The crisis of affordable housing in Jordan

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Policy Brief

- Jordan is in the throes of a property crisis: following a construction boom, sales have now collapsed and housing is ill-adapted to demand,
- 18% of the housing stock is kept vacant in anticipation of speculative sales,
- Jordan hosts 750,000 refugees registered with United Nations High Commissioner for Refugees (Syrians, Iraqis, Yemenites), who find it difficult to access housing, as do low-income Jordanian households. Moreover, 2.2 million citizens are Palestinian refugees.

Jordan's property sector is in crisis

Financial services and the property sector contribute 25.5% of GDP, including 16.2% from the property sector alone and 3.3% from the construction sector[1]. Stimulated by demographic growth and the arrival of several waves of refugees, Jordan's private sector produced 1.1 million dwellings between 2004 and 2015, doubling the total housing stock. Half of these apartments were built in Amman, one-third of them without a building permit. The apartments put up for sale are spacious – over 120 m² – which makes them unaffordable for low-income households. In 2015, 62.5% of households owned their dwelling and the remaining third were tenants. More specifically, 82% of Jordanian citizens are homeowners, while 92% of refugees and the 600,000 Egyptian workers are tenants[2].

Despite this apparent dynamism, the property market is in crisis. In fact, the volume of transactions was halved between 2014 and 2020 (cf. figure below). Property represents a safe haven for the diaspora, which fuels speculation and drives housing prices beyond the purchasing power of local demand. As a result, 23% of Amman's housing stock lies vacant. In a context where crude oil prices are falling, the volume of land and apartments purchased by foreign investors also decreased by half between 2014 and 2020.

Property markets are poorly adapted to local demand

Three residential property markets co-exist: the luxury market in Amman and Aqaba; the mid-end residential market for middle and high incomes and the market for residential self-construction for families.

Given a population growth rate of 2.1% per year (projection until 2030), 65,000 housing units are needed each year to meet demand and reduce the housing deficits. With the slowdown in formal new-builds since 2015, only 35,000 dwellings are formally constructed each year. The government play a negligeable role in construction, except for the poorest (the Royal Diwan programme). Most of the

[1] CBJ (Central Bank of Jordan), 2019. Annual Report 2018.
[2] DOS (Department of Statistics), 2015, Jordan Population and Housing Census.

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inhabitants of the Amman agglomeration are facing a shortage of affordable housing and, as a result, 10% of dwellings house two or more households. In mid-sized cities, the Jordanians find themselves competing with Syrian refugees for rental apartments.

99.2% of housing production is private, 40% of which is built by developers and 60% by the citizens themselves. The average market price of an apartment is 45,000 dinars (€52,300) for 120 m² (HUDC 2018): 70% of apartments are designed for 30% of the wealthiest households earning over 1,100 dinars a month (€1,300). This new production is mainly intended for homeownership and not rental. High interest rates mean that access to bank mortgages are limited to those able to take out loans. Created in 1996, the Jordan Mortgage Refinance Company only provides banks with low levels of funding for long-term mortgages: 214 million dinars out of a total 4,062 million dinars for mortgages in 2017.

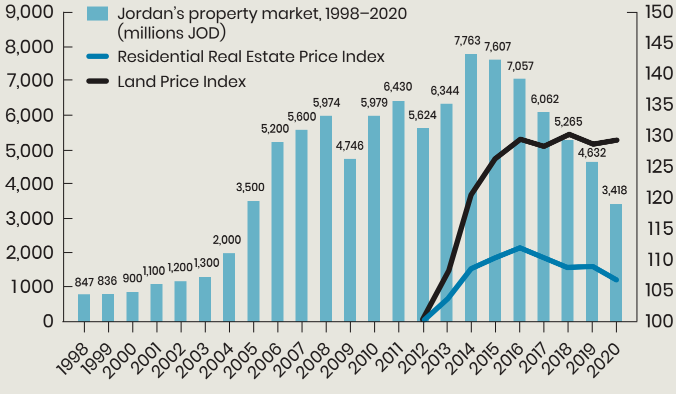
Public policies are failing to support supply

The Jordanian government was the first in the Middle East to adopt a Housing Strategy in 1989. The Housing and Urban Development Corporation (HUDC) was thus given the mandate to build housing for the middle classes and ensure serviced plots for individuals and property developers. The programme announced by the King in 2008 to build 100,000 housing units in five years for the middle classes nonetheless failed as the banks refused to lend to the public targeted and the dwellings were poorly located. Only 8,448 units were built on the urban periphery and without facilities or services. As a result, only half of them were sold. The project turned to the advantage of a few private entrepreneurs who captured the subsidies for their own benefit.

Jordan's housing policies are challenged by three structural problems: the high interest rates on mortgages, fluctuating between 7.5 and 8.5% for a 20-year loan, which limits citizens' borrowing capacities. The absence of mechanisms to keep land speculation in check in the major cities, where vacant land is barely taxed. And lastly, the high cost of land for housing construction. In fact, the low urban densities resulting from poorly adapted urban planning rules and outdated building standards have an inflationary effect on housing prices and urban sprawl. The expansion rate for informally built areas is high, reaching 1% a year, equivalent to an additional 3 km² for Amman each year.

Between 2000 and 2018, the government subsidised mortgages for public-sector employees, at a reduced rate of 3.5%, for a cost of 50 million dinars (€60 million). A major policy to revive the housing sector was introduced in 2019, involving new exemptions for registration fees, transfer duties and inheritance tax. The goal was to enhance the affordability of apartments on the market for citizens and incentivise developers to build smaller apartments. However, as the average Jordanian household comprises 5.1 members, families do not want to buy less than 120 m².

JORDAN PROPERTY MARKET, 1998–2020 (MILLIONS OF DINARS) AND THE RESIDENTIAL REAL-ESTATE AND LAND PRICE INDICES (base 100 in 2012)



Source: Departement of Land and Surveys, *Yearly reports from 2013 to 2020* . Central Bank of Jordan, *Real Estate Price Index*, 2017 and 2020.

Improve the property market regulation

Players in the sector are asking for subsidised loans to be re-introduced so as to broaden households' access to mortgages. Yet, this measure is both costly in terms of public subsidies and potentially not very effective over the long term.

On the other hand, a revival of the housing sector requires improving the sector's governance and regulation. The key public operators could play a greater role in housing production. Local authorities could also intervene more directly on the issues, particularly with respect to land as well as knowledge about demand and supply at local level (for example, the status of vacant dwellings).

Tax vacancy to encourage construction

Taxation on vacant urban land could be used to finance the construction of affordable housing, as has been the case in Saudi Arabia since 2015 (white land tax).

Improve the existing stock

A first possible avenue would be to rent out part of the vacant housing stock and provide landlords with guarantees. A second possibility would be to encourage the densification of current buildings by authorising the construction of a sixth storey, as this would make it possible to offer more units per plot at a lower cost.

Finally, the existing stock could benefit from upgrading programmes. One major challenge is to provide better thermal insulation for dwellings, mainly in the context of climate change, so as to enhance the residents' living conditions, including in informal neighbourhoods.

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