

Housing the Growing Population

Jeddah Economic Forum 2013

Post forum report

EY

Building a better
working world

منتدى
جدة
الاقتصادي



JEDDAH
ECONOMIC
FORUM





Contents

4

Executive summary

6

Developing competitive, attractive and sustainable cities

12

A solid foundation for successful housing

20

Conclusion

21

Appendix

22 Singapore: Affordable housing is more than just delivery of homes

23 Tunisia: Government must lead

24 Ireland: Delivery without planning creates price bubbles and crashes

25 Thailand: Problem solved?

Executive summary

Changing times, changing cities, changing housing

Housing the Growing Population, the theme of the 2013 Jeddah Economic Forum, encapsulates two powerful trends reshaping Middle East and North African (MENA) cities and societies: national economic competitiveness and social justice for all citizens. Over three days, from 16-18 March 2013, more than 2000 people heard more than sixty presentations covering experience from a dozen countries with two overarching themes:

- ▶ Sustainable, attractive cities are the core of national prosperity and global competitiveness
- ▶ Affordable housing lies at the heart of both urban success and the social bond in society

This Report of the Jeddah Economic Forum 2013 presents the two days by their main interlocking themes:

Developing competitive, attractive and sustainable cities

Building a solid foundation for successful housing

Sustainable attractive cities and national prosperity

All around the world, wealth is being generated mainly in cities; and people by the millions are moving to cities for improved social and economic opportunity. To build a successful national economy, countries in MENA must create competitive, attractive and sustainable cities that investors, entrepreneurs and employees want to live and work in.

In this century, a city discovers that to sustain higher wages and the associated standard of living, its businesses will

have to compete through innovation by producing unique products, services, models, and processes. That means attracting entrepreneurial people who will go anywhere in the world to find sustainable, attractive cities – speakers from Dublin, Istanbul, Singapore, Boston, and Sao Paulo all spoke of how cities are or can be made sustainable and attractive.

Leading rather than chasing urbanization is essential. Unmanaged urbanization can overrun a city with housing shortages, heightened income inequality, pollution, disease, rising crime, and social unrest. MENA cities have the blessing of newness – they are still building their infrastructure – and the challenge of urgency – with 34 cities in the region expected to add 23 million new urban dwellers by 2020, especially in Saudi Arabia, Iraq, Egypt, and Syria. These cities have the potential to become globally competitive cities, but only if they deliver the right combination of housing, infrastructure and job creation for citizens, expatriates, and temporary workers. They have a way to go: in the Economist Intelligence Unit's ranking of cities, Riyadh was the highest of these cities ranked at 106¹.

“If you leave a problem, it becomes a crisis.”

Dr. Abdullah Sadiq Dahlan
Chairman, Board of Trustees,
University of Business & Technology,
Jeddah

¹ *Hot Spots*. Benchmarking Global City Competitiveness, Economist Intelligence Unit, 2012



“Every city has and needs some people who make the city work. Affordable housing is where those critical jobs sleep at night.”

David A Smith

CEO, Affordable Housing Institute
(Boston, MA)

Sustainability is critical not only for people but also for resources. MENA energy consumption is growing faster than GDP and the MENA region is now emerging as a growing energy consumer. Urban inefficiency – automobiles, air conditioning, water and sanitation – adds enormously to energy waste and hence to needless cost.

Housing is a huge net consumer of energy. As noted by Khaled Awad, the Founder of GRENEA and Chairman of ACTS in the UAE, too much building is done cheaply, using cheap materials, and electricity and water are subsidized. This is putting huge demand on natural resources that could be sold on the international market to generate national income.

Affordable housing as the key to urban efficiency and social equity

As an emerging region, MENA is distinctive because its housing infrastructure, and its housing delivery systems, are both still being built. That offers a great

opportunity for inclusive cities, yet it comes at the price of high land values and currently-unaffordable housing prices.

In Saudi Arabia today, an average home costs SR700,000, nearly 10 times the average national salary of SR72,000. In the US, home prices average three times the average salary. As prominent Arab affairs commentator Mona Abu Sulayman said, Saudi Arabia is a rich country but we do not have rich citizens. Even the middle classes can typically own a home after they are fifty.

To address the unaffordability of housing, government plays an essential role. Virtually every aspect of urban housing delivery – land and zoning, infrastructure, building requirements, tenure options, cost of financing, and availability of subsidies – is influenced if not dominated by policies and programs of government bodies in multiple ministries and across multiple levels (national, provincial, or local).

Countries that have reformed or grappled with housing, like Singapore, Thailand, Tunisia, and Turkey, all referenced that quality affordable homes are the output of a comprehensive national strategy that involves data, urban planning, income mixing, financing, and targeted subsidy programs. Coordinated government action is essential, a theme echoed by Housing Minister HE Dr. Suwaish al-Duwaihi, who announced a new four-pillar national strategy:

- ▶ An improved regulatory framework
- ▶ A national data center for housing research
- ▶ An electronic database of available rental properties
- ▶ New and diversified real estate laws and programs including new initiatives from the Real Estate Development Fund

To that end, Sheikh Saleh Kamel spoke authoritatively about the role of Zakat and land use in Saudi Arabian cities. He urged issuance of an official fatwa for the faithful to pay Zakat on white lands, to discourage land hoarding as was written in the Quran. This would considerably ease pressure on land costs in the kingdom, and yield significant parcels of urban land made available for development of affordable homes.

“Zakat should be levied on white lands to expand land availability for affordable housing. Islam is concerned with social justice for all, not just for the rich.”

Sheikh Saleh Kamel

Chairman,
Jeddah Chamber of Commerce

Developing competitive, attractive and sustainable cities

In the twenty-first century, cities have become wealth generators because they attract mobile, educated people who drive the global information economy. To build a successful national economy, countries in MENA² must create competitive, attractive and sustainable cities that investors, entrepreneurs and employees want to live and work in.

City competitiveness encompasses four issues addressed by the Forum:

- ▶ What it takes to become a globally competitive city that attracts investors, entrepreneurs and workers as a location of choice and the role of housing as both a driver of competitiveness and economic growth
- ▶ What makes cities attractive environments in which to live and work, with a particular focus on managing energy demand, managing waste disposal, making cities special needs friendly, and promoting education
- ▶ How to implement technological infrastructure in MENA cities
- ▶ The role of government in a city's organizational framework

A call to action in the Century of Cities

Dr. Abdullah Sadiq Dahlan, Chairman of the Board of Trustees of the University of Business & Technology in Jeddah, opened the conference with a passionate speech that illustrated starkly the scale of the challenge creating affordable housing presents to the Government of Saudi Arabia. Housing is a basic human right, he told the delegates and as such – along with the provision of affordable food and access to education and healthcare – the availability

of affordable housing was a fundamental obligation of any government and any society in the world.

Dr. Dahlan called on delegates to speak openly about the scale of the problem, and to be transparent in sharing information. He said if you leave a problem, it becomes a crisis. But he added that disaster has not yet arrived; there are no homeless people sleeping on the streets in Saudi Arabia. He called on delegates to act quickly to cope with growing cities and rural-to-urban immigration. Urban failure would only be avoided, he said, if planning began now.

Delegates heard there existed great opportunity for competitive cities with quality affordable housing to unlock employment growth, wealth creation, and national prosperity. Ad Buisman, Ernst & Young's Head of Real Estate in EMEIA (Europe, Middle East, India, Africa) said: "Creating social housing in a public-private partnership on a large scale is not only attractive in terms of meeting the shortage of housing, it also offers a very significant growth opportunity. Mass building of social housing can catalyze very significant economic stimulus."

The Century of Cities

In 1910, 80% of the world's people lived in rural areas. By 2010, humanity had become 51% urbanized, and the rate of urbanization is accelerating: by 2050, 70% of the world's population will be living in urban centers. This makes the 21st century truly the 'Century of the City'.

According to the World Bank, the MENA Region has one of the world's most rapidly expanding populations, with an average growth rate of 2.2% per annum from

² MENA in this discussion includes Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Palestine, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.



1990-2000 and 2% per annum from 2000 to 2010³. Urban areas, whether formally planned or not, have been the primary locus of this growth, as the urban share of total population grew from 48% in 1980 to 56% in 2000, and it is expected to reach 72% by 2050⁴. As such, the region's average annual urban growth rate of 4% in the past two decades is exceeded only by Sub-Saharan Africa, which is far less urbanized.

UN projections estimate that the MENA population will reach 362 million by 2020⁵ of which 226 million are expected to be urban that is 63% of the populations⁶. This represents an additional 60 million people in MENA between 2010 and 2020.

Urbanization as enabler of opportunity

Urbanization is a movement within societies that harnesses the benefits of agglomeration in one locality in order to achieve higher levels of prosperity. The frictional effects of distance are overcome when people move from dispersed rural locations to centralized city locations, minimizing transaction costs and maximizing economies of scale. In this way, cities have historically been centers of innovation, social and economic transformation, increased productivity and value addition.

In general, modern economies go through three stages of development:

- ▶ **Early-stage countries:** cities less important. These countries are mainly factor-driven and compete based on their factor endowments, primarily low-skilled labor and natural resources. These countries do not need or create modern technological competitive cities. As an economy becomes more competitive, productivity increases, wages rise and it moves into the efficiency-driven stage of development, when it must compete based on labor, finance and product market efficiency.
- ▶ **Rising countries:** cities emerge. As the country's economy grows and its per-capita GDP rises, the leading cities – often centers of trade, finance, government, or, in the unique case of Saudi Arabia, the Holy Cities – grow faster than secondary ones. While there may be a core activity in such cities, that in turn spurs economic diversification and the city begins expanding its boundaries with great speed.
- ▶ **Globalizing countries:** cities optimize. In the third stage of growth, a prospering city discovers that to sustain higher wages and the associated standard of living, its businesses will have to compete through innovation by producing unique products, services, models, and processes. For this, it will need functional cities. Typically, that realization triggers a massive effort at urban improvement that must be retrofitted into the existing urban fabric.

Successful urbanization requires successful cities

The World Economic Forum Global Competitiveness Report 2012 defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a city. The level of productivity sets both the level of prosperity that can be earned and the rates of return obtained by investments in a city, which in turn are the fundamental drivers of its growth rates.

With increasing free trade in services, the price of traded products has almost stabilized across the world. Goods now have very similar prices everywhere; therefore, no city has any advantage over any other in traded goods. Comparative advantage of nations will increasingly lie in the relative efficiency of their cities and the extent to which they are places of innovation.

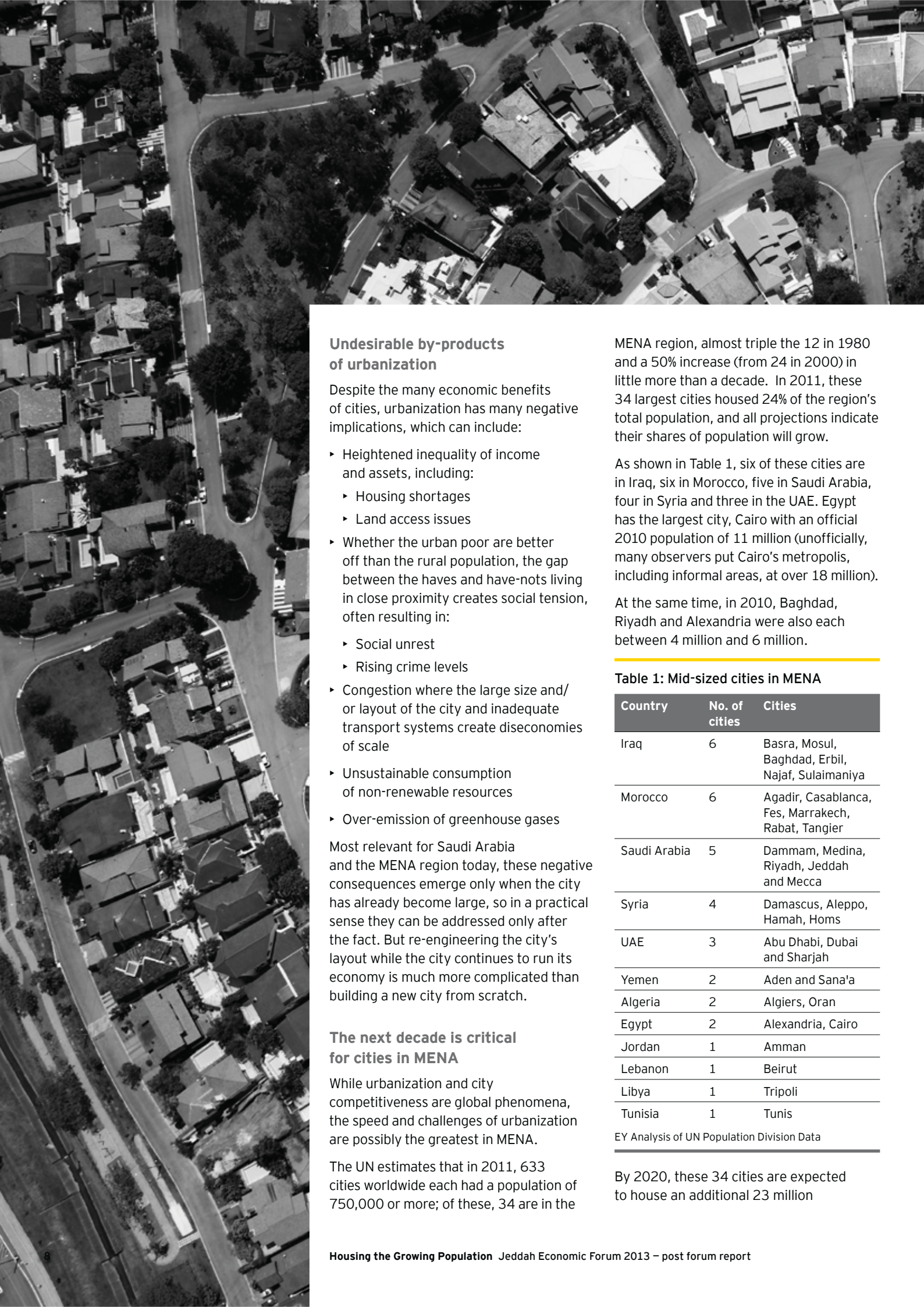
As David Smith, the CEO of the Affordable Housing Institute summed it up: "If a city doesn't work, its economy dies; and if the economy dies, the city dies. We've seen this in America. Detroit, which used to be the dynamo of American industry, has over the last five decades lost two-thirds of its population. The results are tragic: the city is in receivership, it can't pay its bills, and in whole streets and neighborhoods the city is stopping essential services like streetlights."

³ *Unlocking the Employment Potential in the Middle East and North Africa*, World Bank, 2004

⁴ File 3, *Urban Population*, World Urbanization Prospects: The 2011 Revision, Population Division, Department of Economic and Social Affairs, United Nations

⁵ File 5, *Total Population*, World Urbanization Prospects: The 2011 Revision, Population Division, Department of Economic and Social Affairs, United Nations

⁶ Same as footnote 2



Undesirable by-products of urbanization

Despite the many economic benefits of cities, urbanization has many negative implications, which can include:

- ▶ Heightened inequality of income and assets, including:
 - ▶ Housing shortages
 - ▶ Land access issues
- ▶ Whether the urban poor are better off than the rural population, the gap between the haves and have-nots living in close proximity creates social tension, often resulting in:
 - ▶ Social unrest
 - ▶ Rising crime levels
- ▶ Congestion where the large size and/or layout of the city and inadequate transport systems create diseconomies of scale
- ▶ Unsustainable consumption of non-renewable resources
- ▶ Over-emission of greenhouse gases

Most relevant for Saudi Arabia and the MENA region today, these negative consequences emerge only when the city has already become large, so in a practical sense they can be addressed only after the fact. But re-engineering the city's layout while the city continues to run its economy is much more complicated than building a new city from scratch.

The next decade is critical for cities in MENA

While urbanization and city competitiveness are global phenomena, the speed and challenges of urbanization are possibly the greatest in MENA.

The UN estimates that in 2011, 633 cities worldwide each had a population of 750,000 or more; of these, 34 are in the

MENA region, almost triple the 12 in 1980 and a 50% increase (from 24 in 2000) in little more than a decade. In 2011, these 34 largest cities housed 24% of the region's total population, and all projections indicate their shares of population will grow.

As shown in Table 1, six of these cities are in Iraq, six in Morocco, five in Saudi Arabia, four in Syria and three in the UAE. Egypt has the largest city, Cairo with an official 2010 population of 11 million (unofficially, many observers put Cairo's metropolis, including informal areas, at over 18 million).

At the same time, in 2010, Baghdad, Riyadh and Alexandria were also each between 4 million and 6 million.

Table 1: Mid-sized cities in MENA

Country	No. of cities	Cities
Iraq	6	Basra, Mosul, Baghdad, Erbil, Najaf, Sulaimaniya
Morocco	6	Agadir, Casablanca, Fes, Marrakech, Rabat, Tangier
Saudi Arabia	5	Dammam, Medina, Riyadh, Jeddah and Mecca
Syria	4	Damascus, Aleppo, Hamah, Homs
UAE	3	Abu Dhabi, Dubai and Sharjah
Yemen	2	Aden and Sana'a
Algeria	2	Algiers, Oran
Egypt	2	Alexandria, Cairo
Jordan	1	Amman
Lebanon	1	Beirut
Libya	1	Tripoli
Tunisia	1	Tunis

EY Analysis of UN Population Division Data

By 2020, these 34 cities are expected to house an additional 23 million



people. Saudi Arabia is expected to see the greatest city growth in MENA with its five largest cities expected to house an additional 4.5 million between 2010 and 2020, followed by Iraq and Egypt with an additional 3.9 million and 3.3 million people in the largest cities. The largest cities of Syria, the UAE and Yemen will house an additional 2-3 million each between 2010 and 2020, as shown in Table 2.

Table 2: Additional population in large MENA cities

Country	Additional urban population 2010-2020
Saudi Arabia	+ 4,535,000
Iraq	+ 3,862,000
Egypt	+ 3,340,000
Syria	+ 2,634,000
UAE	+ 2,597,000
Yemen	+ 2,028,000
Morocco	+ 1,858,000
Algeria	+ 902,000
Jordan	+ 326,000
Lebanon	+ 319,000
Libya	+ 213,000
Tunisia	+ 158,000

EY Analysis of UN Population Data

These cities have the potential to become globally competitive cities, but only if they deliver the right combination of housing, infrastructure and job creation for citizens, expatriates, and temporary workers.

As shown in Table 3, Saudi Arabia has a long way to go. According to the Economist Intelligence Unit's 2013 list of the most competitive cities in the

world⁷, Riyadh was ranked 106. No other city in Saudi Arabia was included on the list. Dubai, Abu Dhabi and Doha, by comparison, were ranked 40, 41 and 47, respectively.

Table 3: Ranking competitiveness of cities

City	Overall rank
New York	1
London	2
Singapore	3
Dubai	40
Abu Dhabi	41
Doha	47
Kuwait City	80
Muscat	86
Riyadh	106
Cairo	113
Alexandria	116
Beirut	117

Hot Spots: Benchmarking Global City Competitiveness, EIU 2012

Everyone in a city is a stakeholder

As Jaime Lerner, the Former Mayor of Curitiba and Governor of Parana, Brazil, said at the Forum: "There must be a strategy for providing a good quality of life". He added "A city is like a turtle's shell, it is a structure for living, working, and moving. Like a turtle's shell, it is designed to enable all three activities and is the sum of its parts."

Similarly, HE Ahmet Misbah Demircan, the Mayor of Beyoglu (Istanbul) in Turkey, pointed out that before transforming an existing city, policymakers must have a clear vision of what they are going to transform it into. This would entail making big strategic decisions early

on in order to achieve the vision, he said. Leadership must therefore be bold, he added.

Cities must become more sustainable

Cities are technological and they consume energy, whether for climate control (air conditioning), lighting, water/sanitation or global telecommunications. National GDP strongly correlates with, and is often driven by, energy consumption and energy production.

Long known as one of the world's great energy sources, the MENA region is now emerging as a growing consumer of energy. While primary energy intensity (units of energy per unit of GDP) has been steadily decreasing in most parts of the world in recent decades, the MENA region is seeing energy consumption grow faster than GDP. As much as 70% of domestic MENA energy demand is for cooling in the residential and commercial sectors⁸. Not only could this begin to dull the region's economic competitiveness, but already it has led to power outages during recent summer peaks in demand in cities such as Dubai, Sharjah and Manama.

Cheap energy is a false economy

Khaled Awad, the Founder of GRENEA and Chairman of ACTS in the UAE, told the conference that people and societies assign little value to things they can acquire cheaply. As a result, he said, government subsidies of petrol and electricity are counterproductive – not only do they encourage citizens to consume more than was necessary, they also prevent governments from selling valuable resources on international markets.

⁷ The report measures competitiveness based on economic strength, physical capital, financial maturity, institutional effectiveness, social and cultural character, human capital, environmental and natural hazard, and global appeal.

⁸ Delivering on the Efficiency Promise in the Middle East, Oliver Wyman, 2012



He added that the problem is that now too much building is done cheaply, using cheap materials, and electricity and water are subsidized. Nobody cares about the costs of operating finished homes for the end-user. This is putting huge demand on natural resources that could be sold on the international market to generate national income.

He called for a new culture of environmental awareness across the nation, stressing that what is built today should not be begun until the cost of operating it when it is finished has been calculated. Doing so is long term thinking – preventing problems arising in the future that will be enormously expensive to solve.

Moreover, Mr. Awad said the widely held perception that sustainable infrastructure materials were vastly more expensive than non-sustainable materials was no longer true. He added that using them in the construction of homes would bring about considerable savings for end-users, who were often overlooked. “Short term expense, perhaps, but long term savings,” he said.

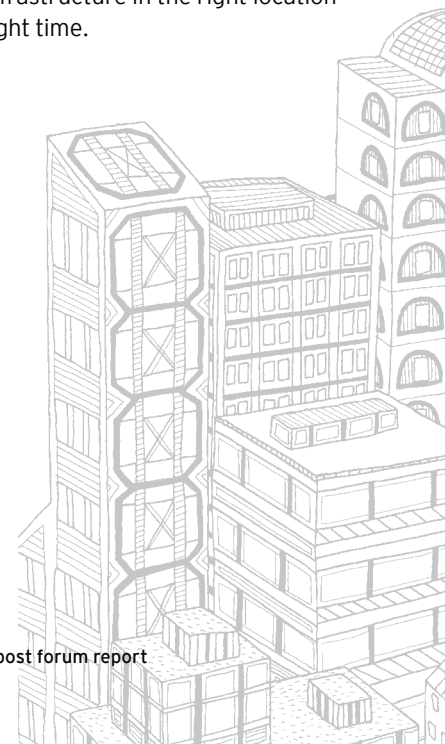
Housing the growing population is not just about delivering dwellings in sufficient quantity. It is also about housing people in residential areas linked to infrastructure and services that enable people to enjoy their community, to live effectively, and to work efficiently.

Municipal infrastructure is key

Even as energy production and consumption rise, cities do not automatically become more efficient, because human use of energy produces waste. For example, the State of Iraqi Cities Report, 2007, says that urban residents’ most frequent complaint is the buildup of waste in urban neighborhoods.

In the same way, waste collection services in Jordan and Egypt are often overloaded, in part because they are delivered through low-tech solutions (such as garbage collectors and rag-pickers) that are poor or informally employed or housed. Changing from these people-based systems to technological networks (e.g., water pipes, sewerage systems) requires a huge investment in infrastructure to be financed either through the budget or from bond issuances.

Either way, to modernize a MENA city’s infrastructure can represent per-home costs equal to the cost of housing itself and there is often a lack of coordination between the multiple government stakeholders involved in the delivery of the infrastructure in the right location at the right time.





Urban and environmental efficiency requires embracing new technologies

Smart technology can be a solution to this challenge. It can also drive many benefits for the city as a whole in attracting investors, capital and workers. Smart technology can make the systems of a city more efficient and environmentally sustainable. But to make these technologies work innovative ways of financing them are needed.

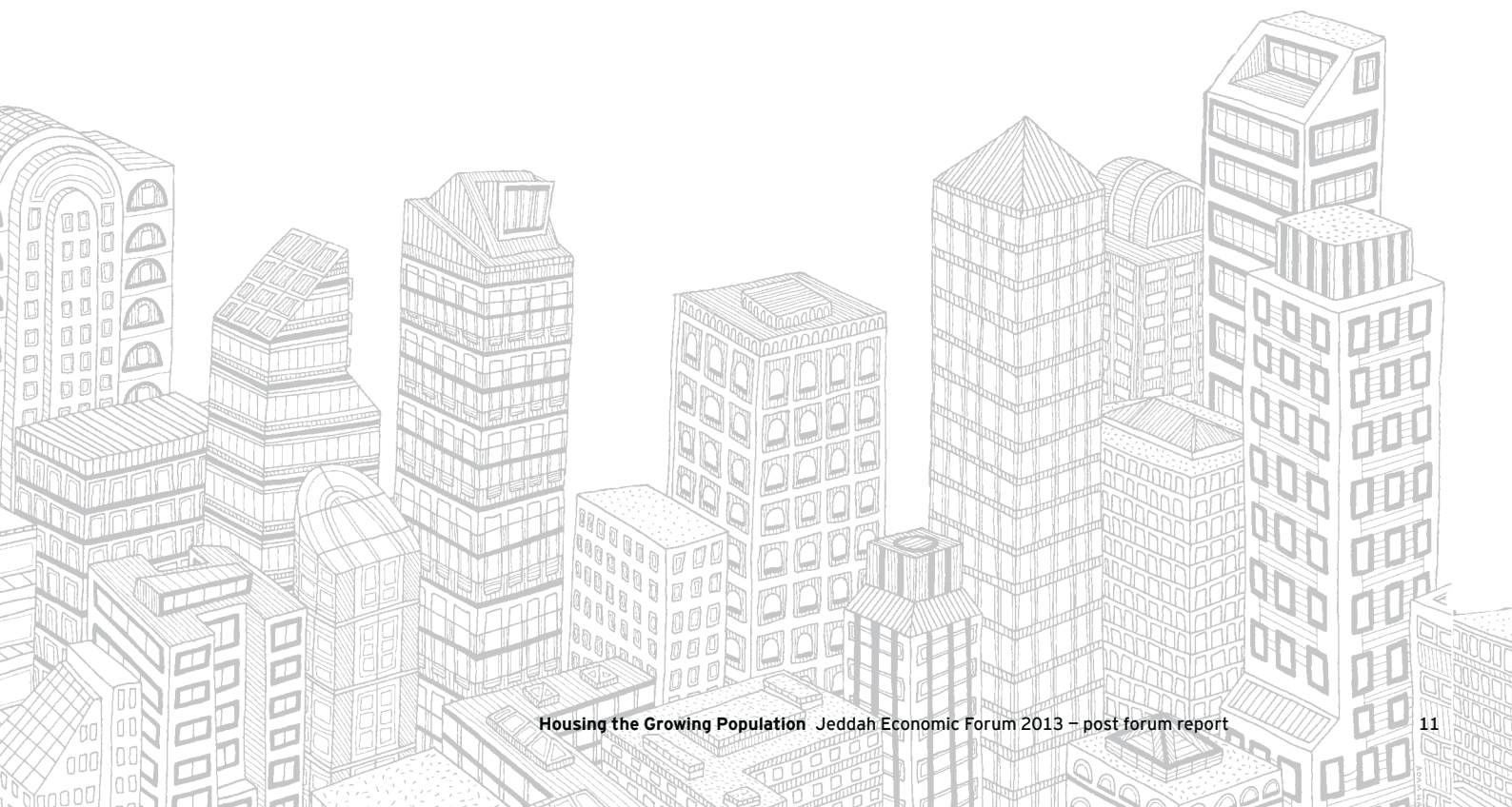
Thus, Mr. Awad implored policy makers to take advantage of the opportunities now presented by technological breakthrough when discussing sustainable cities.

High quality, affordable homes are a vital part of achieving competitiveness as a city. Housing, after all, takes the largest share of urban space and is the place in which the urban population spends most of its time. Thus, housing is what both creates and defines cities. The location and quality of housing determine the experience of city living, both in the time spent at home and the journeys from home to work, school, shops and other places.

Moreover, housing costs, as the largest items of household expenditure, drive wage levels, especially in Gulf economies where

employers pay housing allowances directly to employees. Homes are a means of attracting and retaining a workforce – both expatriate and local – and enabling social cohesion.

As Rakesh Mohan, Deputy Governor of the Reserve Bank of India, suggested in 2007, future national competitiveness and economic success will depend on the comparative efficiency of cities. Because housing is where jobs go to sleep at night, the quantity, quality, availability and affordability of housing becomes a key component in national economic competitiveness.



A solid foundation for successful housing

Despite the efforts of many governments in the MENA region, the supply of affordable housing is falling far short of demand and demand is rising rapidly.

- ▶ According to the Iraqi Ministry of Housing, Iraq already needs two million new dwellings by 2016⁹.
- ▶ Egypt has a huge housing deficit, most of it concentrated in metropolitan Cairo and Alexandria, which are expanding to meet each other in a vast Nile Delta conurbation.
- ▶ Kuwait has queues for government housing loans and the delivery of government funded housing for nationals lags the growing demand¹⁰.
- ▶ Bahrain has a housing need of just over 100,000 additional dwellings by 2020¹¹.

Libya had embarked on a massive Housing Investment Program in the period immediately before the revolution there.

The affordability of housing in all countries of the region was hit by the rise in land values during the economic boom period 2004-2008. Investor demand for land and real estate in general peaked as capital sought high returns, which were being achieved through land trading throughout the region. This pushed the affordability equation beyond the reach of many of the new households being formed.

Unless MENA countries change their national housing strategies, this crisis of affordable housing will become a major long-term problem that leads to widespread social dissatisfaction and sees the cities of the region fall behind in competitiveness.

'A good home for every citizen' has always been part of the national social contracts in the region and until about fifteen years ago that was a promise governments could keep. In the last decade and a half, however, governments have been falling behind: the systems in place, which used to be effective, cannot keep up with the growing population.

The growing crisis of affordable housing in the MENA countries is one that affects not just low income households but middle income, middle class households. The debate is about getting the housing systems working for the majority, as well as how to support those who will always struggle to afford a decent acceptable level of housing with their own means.

Four core issues of housing affordability and quality in MENA

The time for policy action in MENA is now, because the region's countries are entering what the United Nations calls the 'Demographic Window of Opportunity,' representing an unprecedented period of new household formation. MENA countries' Demographic Window will typically last 25-35 years; that is the moment of opportunity that MENA countries will have to move beyond emerging market status. To do this, they will require large numbers of quality urban affordable homes for people to own or to rent.

9 Iraq National Housing Policy, Ministry of Housing and Construction, Republic of Iraq, 2010

10 Page 7, Statistical Review Edition 34, Central Statistical Bureau, State of Kuwait, 2011

11 Page 26, Bahrain Economic Quarterly, 3rd Quarter 2011, Economic Development Board, Bahrain



With the goal of providing a solid national foundation for housing, panels on the Forum's second day addressed four key issues:

- ▶ The affordable housing challenge in MENA and Saudi Arabia
- ▶ Government's role in housing delivery
- ▶ Bringing in private-sector developers via solid foundations for supply-side public-private partnership that produced quality homes at scale
- ▶ Enabling private-sector innovation in housing finance by government's creation of an enabling environment to mitigate non-commercial risk.

As an emerging region, MENA is distinctive because its housing infrastructure, and its housing delivery systems, are both still being built. Housing production is the major means by which a household will acquire a dwelling. The role of the secondary resale market is smaller. This means that issues of land production for housing development are primary; and that housing finance is not just about household sector housing loans but includes the large requirements of housing developer financing.

MENA consumer attitudes to long-term loans differ from consumers in many parts of the world. MENA consumers focus more on the lifetime cost of the loan and do not discount monthly installments paid over many years. For this reason, and because of sharia issues, the MENA housing finance ecosystem is not yet as developed and diversified – and even within the region, some markets are more evolved (such as the UAE, Oman, Jordan and Egypt) while others (Iraq, Saudi Arabia, and Libya) are still establishing basic forms of mortgage finance. These differences matter because they affect lending: for example, many countries do not

allow foreclosure where the dwelling is the borrower's primary home.

Should expatriates be considered?

In most MENA countries, housing policy and resources are explicitly directed toward citizens, especially male citizens. Expatriates – those in the country to work, either as managers or as laborers – are presumed to be able to find accommodation themselves in the open marketplace, so expatriates are presumed not to be part of the housing problem.

However, expatriates live in the same cities as citizens, use the same roads, and consume electricity, water and sanitation just like citizens do. They pay rent or buy homes, and either way their housing consumption impacts the land and housing markets in which national households operate. Even if a housing policy is targeted at improving conditions for citizens, it must be cognizant of how expatriate housing makes a city an attractive, competitive and sustainable place for business to locate in.

Money alone is not enough; a nation needs an action-oriented strategy for that money

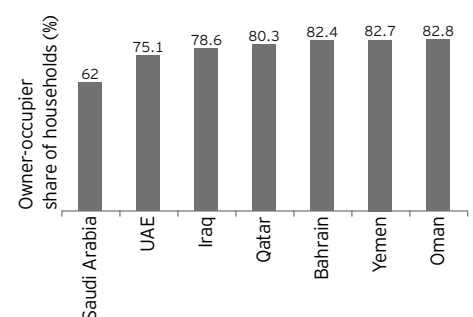
Housing is often seen as a temporary problem – prices greater than people can afford, or supply less than demand – when in fact it is a chronic need of successful cities. In cities, house prices rise to match increased income, and those with incomes below average always need some form of assistance to secure market-quality housing. In growing cities, the total number of homes that is enough today will not be enough tomorrow, because more people move to the city, and people want to live in ever-larger homes. These challenges

confront the MENA region generally and Saudi Arabia in particular.

Despite being one of the world's wealthiest countries, Saudi Arabia has a need to produce about 800,000 dwellings by 2020, according to the Ministry of Housing. Interestingly, Dr. Said Al Shaikh, Chief Economist at the National Commercial Bank argued that, according to his estimates, there would be a need for 2.4 million additional housing units in Saudi Arabia between 2013 and 2020, which would cost SR1.3 trillion to build. He said total non-government investment required would be more than SR900 billion, which would be added to the SR250 billion earmarked by HM King Abdullah for construction.

As Dr. Al Shaikh observed, a ratio of average wages to house prices is an indicator of housing affordability. He said the average monthly salary in Saudi Arabia was about SR6,000, or SR72,000 a year and homes cost almost ten times as much, SR700,000, on average. By contrast, in the US a home is considered affordable if it costs three times its occupants' salary, and most American housing is affordable on this basis. High housing prices relative to incomes go far, he implied, to explain why Saudi Arabia has one of MENA's lowest homeownership rate amongst citizens (Figure 1).

Figure 1: Owner occupancy rates in the MENA region amongst citizens



Homeownership rates in the region are also held back by a shortage of viable housing finance options, as evidenced by the enormous waiting list for Saudi Arabia's Real Estate Development Fund (REDF) loans, for which there are 2.3 million applicants.

Urbanization drives housing demand

As HE Dr. Muhammed Al Jasser, Saudi Arabia's Minister of Economy and Planning said, the kingdom has been experiencing very rapid urbanization, as high as 93% for the biggest conurbations in the kingdom. About 67% of the country's population now lived in cities.

Indeed, referring to the issue as a "crisis", Dr. Abdullah Sadiq Dahlan, Chairman of the Board of Trustees of the University of Business & Technology in Jeddah pointed out that 50% of the kingdom's population is between the age of the 15 and 40, and stated that no more than 30% of people in Saudi Arabia lived in villas. He added that in Saudi Arabia today, 37% of adults do not own a home. He pointed out that 30% of adults are living in informal housing.

Dr. Al Shaikh suggested that household demand is also being driven by a cultural shift among the Kingdom's young adults; where earlier generations were content to live with their parents, today the Kingdom's young people want to set up their own families, and are thus keen to own homes.

The problem of insufficient affordable housing has been long in the making and now requires immediate remedy in order for Saudi Arabia to take full advantage of optimal demographic conditions and progress quickly from emerging market status to developed economy status. Failure to provide adequate affordable housing at the required pace could have serious

repercussions in terms of social dissatisfaction and unrest.

A solution is urgently needed

As prominent Arab affairs commenter and conference delegate Mona Abu Sulayman said: "The need for affordable housing is urgent. If you have middle class couples and young couples unable to own their own homes and home ownership becomes a huge obstacle to family security, then it is a ticking bomb. "

She added: "We have a rich country, but we do not have rich citizens. We have huge inequality of wealth distribution. We have a 20% poverty rate. Even the middle classes are only able to own their homes after they are 50, which is very late."

Government leadership is key

Housing touches more government stakeholders than any other sector, making it one of the hardest tests of the quality of government. Implementation of national housing policy takes place at the city level, which requires high quality city governance.

The widening gap of effective demand over affordable housing is not arising because governments do not care; rather, it is proof that governments' existing frameworks are being asked to do much more than they were ever designed to deliver. Governments in the MENA region have been heavily involved in the housing delivery value chain, performing the majority of roles. In some countries, Government is the major house builder and financier.

It is time for governments to make step changes in their delivery models and, in particular, to shift into a more



outsourced, public-private-partnership oriented approach on both the supply side (new homes) and the demand side (financing products).

Saudi Arabia is responding

In this regard, HE Dr. Showaish Al Duwaih, the Minister of Housing in Saudi Arabia said that although King Abdullah had to date allocated SR250 billion of government money to finance the creation of affordable homes, that injection of money had not solved the problem. He pointed out the crisis was not one that could be addressed merely with money.

Dr. Al Duwaih reassured the forum that the Ministry of Housing is planning many reforms aimed to meet the needs of the people. He stressed that these reforms equated to formulating a National Housing Strategy. In formulating the strategy, stakeholders from all sides of the housing equation, including financiers, policy makers, developers, end users, had been engaged with, he said.

The new strategy has the following four pillars:

1. To improve the regulatory framework pertaining to building and planning regulations by establishing a national code for building and by setting up courts specializing in housing matters.
2. To create a National Centre for Housing Research to transparently gather accurate housing data.
3. To launch towards the end of 2013 an electronic database of properties available for leasing within the kingdom. While 200,000 housing units had been designed and were ready to be constructed, HE Dr. Al Duwaih said the Ministry was concerned with improving the mechanisms by which it collected and collated

statistics relating to supply and demand within the kingdom. Improvements in this area would considerably improve transparency and make investing in the affordable housing sector more attractive, while also making planning considerably easier.

4. To diversify the laws of real estate development to facilitate greater participation by the private sector and to incentivize developers to deliver on time and on budget.

Additional roles the Saudi government could play

Dr. Abdullah Sadiq Dahlan recommended two additional roles for the Saudi government:

1. To increase its engagement with overseas governments that had successfully addressed the challenge of rapid large-scale creation of affordable homes. This was echoed by HE Dr. Tawfiq Fawaz Al-Rabiah, Saudi Arabia's Minister of Commerce and Trade, who called upon delegates to embrace the opportunity the Forum presented to learn from the experiences of other countries and to adopt international best practices.
2. To increase government efforts to change citizens' perceptions of what constituted social housing, as Dr. Dahlan said, since not all government-provided or government-subsidized homes could be large villas.

Change is in the wind

In this regard, HE Dr. Al Rabiah said that the last five years had been critical in shaping the debate about the role of the government in providing housing. During this time, he said, not only had

half a million homes been designed and approved, as per the instructions of the King, but the new mortgage law had also been passed.

The challenge now for policy makers was to ensure sound regulation of every aspect of the property market, from land evaluators to contractors to consumer rights. Doing so would encourage private sector developers to enter the market more readily, he said. Increased regulation would necessarily mean increased transparency, enabling money from off-plan buyers to go directly into construction costs through the use of escrow accounts.

The King's pledge to his people

Dr. Tarek Ali Fadaak, a Shura Council Member, said that the government had taken supply-side measures that would ensure sufficient homes were produced to satisfy demand. These included initiatives that would see government ministries effectively acting as housing developers.

Similarly, HE Dr. Muhammed Al Jassar, Saudi Arabia's Minister of Economy and Planning, said that the government plans to prevent a crisis of affordable housing went beyond King Abdullah's call for the creation of half a million homes. The Ministry of Economy and Planning, in conjunction with REDF, had drawn up plans that would see the creation of 841,000 residential units, he said, adding that some SR275 billion had been allocated to funding their construction. Another SR250 billion would be spent ensuring the new residential units had first class infrastructure and amenities, he added.

Public-private partnerships are a must

Government can never produce enough homes by itself, said Ad Buisman, the EMEIA Head of Real Estate at Ernst & Young. Instead, he urged the Forum delegates to take a lesson from global experience in public-private partnerships (PPP) for housing delivery.

He began by reminding delegates that it is time for MENA governments to make step changes in their delivery models, and in particular, to shift into a more outsourced, partnership with private developers to supply new homes. At the moment, he said, housing producers in most MENA housing systems were either government or the household sector with small scale contractors. The role of the large scale developer was limited. "Governments cannot accomplish social infrastructure without the assistance of the private sector. But it takes great skills and leadership to make sure it works," he said.

According to Mr. Buisman, large scale building of affordable housing within a PPP structure in Saudi Arabia could give the domestic economy considerable stimulus, as well as meeting the demands of the people. He said: "Creating social housing in a public-private partnership on a large scale is not only attractive in terms of meeting the shortage of housing, it also offers a very significant growth opportunity. Mass building of social housing can catalyze very significant economic stimulus."

However, Mr. Buisman warned that PPP could be difficult relationships, adding he believed they had only been very effective in Australia, UK, Canada and the US. This difficulty arose from the necessarily differing goals of public and private sector entities, which had

to be reconciled, requiring great skill and leadership.

At every turn, from risk profile, to returns, to delivery, the public and private sector differed. He added the challenge for government was to adequately incentivize private sector developers and lenders to make affordable housing an attractive space for them. "In a PPP, there must be a fair balancing of risks. If the private sector is going to take all risk, which is what public sector invariably wants, then it must be adequately rewarded," he said.

Making PPP work requires superb coordination, he said. In terms of social housing this meant agreeing to whom to give it, ensuring infrastructure is in place and effectively scheduling urban renewal. He also called on delegates not to lose sight of post-completion issues: "Who is going to maintain social housing must be considered. Much long term planning is required," he said.

In this regard, Dr. Hani Abu Ras, Jeddah Municipality Mayor, told the Forum that in Jeddah much work had been done to bring the private sector into the construction of affordable homes. Indeed, private sector dynamism and experience was proving effective in speeding considerably the process of construction.

Of the 15,000 residential units currently under development in Jeddah, close to half had been outsourced to well-incentivized private developers, he said. Furthermore, as initiatives aimed to increase the construction of homes to 65,000 in the next five years, and 750,000 homes by 2025, got underway, the private sector would play an increasingly important role in meeting targets, he said.

Dr. Ras said changes to laws that would make it unattractive for individuals to hold onto large tracts of undeveloped land



were being effected. He pointed out that if the state could deliver these lands to private master developers and incentivize them sufficiently to build rapidly, to high quality specifications, then much progress could be made in delivering affordable homes to the next generation across Saudi Arabia.

In his presentation, Mr. Samer Sheikh said that it is currently more attractive for developers to build malls or hotels. They make more money, and therefore private developers are more interested in this end of the market. But if they want to sell to the masses, they must look at the middle income and low income market.

Access to financing

HE Dr. Tawfiq Fawzan Al Rabiah, Saudi Arabia's Minister of Commerce and Industry, said it was time for the housing market to become sufficiently transparent that money from off-plan sales could, through escrow accounts, be channeled to developers to meet construction costs.

Along similar lines, Dr Fadaak pointed out King Abdullah had made available to developers the funds to meet his call for massive creation of affordable homes.

Access to land

Dr. Hani Abu Ras, the Jeddah Municipality Mayor, called for reforms to land laws that would make land banking highly unattractive. Such reforms would be very helpful for freeing land to be used for the construction of affordable housing, he said.

Ensuring quality

HE Dr. Tawfiq Fawzan Al-Rabaiah called for a classification of developers on the basis of the quality of end-product. Doing so would increase competition between developers and drive down prices while maintaining standards, he said.

Creating affordability

Delegates agreed that it was time for governments to make step changes in their delivery models and, in particular, to shift into a more outsourced partnership with private sector banks to provide financing products. MENA housing finance markets tended to suffer from one of two conditions, they said. Either the government housing bank dominated the landscape, where the majority of citizens queued for government subsidized loans, subject to waiting lists and delays. Or the commercial banks served the market but they only served the higher income minority, leaving the majority of middle to lower income households under-served.

In Saudi Arabia, the Real Estate Development Fund (REDF), established in 1974 to help people on low incomes gain access to the finance necessary to purchase a home, has been unable to keep pace with demand, and its waiting list stands at 2.3 million applicants.

However, HE Dr. Showaish Al Duwaihii assured delegates that the Ministry of Housing was working on demand-side innovations to speed the release of loans to applicants to the REDF. He added that initiatives designed to widen the role of REDF in the drive to provide sufficient homes were also being considered.

The REDF would be critical in addressing the challenge of affordable housing, since, as HE Dr. Duwaihii pointed out, it had approved more than 75,000 loans in the past seven years, a figure that he said exceeded the targets of previous development plans.

Private financing and mortgages

HE Dr. Fahad Al Mubarak, the Governor of SAMA, reminded the Forum that in recent years several new financing initiatives had been successfully launched in the kingdom. These included a comprehensive system of regulating financing companies, the passing of the mortgage law and the establishment of a new financing company with more than SR5 billion in funds.

He told the conference that recently introduced mortgage laws in Saudi Arabia would go a long way in helping citizens to afford to buy homes. He pointed out there were now many institutions in the kingdom, both public and private, that had considerable funds and were ready to lend.

In fact, Dr. Said Al Shaikh told delegates, in the second quarter of 2012, following the passing of the mortgage law, funding by banks for housing had increased by SR17 billion to SR48 billion. He added he expected total financing by banks to reach SR150 billion by 2015.

According to HE Dr. Al Mubarak, there currently existed approximately 100 real estate development financing companies in the kingdom, and 900 companies providing loans and mortgages to end-users. Of these institutions, six had more than half a billion Saudi Riyals to lend or grant and eighteen had more than ten million Saudi Riyals, he said. Dr. Mubarak promised to publish a list of all SAMA-approved real estate financing

companies in the kingdom in domestic newspapers within two years.

HE Dr. Al Mubarak also spoke of the need for greater transparency and of the importance of developing a secondary market for state-provided property.

Public-private partnerships (PPPs) as an enabler of home financing

Phil Gandier, Senior Partner in Ernst & Young's Saudi Arabia office told the conference that in order for private sector financiers to actively pursue lending to low income earners, the government must ensure risk is mitigated. If this could be achieved, he said, then private sector dynamism could be optimally harnessed.

He said: "Expanding access to finance for lower-income borrowers requires a particular kind of public-private partnership between government institutions and private lenders. Private bankers will lend to lower-income people so long as the government creates an enabling environment in which these lenders' entry costs are minimized or co-funded, and where non-commercial risk is mitigated by government guarantees – say, of the reliability of foreclosure.

"A government housing bank can also be a vehicle by which targeted amounts of subsidy can be provided, for instance in the form of lower interest rates or loans of longer tenor."

Addressing land shortage

In many cities in Saudi Arabia, private investors hold their undeveloped and centrally located plots of land. As a result, prices of land skyrocket, pushing the price of affordable housing out of the reach of most people and land becomes scarcely available. Indeed,

too much land that could be used for building affordable homes upon was owned by wealthy individuals who were reluctant to allow it to be developed.

According to Dr. Abdullah Sadiq Dahlan, the Ministry of Planning for Saudi Arabia needed some 350 million square meters of land upon which to build affordable homes in order to meet projected demand. He added it currently had only 220 million square meters available.

The role of zakat

Sheikh Saleh Kamel, Chairman of the Jeddah Chamber of Commerce, called on the government to levy Zakat upon all land in the kingdom in private hands that was not being used for building. One of the five pillars of Islam defined in the Quran, Zakat calls upon the faithful to give 2.5% of their assets annually to non-personal charities; it is traditionally applied to land held for investment, and to equity in property. However, in Saudi Arabia Zakat was not assessed on large plots of undeveloped land, even though the Quran itself called for this to happen in order to discourage land hoarding, he said.

He added this enabled land holders to land-bank indefinitely and resulted in an artificial shortage of land. He observed that huge tracts of land in the middle of major Saudi Arabia conurbations such as Riyadh and Jeddah were entirely vacant, contributing to sprawl, congestion, inefficient cities and high housing prices. Development on this land would see these cities able to "expand progressively", he said.

To those who might argue that Saudi Arabia has enormous tracts of unused land in the desert, Sheikh Saleh stressed that the desert was not the solution. He said land



without utilities had minimal value for cities and people. Housing needed connection to power, water, transportation and information grids, he said. The land should also be located close to, or in, urban centers where employment opportunities were available.

Sheikh Saleh said that all developable land in the kingdom should be subject to Zakat; only land that could not be sold due to features that made it unsuitable for development should be made exempt. This measure would considerably ease pressure on land costs in the kingdom, he said, and quickly see it released for the development of affordable homes.

He said that Saudi Arabia had millions of 'white lands', in which Zakat should be paid whether they are intended for investment or not. However, most white landowners unrightfully claim that these properties are not for investment. If we impose paying Zakat, as our religion dictates, at a rate of 2.5% per year, the government will receive larger monetary resources and channel it into building houses for poor people.

Sheikh Saleh added that Ministers have called for the establishment of a system to impose taxes on white lands. However, we have no need for such a system when Islamic law has insured the rights of every individual and stipulated these conditions 1,400 years ago. Paying Zakat should be imposed on land grants as well; if land is granted to an individual, this land should be developed and not neglected or monopolized.

He stressed that he is looking for an official fatwa to impose Zakat on the owners of white land. This is the only mechanism that can help us expand land space gradually. In addition, Zakat will reduce the prices of residential units.

"We must adopt this measure. Islam is concerned with social justice for all, not just for the rich."

The case for optimism

Despite such challenges, Dr. Tarek Ali Fadaak, Shura Council Member, reminded the audience to be optimistic about the ability of the state to provide sufficient affordable homes to keep pace of demand. He said that some prevailing pessimism was the result of confusion about statistics relating to demand and supply. He told the Forum that Saudi Arabia was enjoying a golden period of economic prosperity that would ensure it was able to efficiently supply homes and also arrange for finance to be made widely available to end users to buy homes.

Similarly, HE Dr. Muhammed Al Jasser told delegates that supply of homes in the kingdom was keeping pace with the growth of demand. He said between 2003 and 2011, the number of permits to build granted annually had increased from 11,000 to 130,000. He added that the Ministry of Planning was very much focused on ensuring the kingdom's youth would find adequate affordable housing on the market when they were ready to buy.

HE Abdullah Al Nuaim, the Chairman and President of the Arab Urban Development Institute in Saudi Arabia, echoed these sentiments. He was optimistic about Saudi Arabia's ability to provide sufficient homes to meet demand, he said.

He said that Saudi Arabia is rich and developing. We started late and now we need more time. He assured the Forum that sufficient land and money was being put aside to ensure enough new homes were built rapidly and he called

on policy makers to continue to be bold in meeting the challenge of providing affordable housing.

The earmarking of SR250 billion from government budgets to the building of half a million homes in the kingdom was also a very encouraging development, he said, one that underscored the determination of the government to meet the needs of the people. Further measures that had been taken by the government included the granting of two million plots of land to Saudi nationals for the purpose of building a home. Funds had also been made available, he added, to finance construction on these plots.

He told delegates that in the last twelve months, a 40 million square meter plot of land in Riyadh had been set aside for the building of affordable homes. After vetting had been carried out to ensure eligibility, some 80,000 families would populate it, he said.

He added more sizeable plots of land had been put aside for the construction of affordable homes and pointed out some SR100 million was allocated to the poor people of Riyadh every year by the government.

He concluded by calling on the kingdom's policy makers to continue to demonstrate boldness in tackling the challenge of affordable housing provision and said that recent projects in Dammam and Al Khobar demonstrated what could be achieved. He reminded the delegates that Saudi Arabia's institutions that are mandated to tackle the challenge of affordable housing needed more time to be effective.

Conclusion

Affordable housing in cities is a challenge everywhere in the world, from the richest cities and countries to the poorest. Quality homes are the product of complicated value chains of many different entities and actors and every step in those value chains is either helped or hindered by government policy. Often this policy crosses multiple ministries, departments and government entities, which work against each other without realizing it.

As David Smith, the CEO of the Affordable Housing Institute summed it up: "To have successful cities, we must have affordable housing within those cities. Every city has some poorer people in it and these are the people who make the city work. Affordable housing is where they go to sleep at night."

Every city in the world has come to recognize that it needs affordable housing and the government must work with the private sector and the different parts of government must have a coordinated national strategy. This is always a big challenge

for government because it is complicated and specific to each city or country.

Mr. Smith added: "It was amazing to see the Governor of Makkah come to the Forum and to have a panel of five Government Ministers at one time. That is a testament to how important housing is and how much effort the Kingdom is making to fulfill King Abdullah's pledge of 500,000 new homes. It was likewise inspiring to have a highly respected leader like Sheikh Saleh call for applying Zakat to undeveloped urban land. That is the kind of thinking Saudi Arabia needs - bold policy changes to respond to the dramatic demographic and market changes happening all over the Kingdom."

Mr. Smith was struck by the passion of the many audience members who asked questions of the panelists. "Everyone cares about housing," he said, "and everyone deserves a voice. Solutions will come from a marketplace of ideas. The more free flow of information, the faster Saudi Arabia will adapt."

Indeed, there is a case for optimism.





Appendix



“The success of creating affordable housing in Singapore and making it widely available had been crucial in promoting widespread self-respect, national unity and prosperity.”

Dr. Liu Ker

Director of RSP Architects, Planners, and Engineers

Singapore: Affordable housing is more than just delivery of homes

When Singapore gained independence in 1960, Dr. Ker told the conference, the nation's population was 1.9 million people, two-thirds of whom lived in informal housing because they were poor. Today, fifty years later, Singapore's 5.3 million citizens have 93% homeownership, 82% of which has been provided directly or indirectly through government. How did Singapore transform itself?

Step 1: Research: “If we take time to understand the problems and the needs of the people very well, then we can formulate better solutions,” Dr. Ker told the Forum. The research, which took four years between 1985-1989 to compile and underpinned the planning strategy of Singapore, had several objectives:

- ▶ To identify and instill the factors that went into economic prosperity, a good environment and good quality of life.
- ▶ To understand the needs of the citizens.
- ▶ To calculate the amount of land needed for citizens to enjoy optimal quality of life across all zones of land usage.

Step 2: Urban planning: “We then planned the way the city would look,” Dr. Ker said. “We were careful to ensure Singapore was not just a place that worked efficiently, but a place that respected its history, heritage and environment.”

Step 3: Creation of self-sufficient new towns: To create affordable homes and communities, planners must look beyond merely providing dwellings. Dr. Ker related that Singapore's policymakers concluded a town, to be self-sufficient, needed a minimum population of about

200,000 if it was to support a suitable diversity of services, shops, and society. Singapore therefore undertook to create these new towns, 23 of them. In these towns, the government had assigned only 45% of land for houses – the rest was used for infrastructure, sports facilities, parks, shops and schools. “We also put an emphasis on clean industries in new towns, which attract female workers. This means they can work close to where their children are,” he said.

Step 4: Mix incomes throughout the new towns: According to Dr. Ker, painstaking research had gone into ensuring urban communities were created that contained people from all walks of life, thereby preventing ghettos from occurring. Planners in Singapore had been very careful to mix rich and poor families, thereby ensuring societies remained aspirational. Dr. Ker emphasized that there were no ethnic enclaves.

Step 5: Relocation, with consent, into better housing: Between 1960 and 1985, he added, the government in Singapore had re-housed people living in informal housing into housing estates. By 1985, Singapore had achieved zero homelessness.

He said: “I feel that Singapore is a piece of industrial design, like a car. The car must be user friendly. Our city is comfortable, convenient and easy to use. The car's engine must work. In Singapore we have assembled everyone's needs together to make them work. A car must also be beautiful, so we have tried to create a city that is a beautiful urban environment.” The result, he said, was a happy population as shown by the Housing Development Board's surveys which indicate a 93% level of satisfaction. As Dr. Ker concluded, “A happy population is a competitive one.”



“Human dignity is not achievable without a good home.”

HE Shahida Faraj Bouraoui
Minister of Housing, Tunisia

Tunisia: Government must lead

Tunisia is transforming its urban housing, Ms. Bouraoui told the Forum, through government-led initiatives.

Homes are essential to human dignity

Ms. Bouraoui said human dignity, which Islam calls for, was not achievable without a good home. Without affordable housing, she asked, how could Muslim people achieve dignity? She said ensuring homes were within the reach of ordinary people was a sign of a well-functioning government and was a fundamental part of the social contract.

Government creates the enabling environment

Tunisia has established a number of agencies and programs to facilitate the delivery of affordable housing, as follows:

- ▶ In 1973, a government authority in Tunisia was established to provide land for building homes upon, she said. It was mandated to seize land from those who failed to develop it and to sell it at a price of its choosing.
- ▶ In 1979, the government established a collective housing agency.
- ▶ In 1981, the Tunisian government set up agencies to modernize shanty towns, implementing new infrastructure and drainage systems. Three million citizens were re-housed as a result of this work.
- ▶ In 1997, the Tunisia National Real Estate Agency was set up to use government funds to create homes for profit and to reinvest the profits into creating affordable homes.
- ▶ In 2012, the Tunisian government launched a program to update primitive

housing and to compensate residents. A comprehensive database of citizens who might be eligible for social housing was also being compiled.

Homes become affordable when finance is affordable

Much work had been done, Ms Bouraoui told delegates, to ensure finance was easily available in Tunisia for both constructors and end-users of affordable housing. In addition to tax exemptions for developers engaged in constructing social housing, the specially mandated Housing Bank focused on providing loans to constructors. Along similar lines, a Housing Fund loans money to tenants, helping people to buy houses. These funds had enabled 2.9 million citizens to buy property. A law put in place to prevent these buyers from selling their houses at an immediate profit has provided much-needed ownership stability, discouraged speculation, and strengthened the overall market.

Moving forward

After the Arab Spring revolution, the new Tunisian leadership, following an extensive review, found several agencies had not been operating as they should. Work was currently ongoing to rectify this situation, Ms. Bouraoui said, and a renewed focus had been placed on affordable housing provision. By 2013, several programs were underway that were designed to both construct affordable housing and to ensure people requiring it had access to it, including:

- ▶ Working with suppliers to reduce the cost of building materials.
- ▶ Requiring by law that contractors employ local people.
- ▶ Offering eligible citizens soft loans as 50% grants and 50% repayable over 25 years.
- ▶ Preventing people granted social housing from selling it immediately.



“Planning and housing are symbiotic – without one, you could not have the other.”

Jan O’Sullivan

Minister for Housing and Planning,
Ireland

Ireland: Delivery without planning creates price bubbles and crashes

Ireland’s boom, bust, and recovery provided the context for Ms. O’Sullivan’s cautionary tale of the importance of enabling but regulating the market.

The Irish housing bubble, 2005–2008

“We had a real estate and construction bubble in Ireland. Our economy was booming up to 2008, we were building a very large number of homes, we were providing a large number of jobs, but we did not comply with our own standards, we did not always supervise the planning system - meaning houses were sometimes built where they should not have been built,” Ms. O’Sullivan said. “We constructed too many houses in some places, but have housing need in other places, despite all of the expertise that we have. It is important to plan to not do this.”

Government acts as a market-stabilizing force

Ms. O’Sullivan believed that government must be solely responsible for creating planning guidelines and had overall responsibility in areas of policy formation relating to finance. This included land planning, which Ms. O’Sullivan said must take place at a national, regional and local level, and that all three levels must fit into one, over-arching strategy. “Planners must remember that what they are creating will eventually be actual places that families call homes, not merely designs on paper created to meet problems posed by statistics,” she said.

Construction quality must be regulated

Ms. O’Sullivan said that construction regulation is vital for the success of any housing strategy because it ensures quality and durability of materials. She pointed

out that in Ireland builders must comply with building regulations and citizens are allowed to appeal against building.

Unregulated finance is prone to capital hyper-expansion

“We also did not correctly supervise our financial system. Sometimes money was lent to people, both developers and homeowners, who could not afford to pay back the money. It is very important that mortgages are sustainable. People must borrow according to what they earn. Most people wish to own their homes. They will raise a mortgage and pay that mortgage over the period of their working life. It is very important that those who lend the money know that they will get their money back, or else they won’t lend,” she said.

Importance of protecting renters

Private renting is a European tradition, Ms. O’Sullivan told the conference. She said regulation must exist to protect both renters and owners. “In Ireland, we also have a differential rental system, whereby people pay rent to the municipality, based upon what they can afford to pay, in accordance with income. We will also provide subsidy for people who are renting privately, on low incomes,” she said.

Future plans

Ireland intends to raise revenue by introducing charges for the use of water and to introduce municipal subsidies of environmentally friendly systems in existing houses. “We are going to introduce water resourcing and begin charging for water, to raise money for infrastructure,” she said. “We want to make sure our houses are energy sustainable and will extend grants for retro-fitting. We want to make sure our houses are appropriate to the needs of the people. For us, that is keeping out the cold, for you in Saudi Arabia that is keeping out the heat.”



“There is no housing shortage in Thailand.”

Mr. Ballobh Kritayanavaj

Senior Vice President,
Government Housing Bank, Thailand.

Thailand: Problem solved?

According to Ballobh Kritayanavaj, SVP of Thailand’s Government Housing Bank, the shortage of affordable housing can be eradicated through effective use of public-private partnerships (PPPs).

Drivers of demand

Thailand’s population of 67 million is growing rapidly; 4.4% annually in urban areas. Today the country is 45% urbanized, versus 30% in 1990. Per-capita GDP is \$6,300, far below Saudi Arabia’s – yet Thailand enjoys one of world’s lowest unemployment rates, less than 1%.

Solving the problem

Less than two decades ago, Thailand faced very serious shortages of affordable housing, particularly in Bangkok, he said. However, today the problem had been eradicated and there was no housing shortage in Thailand, he added.

Experimenting with PPPs

During the past two decades, various forms of PPP had addressed the problem of affordable housing provision. From the government side, the National Housing Authority had been key in producing affordable housing. Over the past fourteen years, it has delivered 800,000 low cost housing units of market quality, with private

developers providing about 50% on government-provided land.

Between 1993 and 1997, private developers built 800,000 houses in Bangkok, Mr. Kritayanavaj said, reflecting the dynamism the government had wanted to harness when it engaged private sector developers. Over one thousand private-sector developers of all sizes had produced an average of 160,000 new homes a year, he said, although in the last five years they had produced a total of only 500,000 units, reflecting a more relaxed market.

Intervening on the demand side

The government had also done a lot of work to make finance more easily available to buyers by creating an environment in which private banks competed aggressively with one another to give loans to low income and middle class families, Mr. Kritayanavaj said. As a result, in 2013, home loans as a percentage of GDP stood at a healthy 20%, while the ratio of home loans to all loans was 16%.

Finally, Mr. Kritayanavaj stressed that the government bank had no monopoly on provision of affordable home finance; rather it competed with private sector banks and was not dominant, holding only 31% of the market.





About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

The MENA practice of Ernst & Young has been operating in the region since 1923. For over 90 years, we have evolved to meet the legal and commercial developments of the region. Across MENA, we have over 4,200 people united across 18 offices and 13 Arab countries, sharing the same values and an unwavering commitment to quality.

© 2013 Ernst & Young
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global EY organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

ey.com/mena