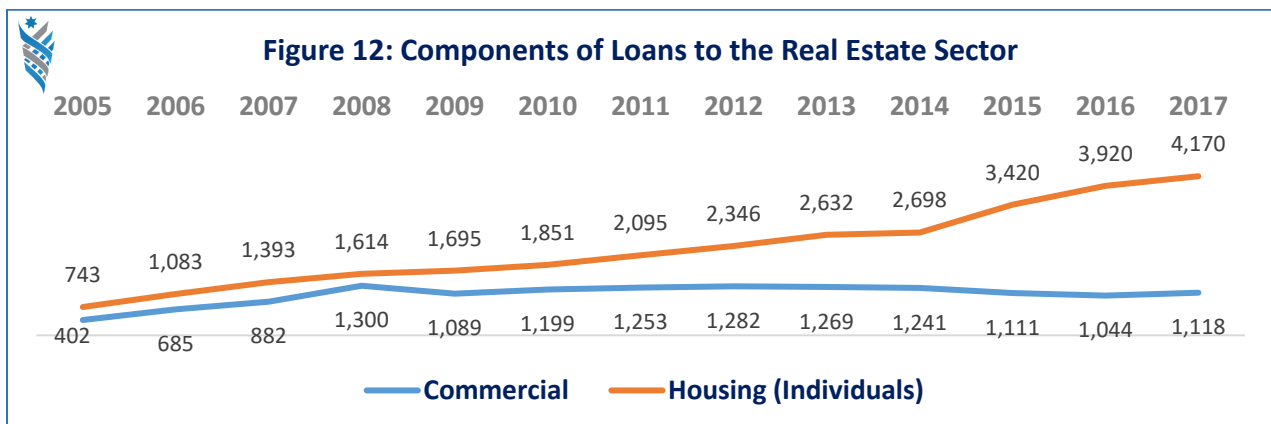


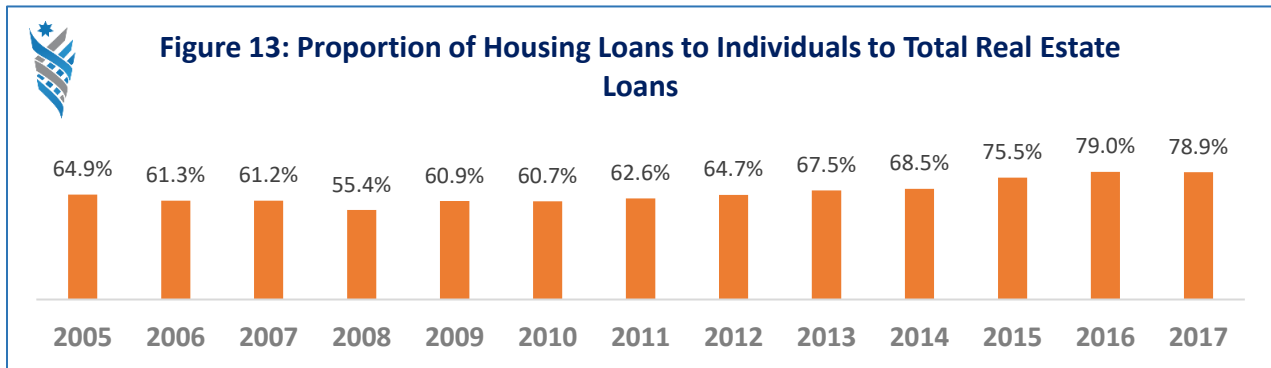
It is useful to note that the Department of Lands and Survey's available data reveals that the total number of sold apartments during the period 2013-June 2019 have been falling!



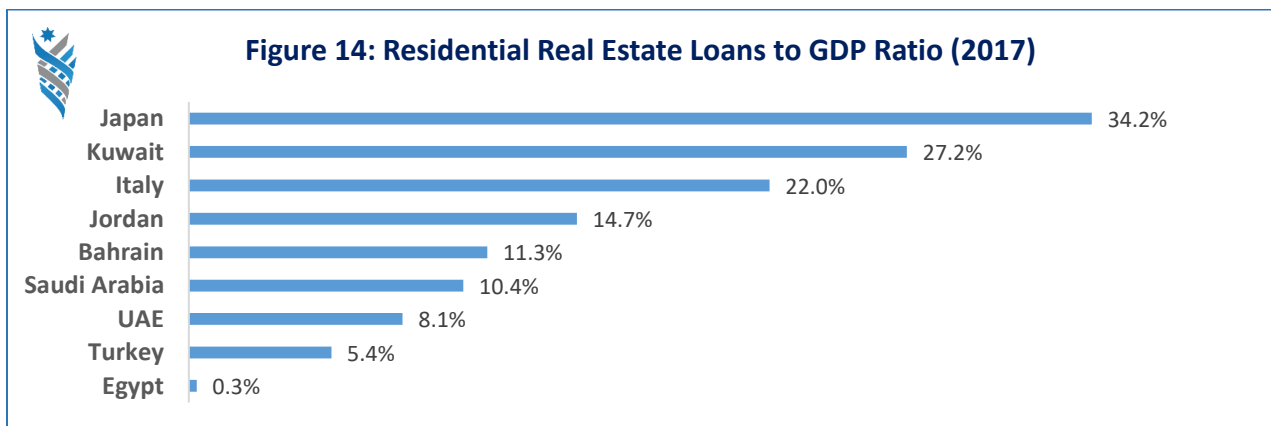
F) Residential Sector & Financing Mechanism

Within the same context, it is interesting to note that housing loans to individuals has been growing at a faster rate than total commercial real estate loans (Figure 12). Indeed, based on the Central Bank of Jordan's (CBJ) financial stability reports, housing loans extended to individuals accounted for 55.4% and 78.9% of total real estate loans at the end of 2008 and 2017 respectively (Figure 13). This indicates that banks are prepared to lend more for housing side of the market.

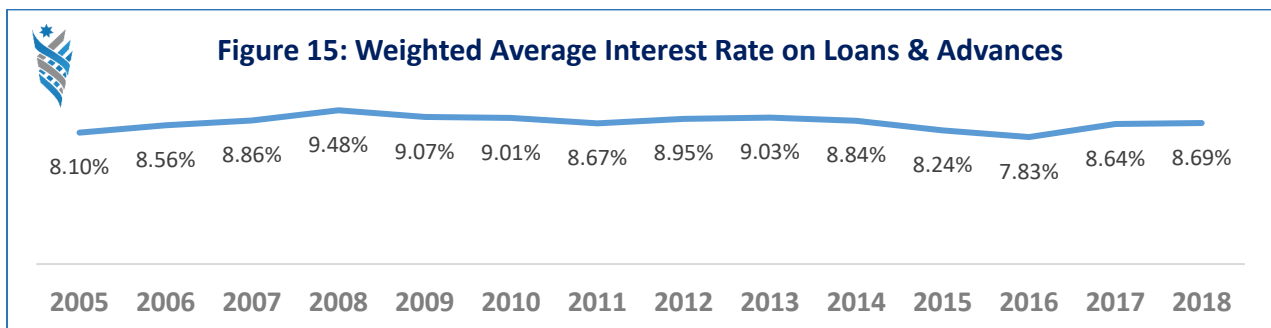




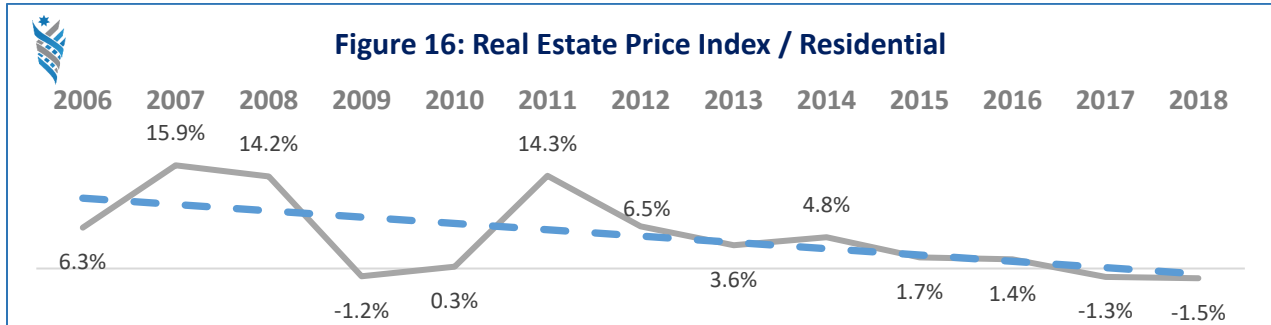
It would be also useful to put housing loans to individuals in Jordan in their international perspective. Again, based on the CBJ's 2017 financial stability report, it is reported that housing loans to individuals stood at 14.7% of GDP in 2017.



The weighted average interest rate on loans and advances has remained around the 8% to 9% mark!

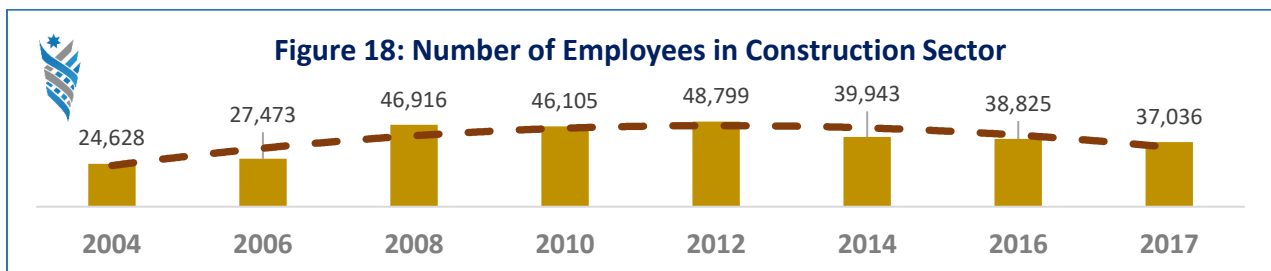
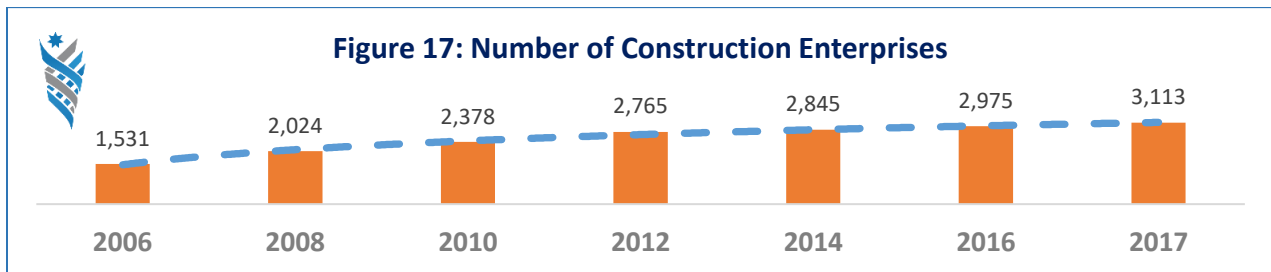


Based on the CBJ estimations, the “real estate price index / residential” decreased by 1.2% in 2009, 1.3% in 2017, and by 1.5% in 2018 only. In 2007, 2008, and 2011, this index increased by 15.9%, 14.2%, and 14.3%!

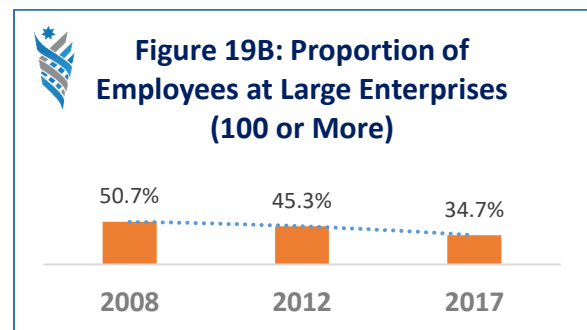
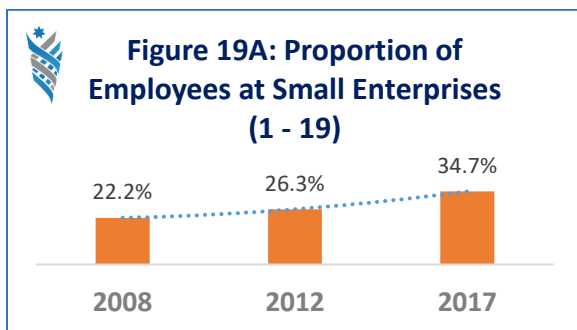


G) Employment in the Construction Sector

In contrast to the decreasing overall size (space) of new construction permits in general, and in the new residential permits in particular, it is interesting to note that the total number of construction enterprises (Figure 18) has increased from 1,531 in 2006 to more than 3,000 by the end of 2017 (DOS)! However, since 2012, the number of construction sector employees has been falling (Figure 19)!

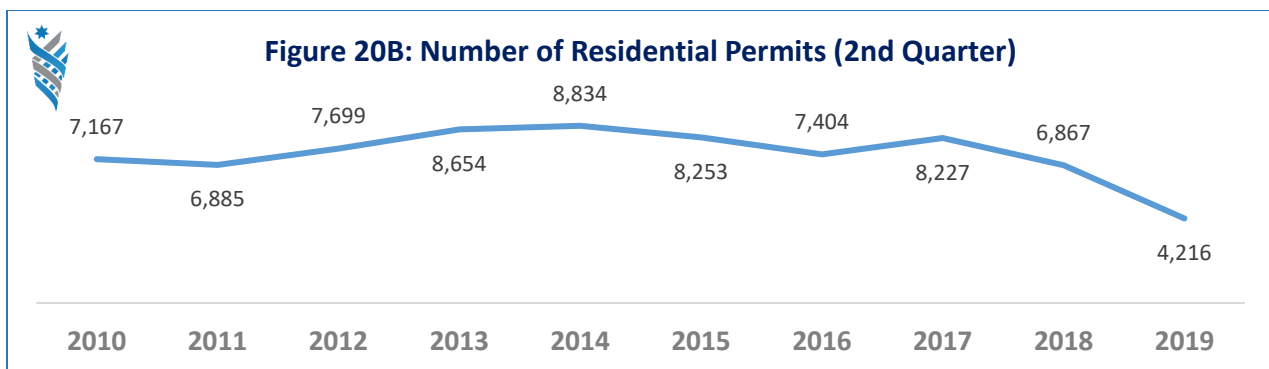
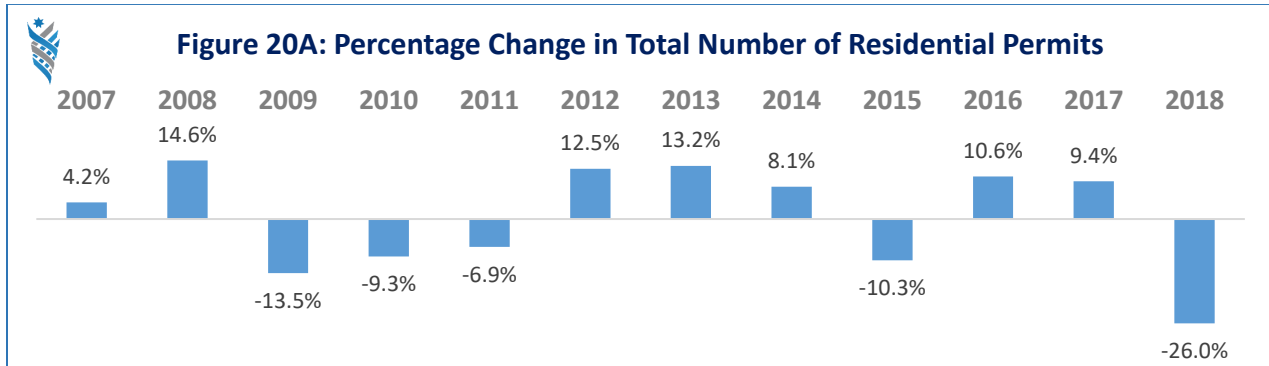


The increase in the number of construction enterprises and the decrease in total employment levels have caused smaller companies (1 to 19 individuals) to employed greater proportions of total employees. The share of enterprises that employ 1 to 19 individuals increased from 22.2% in 2008 to 34.7% in 2017. The share of enterprises that employ 100 or more individuals, on the other hand, decreased from 50.7% in 2008 to 34.7% in 2007. This observation implies that small companies are growing in employment levels at the expense of large companies!



3. Summary & Implications

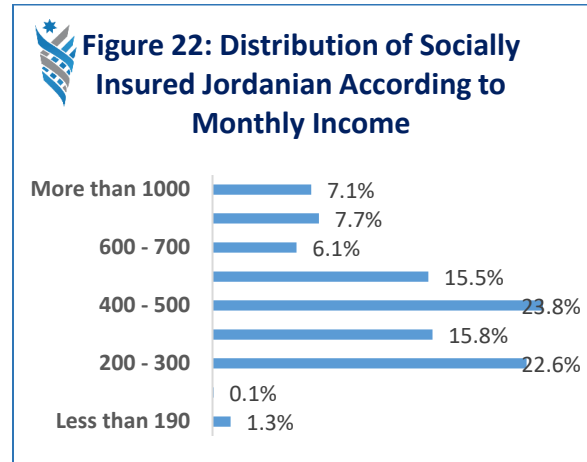
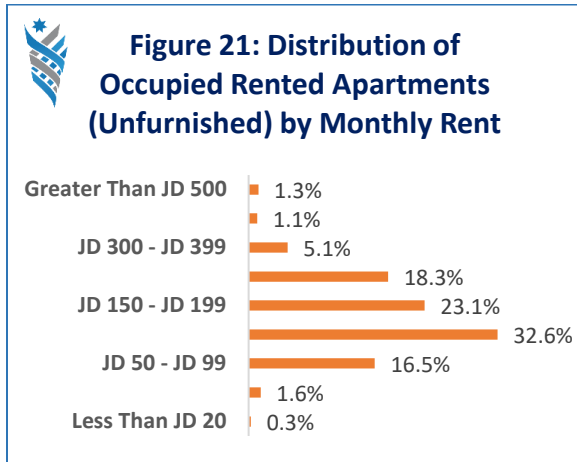
The residential side of the construction sector is passing through difficult times. The percentage change in the number of permits has fallen by 26% in 2018. On a quarterly basis, the number of residential permits fell from 6,867 permit (2nd quarter 2018) to 4,216 (2nd Quarter 2019).




Clearly, the residential sector’s performance has been fluctuating. This behavior is probably expected given the dynamics of demand and supply and the time it takes to complete and sell the constructed units. However, this sector is passing through an unprecedented weakening stage since the 2018. One way to reverse this downward trend is to look into providing prospective customers with suitable housing units (in terms of size and financing package).

Based on DOS’s 2015 published data, the total number of rented (unfurnished) apartments was equal to 485,381. Moreover, 90.6% (439,633 apartments) of these apartments’ monthly rent lies between JD50 and JD299. In addition, 46.5% of the rented apartments’ (unfurnished) monthly rent is between JD150 and JD399. Based on the 2018 Social Security Corporation’s Annual Report, the total number of insured Jordanians was equal to 1,141,879 individuals. Based on these individuals’ monthly wage, we can state that the monthly wage of 61% of them lies between JD300 and JD700 per month. This observation implies demand for “suitable” housing units from this income group in terms of size and price is greater than supply. As a result, there is great need for a financing strategy that classifies the income levels of individuals. The private sector should also look into providing those who rent their housing units with financially suitable housing units to buy or build.

The reported numbers below show that it is possible to align the supply side of the housing sector with its demand side. Within this context, it should be noted that the government, in September 2019, has launched the first stage of “Majd” City in Zarqa governorate for the low and mid income, and this experience, especially because it involves credit facilities, should be examined and evaluated.




Supply & Demand In The Housing Sector In Jordan




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Number of Rented Apartments (unfurnished) 485,000



About 696,000 Insured Jordanians' Monthly Salary is between 300-700 JDs



Rent of 225,000 Apartments is between 150 - 399 JDs



There is great need for a financing mechanism that classifies the income levels of individuals to enable them to own houses.

Date: October 2019
Reference: JSF study "The Construction & Housing Sector in Jordan: The Challenge of Demand & Supply Alignment & Financing Mechanisms" www.jsf.org [/JordanStrategyForumJSF](https://www.facebook.com/JordanStrategyForumJSF) @JSFJordan

There is no doubt that the challenge of providing suitable housing units faces many countries. Within this context, the Saudi and Moroccan experiences in their respective housing sectors provide us with interesting cases, especially for those who seek their “first home”.

The Saudi Experience in the Housing Sector

The Ministry of Housing in Saudi Arabia has launched several initiatives whose objective is to facilitate access to suitable housing solutions and to increase home-ownership for citizens who are registered with the Ministry of Housing and the Real Estate Development Fund. To accelerate the process of owning “the first housing unit” at an affordable price and quality, these initiatives are adopted in partnership with the private sector and relevant funding agencies.

The Saudi initiative rests on five main pillars:

1. Facilitate ownership of suitable housing units.
2. Promote private sector involvement in housing sector at reasonable cost.
3. Promote the establishment of “property developers”.
4. Promote non-governmental organization in the provision of housing units for the poor.
5. Make relevant law, rules, and regulations investor-friendly to promote private investment in the housing sector.

Within the context of the above-mentioned pillars, the Saudi initiative rests on two main pillars:

1. Enabling Demand.
2. Supply Support.

To enable demand, the process starts with:

1. Developing a housing support system for beneficiaries: by receiving requests for housing support and determining their eligibility for support, and determining the appropriate housing product for each segment of beneficiaries based on the required residential area and the size of the family and purchasing power.
2. Analysis of the financing capacity and purchasing power of citizens: in cooperation with banks (depending on the income of the citizen and his age and the extent of his commitment to make payments).
3. Determining the type and size of financial support for each citizen (such as interest subsidies, guaranteeing down payment, and guaranteeing loans to non-bankable citizens).

To support the supply-side of the market, the process starts with:

1. The creation of sales committee “on a map”. This is an independent body that gives a license to the real estate developers to supervise and sell on map residential projects.
2. the provision of incentives to real estate developers in terms of attracting labor and financing to enable them to develop various housing projects.
3. Developing PPP models based on a partnership between the government, real estate developers and banks.

Table 2: Basis of Enabling Demand and Supply Support for Housing Sector: Saudi Ministry of Housing

Supply Promotion	Demand Promotion	Applicants Classification
PPP Projects / Private Sector Investment	Interest Rate Subsidy	Bankable / Middle Income or Higher / Limited Liabilities
PPP Projects / Private Sector Investment	Finance Package	Semi-Bankable / Middle Income or Higher / High Liabilities
Low-Cost Housing Units	Renovation Loan / Rent Subsidy / Financial Leasing	Non-Bankable / Low to Mid Income / High Liabilities
Development Housing	Renovation Loan / Rent Subsidy	Limited Income

The Moroccan Experience in the Housing Sector:

Morocco's experience rests on making available what is called "solidarity housing". This program, as the name implies, relies on making available "low-cost" and "small" housing units built by property developers or the concerned authority, and this program, as the name implies, relies on the provision of "low-cost". In addition, the government provides the participating companies with a myriad of tax and non-tax benefits. Naturally, the objective of these benefits is to maximize the number of involved companies.

The built apartments are sold to the beneficiaries without including sales tax in the price. In return, the Ministry of Finance pays the sales tax (20%) to the developer after the completion of the apartments and the issuance of the registration documents. In addition, property developers are provided with additional benefits including exemption from taxes, land registration fees, and ownership transfer fees.

As far as the beneficiaries are concerned, the government subsidizes the borrowing rate by making it equal to 2.2%, and in some cases 0%. This facility, "sovereign fund", is financed by grants from international bodies, organizations, and governments whose objective is to make available affordable housing to the targeted groups in the Kingdom of Morocco.

4. Jordan Strategy Forum: RECOMMENDATIONS

1. Maintain a stable legislative and legal framework.
2. Endorse land use in the Kingdom's governorates and adopt programs for the development of the suburbs based on clear principles including exemptions, privileges and incentives for developers and contractors, and provide basic services to the "to be developed areas" to encourage the implementation of housing projects for the targeted population.
3. Accelerate approval procedures and reduce their costs.
4. Conduct a survey to determine the nature of the demand side of the market, and decide on how to Enable it (within different residential areas, and finance facilitation).
5. The Ministry of Public Works & Housing and the General Organization for Housing & Urban Development, in cooperation with the local councils and municipalities, should develop a clear strategy for housing support to ensure that various income-segments of society own their first housing unit at the right quality and price.
6. The Ministry of Public Works & Housing, in cooperation with the various charity organization, should develop a strategy to identify poor families in need of housing support, and provide them with appropriate housing units.
7. Allocate a proportion of the land owned by the government for housing projects.
8. Strengthen partnership with the private sector by developing a contractual relationship between the government and the private sector to ensure the provision of suitable housing products. This can be done by:
 - a. The government cooperating with the banks to facilitate the provision of credit facilities that suit the different income-segments of society. In addition, it is recommended that credit to purchase "limited-space" housing units, should be at lower interest rates. Within this context, it is also recommended that a package of diversified financial facilities based on the income level of citizens should be made available.
 - b. The government providing real estate developers and contractors with incentives and exemptions to encourage them to provide suitable housing units for the relatively low income families.
 - c. The Government launching a platform to facilitate the charity contributions of individuals, organizations and private sector companies to the housing sector. This would consolidate all efforts in this context.
9. Relevant stakeholders should adopt various programs and modern technologies to reduce the cost of housing projects. These include, for example, prefabricated construction and "selling on map".
10. Institutionalize the good execution of housing projects in terms of quality and time.

11. Develop and institutionalize specialized companies to manage residential facilities.
12. Invest in the manpower of the sector and adopt quality assurance standards regardless of the nature of housing.
13. Support the development of “densely-populated” housing projects and launch an underlying integrated system for infrastructure, transportation, public places, and schools. In addition, start to encourage “vertical construction” instead of “horizontal construction”. This would reduce the overall costs of not only housing units, but also the cost of the infrastructure.
14. Encourage the establishment of provident funds for housing.
15. Promote the establishment of real estate developers in Jordan, and provide them with appropriate incentives to ensure the provision of suitable housing units for all income groups.

Jordan Strategy Forum Recommendations To Boost The Housing Sector In Jordan



Date: October 2019

Reference: JSF study “The Construction & Housing Sector in Jordan: The Challenge of Demand & Supply Alignment & Financing Mechanisms”

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