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JORDAN HOUSING SECTOR REVIEW

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Executive Summary

Why Does the Housing Sector Matter for Jordan?

The housing sector constitutes one of the most important sectors in the economy, it plays a significant role in the creation of wealth in the country, and it has contributed to the social stability of the Kingdom in the aftermath of the Arab Spring and regional unrest. Over the 2004-2015 period, the country's population grew, on average, at 6 percent a year mainly due to a 22 percent annual growth of non-Jordanians, reaching close to 9.5 million people today. Over the same period, the contribution of the housing sector to the economy averaged 7.2 percent of GDP, it contributed to a third of the growth capital formation, and helped to absorb a significant number of workers both in the formal and informal sectors, including close to 40 percent of immigrants. Additionally, housing has been an important contributor to government revenues at both national and local levels, ranging between 6 to 11 percent of total revenues over the past decade.

Despite successful interventions that led to the expansion of the mortgage markets, the government has not been able to materialize any significant reform that addresses key constraints to the land and construction markets, which has affected the provision of affordable housing to the lower income segments. During the past several decades, Jordan has made steady improvement in housing conditions, however, the unexpected and rapid population growth has put incremental pressure in the housing sector; affordability is negatively affected, and the mismatch between supply and demand has increased. A closer look at some of Jordan's housing indicators shows that Jordan's housing finance system is relatively shallow and has not been able to transform the population's housing needs into effective demand. Moreover, Jordan has few Government programs to support either the development of affordable units or to provide subsidies to the poor households in need of housing. About 20 percent of existing stock is vacant, which leads to the question of whether the market provides enough of the right types of housing regarding price, location, size, and tenure to meet current and projected needs.

The objective of the Jordan Housing Sector Review is to inform the development of a better functioning and more coordinated housing system in Jordan, which caters to the needs of the different segments of the population. This Executive Summary presents the main messages developed throughout the report, which includes seven Sections: *Section 1* introduces the report; *Section 2 "The State of the Housing Sector"* looks at the country context, identifying the role of housing in the economy today and the sector's contribution to Gross Domestic Product (GDP) and employment. It also takes a close look at previous housing strategies and housing programs, analyzing the current institutional framework and housing ecosystem; *Section 3 "Main Challenge Faced by the Housing Sector"* presents how the extraordinary increase of population in the past decade has put unprecedented pressure to the housing market; *Section 4 "Market Response"* reviews the market response to the crisis in terms of housing production, as well as impacts on vacancies, tenure, the housing deficit and affordability of ownership and rental markets; *Section 5 "Impact on Housing Deficit and Affordability"* looks into the current demand by size and location, and future demand by projecting household formation over the next two decades, while presenting the current housing deficits and the state of housing affordability; *Section 6 "Potential Solutions in the Supply Side"* explores the housing supply value chain along with a commercial finance for housing supply and demand analysis; finally, *Section 7 "Summary of Recommendations"* presents the short (2 years) and medium (5 years) term actions to guide a future housing strategy.

Main Messages and Policy Priorities: An Opportunity to build a Better Housing System in Jordan

Main Challenge Faced by the Housing Sector (Section 3)

Message 1: Jordan's housing needs today are driven by exceptionally rapid population growth resulting from the significant influx of refugees, migrants and workers in recent years; annual population growth averaged close to 6 percent between 2004 and 2015, exceeding population projections by almost 30 percent. By 2030, Jordan is expected to host between 1.7 and 3.5 million new residents reaching at least 11.1 million inhabitants and a maximum of 12.9 million.

Market Response (Section 4)

Message 2: The Jordanian housing sector has proven resilient and able to respond to the high population growth and a declining GDP per capita. Over the 2004-2015 period the construction sector produced over 1.1 million units, reaching over 2.3 million units in 2015, far exceeding Government estimates by an impressive 800,000 more than predicted, which is an indication of intense building activity. Of this, over 99 percent was private production.

Message 3: Although Jordan has produced sufficient housing units to host its total population (2,270,967 dwellings for 1,953,194 households), the vacancy rate has remained significantly high, reaching 18.4 percent in 2015, much above the 5-10 percent that is expected to be seen in a well-functioning market.

Message 4: Over the past decade, the number of housing units in Jordan that were rented more than doubled, increasing rentals as a share of housing stock from 223,000 units (24 percent) in 2004 to 540,000 units (30 percent) in 2015. Housing tenure is correlated with level of income, 57 percent of households in the poorest decile are renters, whereas only 13 percent of households in the richest decile rent.

Impact on Housing Deficit and Affordability (Section 5)

Message 5: The total housing deficit in Jordan reaches over 15.9 percent at a national level (310,926 households), not including the Syrian refugee camps. Of this, 64 percent (199,245) of units needed are to address the quantitative deficit while 36 percent (111,681) are needed to improve conditions for households suffering a qualitative deficit. Over the next decade, Jordan will need to produce between 62,000 to 74,000 housing units annually to reduce the current deficits and keep up with new household formation.

Message 6: Given current household incomes and the prevailing terms of housing finance loans, households below the 5th decile cannot afford to purchase a housing unit of more than JD25,000. Also, based on the current real estate market prices in the main Jordanian cities, only 30 percent of households can afford to buy houses above 100m² without spending more than 30 percent of their monthly income.

Message 7: Although the financial capacity of households (potential demand) is concentrated predominantly in units below 100m², over the past decade, housing developers have concentrated production in larger units in the 120-200m² range, exacerbating the mismatch between supply and demand (70 percent of supply is catering to the top 30 percent).

Message 8: Although affordability of rental is better than affordability of ownership, the bottom 30 to 40 percent of households can only afford rent below the market average, which translates into families renting below average houses in terms of quality and location. However, rental affordability might be at risk, as rental prices have more than doubled in the past decade (2004-2015).

Potential Solutions in the Supply Side (Section 6)

Message 9: Housing is the product of a complex set of supply and demand value chains which directly influence the quality, availability and cost of housing. In Jordan the cost of land accounts for 30-60 percent of the unit cost of housing, construction costs (labor and materials) accounts for 20-40 percent, while on-site infrastructure, profit margin, and taxes and fees each account for around 10 percent of the total costs.

Message 10: Land costs are high in Jordan due to several structural and regulatory issues. First, there is a structural shortage of land. Second, where land is available for housing, zoning regulations and building codes discourage efficient land use, resulting in low-density, high-cost housing development.

Message 11: The housing sector in Jordan is heavily taxed as the totality (direct and indirect) of taxes and fees paid on housing projects can reach up to 30 percent of the total cost of the project. Moreover, taxes and fees may be creating the wrong incentives as the property tax on rented apartments is three times higher than on owner-occupied apartments while the tax on vacant units is two times higher.

Message 12: Although being the riskiest construction financing option, the tax system that is currently in place is incentivizing developers to continue using up-front payments for financing housing projects.

Message 13: Thanks to legal loopholes in the tax system, houses financed by leasing companies are nearly 10 percent less costly for developers as those financed by regular banks, discouraging bank financing.

Message 14: Finance to individuals to purchase homes is still rather small in proportion to other countries. Mortgage depth ratio to GDP is comparatively small and stays at about 5 percent, which is one of the lowest ratios in the region.

Message 15: Volume of funding provided by JMRC to financial institutions is constantly growing however JMRC does not fulfill its role of provider of long-term funding as, since 2016, it provides only short- and medium-term (not longer than 3-year term) loans to financial institutions.

Main Recommendations (Section 7)

Short-Term Actions (within the following 2 years)

- An institutional reform within HUDC should be pursued, providing it with a clear mandate to formulate long term housing policy, tools to regulate and enforce policy recommendations, and contribute to drafting housing-related laws.
- The mandate and role of HUDC in designing and enforcing programs and eligibility should be clarified and strengthened. Programs should support the transition demand side approaches (ie, subsidizing households instead of units) when fiscally possible.
- The urban planning law is out of date, does not permit internationally recognized good planning practices, and does not apply to the whole country. Planning Law No. 79 of 1966 should be updated and extended to the entire country.
- The current building codes are outdated and can no longer address the challenge of rapid urbanization and shortage of affordable housing. Higher land coverage ratio, narrower setbacks, and an increased height limit could all allow for more housing units to be built on a plot of land, therefore spreading the land costs across more units, and reducing per unit land cost.

- Downzone Residential Zone A and B to Residential Zone C and D, especially in areas close to the city center. This will solve the mismatch between supply and demand for certain types of residential land, reduce vacant land, and make more land available for affordable housing.
- Reduce the minimum plot size in residential zones by either changing the current parameters in certain types or adding new types with smaller minimum size (such as Type E allowed for HUDC projects). This will allow housing units to be built on smaller plots of land, reducing unit cost.
- Explore legal/regulatory changes to ensure a level playing field between banks and leasing companies, including considering limiting the possibility to reassign lessee rights for real-estate related transaction.

Long-Term Actions (within the following 5 years)

- Consider an incremental approach to support the demand side, including the possibility for HUDC to manage/guide demand-side subsidies (e.g. up-front matching grants, rental vouchers).
- Consider creating supply-side incentives such as insurances or guarantees for owners that release vacant units for renting to low-income families.
- It is essential to formulate a comprehensive rental policy, that i) improves enabling environment (regulation and taxes), includes ii) landlord insurance for damages, iii) encourages financial sector to develop targeted products for small landlords to develop rental units, and that considers low-income rental voucher-type subsidies (both for Jordanians and for non-Jordanian) when the financial situation allows.
- Consider simplifying property valuation, linking it directly to the market value of the property (phasing out conditionality on municipal category, zoning and building type), and unifying the property valuation for owner-occupied, rented and vacant units
- Consider removing the preferential treatment of vacant land in the built-up zone of urban areas, and moving to a cadastral system of annual revaluation or indexing.
- Consider leveling the taxation rates of vacant units, owner-occupied and rented units. Consider moving to market-based assessments for the basic property value.
- Explore introducing taxation to discourage developers' up-front financing.
- For the loans of Islamic Banks, consider creating a separate JMRC branch that will use the same mechanism issuing debt to investors in the form of sukuk.
- Consider incentives to encourage the formation of other entities similar to JMRC both for traditional and Islamic loans.
- Consider stimulating the introduction of fixed rate mortgages for the period equal to term of the JMRC loan provided to the bank. Such a measure will reduce the risk of payment shock for a loan during the time this loan uses funding provided by JMRC.

1 Introduction

1. This report aims to support the Government of Jordan (GoJ) in improving housing sector performance. In 2016, the Hashemite Kingdom of Jordan requested the World Bank's technical support to develop a Housing Sector Review to update the Housing Strategy adopted in 1989. Given the enormous challenges currently facing the housing sector, the preparation of this Housing Sector Review and its related recommendations is both timely and important to position the sector to respond effectively to a much-changed situation.

2. The objective of the Jordan Housing Sector Review is to inform the development of a better functioning and more coordinated housing system in Jordan, which caters to the needs of the different segments of the population. During the past several decades, Jordan has made steady improvement in housing conditions, however, the unexpected and rapid population growth due to the arrival of Syrian refugees has put incremental pressure on the housing sector; affordability is negatively affected, and the mismatch between supply and demand has increased. A closer look at some of Jordan's housing indicators shows that Jordan's housing finance system is relatively shallow and has not been able to transform the population's housing needs into effective demand sufficiently. Moreover, Jordan has few Government programs to support either the development of affordable units or to provide subsidies to the poor households in need of housing. Structural factors have been behind the high informality in the housing and construction sector, as only one-third of housing production has the required permissions in place up front. About 20 percent of existing stock is vacant, which leads to the question of whether the market provides enough of the right types of housing regarding price, location, size, and tenure to meet current and projected needs.

3. This report tackles these and other challenges and questions by taking a comprehensive look at the housing market and conditions in Jordan. It looks at the country context, identifying the role of housing in the economy today and the sector's contribution to Gross Domestic Product (GDP) and employment. It also takes a close look at previous housing strategies and housing programs, analyzing the current institutional framework and housing ecosystem. Also, analytical work has been undertaken to review the market response to the crisis in terms of housing production, as well as impacts on vacancies, tenure, the housing deficit and affordability of ownership and rental markets. The report looks into the current demand by size and location, and future demand by projecting household formation over the next two decades including consideration of possible refugee flows. The housing supply value chain along with commercial finance for housing supply and demand analysis is part and parcel of this report. The report includes a set of recommendations crafted to each of the findings presented by the report, aiming to support the government to make informed decisions and to renew the housing strategy. Conscious of the current fiscal constraints of the GoJ, the recommendations have been prioritized to those that do not increase government expenditures or reduce government revenues in the short term.

4. This report has been led by the Minister of Public Works and Housing (MPWH) in collaboration with the Housing and Urban Development Corporation (HUDC) and the World Bank. Talal Abu Ghazaleh (TAG-Consulting) consulting firm was hired by the GoJ to contribute with technical papers on the different topics covered and presented in this report.

2 The State of the Housing Sector

2.1 Country and Sector Context

5. Jordan's housing needs today are driven by exceptionally rapid population growth. The country's population growth is a result of the significant influx of refugees, migrants, and workers in recent years. The population grew, on average, at 6 percent a year between 2004 and 2015 mainly due to a 22 percent annual growth of non-Jordanians in the aftermath of the Arab Spring and regional unrest. Per the 2015 census, the total population is 9.5 million of which 69 percent are Jordanians (6.6 million) and around 31 percent non-Jordanians including 1.3 million Syrians. The country currently has a well-educated labor force of about 1.6 million people, nearly 65 percent of the population is estimated to be under the age of 30, and literacy rates are 95 percent for men and 91 percent for women.

6. The Jordanian economy has experienced multiple challenges in the last decade, which has prompted a slowdown of the GDP growth rate, a continuous reduction in real GDP per capita, and an increase in the unemployment rate. The economy in Jordan is small-sized, service-oriented and lacks high-value natural resources. Thus, it is relatively dependent on the external world and profoundly affected by external shocks, which over the past decade were particularly significant, including the 2008 financial crisis, the reduction on trade flows due to the Syrian and Iraqi conflicts, and the loss of Egyptian gas due to pipelines attacks in Sinai. These external shocks prompted a substantial slowdown of the GDP growth from 8.2 percent in 2007 to 1.9 percent in 2017 and a constant decline in real GDP primarily due to high population growth and loss of remittance flow. The slowdown in the economy magnifies the already high unemployment in Jordan, which increased to almost 15 percent in 2016, the highest level seen in decades.

7. The Jordanian housing sector has proven resilient and able to partially respond to the high population growth and a declining GDP per capita, however, proactive action is needed to reduce the housing deficit and increase affordability. From 2004 to 2015 the number of dwellings in Jordan increased from 1.2 to over 2.3 million units as more than 1.1 million new units were built—or 800,000 units more than the originally projected 300,000 units. Despite this remarkable response from the housing market, the housing deficit deteriorated to reach almost 15 percent of total households, while poverty and the price of residential properties increased affecting affordability to the low and middle-income families.

2.2 The Role of Housing in the Economy Today¹

8. The housing sector constitutes one of the most important sectors in the economy and plays a significant role in the creation of wealth in the country. The contribution of the housing sector to the economy averaged 7.2 percent of GDP for the 2006-2016 period. Of this, close to 4.5 percent is attributed to the construction sector alone without considering the informal economy, which registered notable growth rates in 2013 and 2014 at 8.7 percent and 6.8 percent respectively. Likewise, over the same period the value added of the housing sector grew at an average growth rate of 7.5 percent and its contribution to gross fixed capital formation has remained at about 30 percent, which constitutes a significant portion of wealth creation and more than usually found in other countries with similar levels of income.

¹ Figures in this section were produced by TAG-Consult, in the report *The Role of Housing Sector in the Jordanian Economy*, Submitted to the Ministry of Public Work & Housing in 2017

9. The housing sector is a major driver of employment, ranking 6th among all economic activities in terms of the share in formally employed Jordanians. The construction sector employed over 83,000 workers in 2015, accounting for over 6 percent of the total employment in the country. A substantial percentage of these workers are informally employed, accounting for about 11 percent of the total informal employment in the Jordanian economy. The informal construction sector has increased, especially after the year 2011, thanks to the increasing influx of Syrian refugees. An estimated 40 percent of employed refugees are working in construction. It is estimated that the “underground economy” propelled by this new informal sector now reaches between 21 to 27 percent of the national economy, however, it is most likely that the official figures do not reflect the real situation. Most construction workers are males as the share of females has not exceeded 1 percent in most years.

10. Housing is an important contributor to government revenues at both national and local levels. As presented in Figures 1 and 2, revenues related to the housing sector (sale taxes and registration fees) have experienced a significant fluctuation over the past decade, ranging between 6 to 11 percent of total revenues. These revenues increased from about JD335 million in 2006 to reach JD379 million in 2008, contributing 11 percent and 9 percent, respectively, when the demand in the housing market was high. Due to the consequences of the 2008 financial crisis, the demand for housing dropped causing the government revenues to decrease to JD227 million in 2011, which made the Government introduce exemptions on real estate transactions (BOX 1). After a period of stabilization, the housing market recovered, and revenues increased again to approximately JD333 million 2016 (or less than 6 percent of all Government revenues)².

11. Property taxes should provide an even greater contribution to government revenues, but collection is low compared to other developing countries. In 2010, the annual property tax accounted for about 2.6 percent of total government taxes, however, by 2015 this decreased to 1.3 percent (JD87 million on 6,796 million)³. As a share of GDP, the level is 0.46 percent, only three-fourth of the international average for developing countries⁴. Currently, the Ministry of Finance, GAM and the municipalities are in the process of expanding the property tax by interconnecting databases. For example, in Irbid and Zarqa, the property tax database is linked with car and professional licenses, as a result, no one can obtain a professional license without first paying all outstanding property taxes.

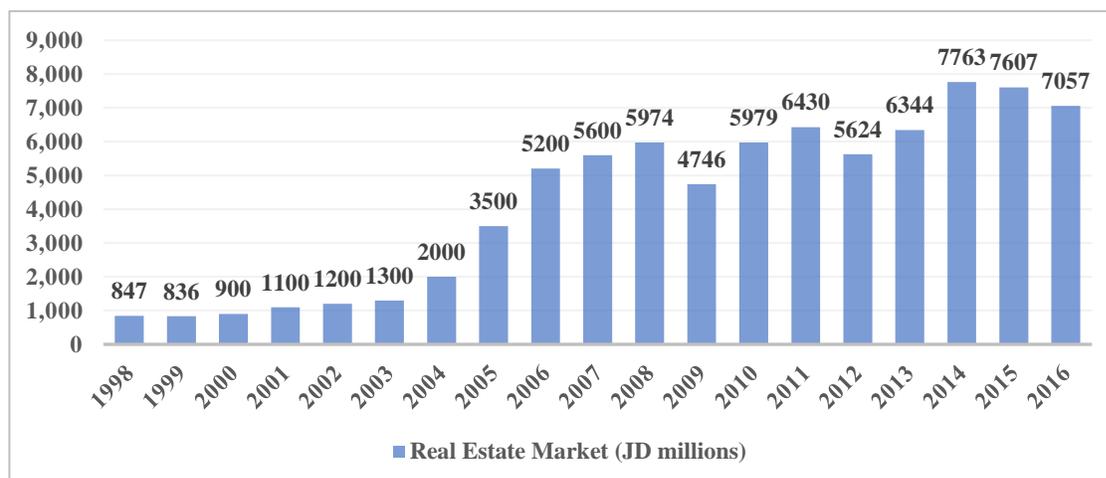
12. Property tax collection for the municipalities (except GAM) increased by a factor of three between 2004 to 2015, from JD8,4 million to JD29,1 million. This was done with the expansion of the property tax roll, from 230,103 apartments plots in 2004 to 464,392 in 2015, and from 246,929 plots of land to 452,528 in 2015. However, because registration is required at the building level, and not for each apartment, not all the properties are included yet in the tax roll. The average property tax per housing unit is twice smaller in municipalities compared to GAM. Amman governorates counts 1,057,939 conventional housing units, for JD58.2 million of property taxes, or an average JD55 per housing unit, whereas Irbid governorate, with 395,505 housing units, collects only JD9.5 million, or an average JD24 of property tax per housing unit. The same goes for Zarqa governorate, with 294,818 housing units, for JD7.6 million, or an average JD26.45 per housing unit (see Annex A).

² Central Bank of Jordan, Summary of Government Budget, 2017. <http://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=67>

³ Idem

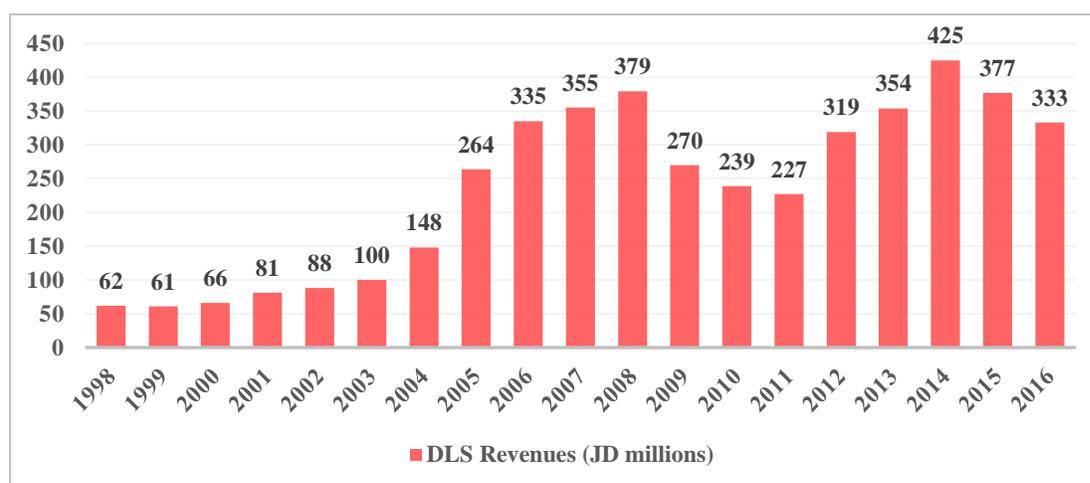
⁴ USAID, 2010, Jordan Fiscal Reform Project II. Jordan: The Taxation of Real Property, p. 6.

Figure 1: Real Estate Market Size (Value of Transactions), 1998-2016



Source: Department of Land and Survey Yearbooks 2013, 2014, 2015, 2016.

Figure 2: Department of Land and Survey Revenues (transfer and sale taxes), 1998-2016



Source: Department of Land and Survey Yearbooks 2013, 2014, 2015, 2016.

BOX 1: TAX COLLECTION RELATED TO REAL ESTATE TRANSACTIONS

Sale tax and registration fees related to real estate transactions are collected by the Department of Lands and Survey of the Ministry of Finance. The sale tax represents 4 percent of the property value while registration fees represent 5 percent. However, in the context of the 2008 world economic crisis, in 2010, authorities extended exemptions from registration fees on the first 120 m² of apartments sized 150 m² or less to bigger apartments by exempting the first 150 m² of apartments sized 300 m² or less. In 2011, the exemptions reached a record JD192 million while in 2016 reached JD128 million. Exemptions remain in place; the last extension occurred in November 2017 for one year.

Source: Department of Land and Survey, Ministry of Finance

2.3 Previous Strategies and Housing-Related Interventions

13. The 1989 National Housing Strategy (NHS) was conceived as the opportunity to move to a private sector-guided model to achieve national housing production targets and to expand access to the lower income segments. A key part of the analysis included the assessment of three alternative paths, including: *Alternative 1*. Leaving the existing trends to continue without much intervention (owner-builder or “individual” path model); *Alternative 2*. Promoting a more public sector-guided approach with stronger public housing programs; or *Alternative 3*. Promoting a guided-private sector approach. The government choose *Alternative 3*, which relied primarily on the dominant owner-builder housing path, while promoting incentives for private developers and removal of market constraints. The Strategy called for a change in the role of the government from a “provider” to an “enabler” of land and housing that would be supplied by private sector actors, emphasizing the need for (i) reducing the public sector’s role in direct housing development and instead encouraging PPPs, and owner-builder sites-and-services (S&S) projects; and (ii) targeting all public housing to low income households.

14. The recommendations developed by the National Housing Strategy provided clear guidance on policies, programs and resources needed to respond to the challenges faced by the housing sector at the time of the strategy inception. The recommendations didn’t call for a radical change in the housing delivery systems, but rather aimed to capitalize upon positive effects of the pre-existing model (owner-builder), to adjust and reduce constraints faced specially in the land and housing finance markets, and to generate incentives to the private sector to go down-market. BOX 2 presents the main recommendations in the most relevant areas, namely housing delivery, land markets, housing finance, construction materials and technology, and institutional reform.

BOX 2: MAIN RECOMMENDATIONS OF 1989 JORDAN NATIONAL HOUSING STRATEGY

Housing Delivery

i) Establish clear and realistic housing provision targets; ii) provide incentives to private developers to produce low-income housing (e.g. tax exemptions, lower standards, smaller plot sizes, mix-use zoning); iii) define clear targeting system to channel subsidies; iv) develop policies for squatter areas and refugee camps; v) revise landlord-tenant legislation (e.g. eliminate rent controls)

Land Markets

i) Reform of zoning rules (e.g. more flexibility in plot development); ii) apply property tax based on market value (rather than rental value) and reduce land and property sale tax; iii) promote infill programs in vacant plots including loans to cover land and construction; iv) restrict extension of planning boundaries

Housing Finance

i) *For the Jordan Housing Bank loans:* lower down-payments/increase LVT; increase loan limits; lengthen the repayment term; review guarantor requirements; introduce construction materials loans; ii) *For enabling the market:* develop innovative schemes such as a deposit insurance fund, mortgage default insurance, mortgage-backed bonds/secondary mortgage markets

Construction Materials and Technology

i) Minimize costs in existing approaches to building (e.g. pre-fabricated components, modular designs, improve space layout); ii) reduce prices on key building materials (e.g. through reduction of import taxes); iii) minimize construction regulations

Institutional Reform

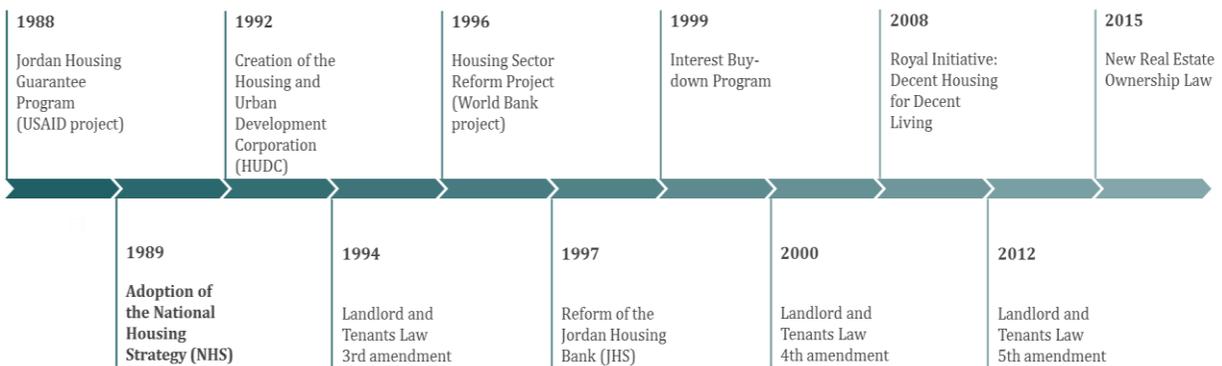
i) Create a Housing Council for housing and urban development; ii) Urban Development Department to remain as a technical assistance body; iii) the Housing Corporation to remain as a housing subsidy and direct loan provider.

Source: Ministry of Planning, 1989. National Housing Strategy

15. The 1989 National Housing Strategy triggered a series of interventions -especially during the 1990s- that have shaped the housing sector for three decades and have proved critical for providing a sound framework that enabled the country to respond to the recent population inflow. During the late 1980s and 1990s structural interventions related to housing finance were pursued and successfully implemented, including the development of the Housing Guarantee Program and the establishment of the Jordan Mortgage Refinance Company (JMRC). These initiatives were supported and accompanied by the United States Agency for International Development (USAID) and the World Bank respectively. Likewise, incremental reform to the rental housing sector was pursued through several amendments to the landlord and tenants law. Efforts to reduce barriers in the land and construction markets were less productive, with several bottlenecks still in place until today.

16. A summary of the most important interventions in the housing sector -since the development of the 1989 National Housing Strategy- follows in Figure 3 below.

Figure 3: Most Relevant Intervention in the Housing Sector in Jordan over the Past Decades



Source: Authors with information from HUDC

1988: Jordan Housing Guarantee Program (USAID project): The Jordan Housing Guaranty Program was the first of its kind in the country. The goal was to increase the availability of low cost housing to families with below median incomes by i) providing long-term mortgage credit, and by ii) increasing the participation of private developers in building units for the low-income market. Through the Jordan Housing Bank, the program successfully placed over 4,500 loans, valued at U\$33m (average loan was U\$8,000; 10 years; 8 percent IR). Over 40 percent of the program beneficiaries were at or below the 20th percentile of income (USAID, 1994). The experimental “Private Developer Program” did not achieve its expected target of approximately 700 loans. Constraints related to zoning, planning and taxation policies (e.g. subdivision regulations and high property transfer taxes) made projects financially unfeasible.

1992 - Creation of the Housing and Urban Development Corporation (HUDC): The former Urban Development Department and the Housing Corporation were merged in 1992 to form the Housing and Urban Development Corporation (HUDC). Its main mandates included i) the formulation of housing policy, and the ii) the development, sale and direct mortgage financing of land and housing targeted to lower income households. HUDC kept all the privileges of government agencies such as access to government land; a government guarantee against its debts; and authority to issue debentures.

1994 - Landlord and Tenants Law 3rd amendment: Since its inception in 1941 the Landlords and Tenant Law has been decidedly pro-tenant. The Law stated that leases could be extended indefinitely if the tenant so desired, and that the rent would remain at the level established in the original lease unless as determined by a special rents committee. The 1994 amendment obligated the government for the first time to examine the rent level at least once every five years.

1996 - Housing Sector Reform Project (World Bank project): The main objective of the project was to support the Government’s strategy to improve the efficiency of the housing finance sector and promote private-sector development in land and housing production. Specific objectives were i) liberalization and deepening of housing finance by supporting the establishment of a liquidity facility (the Jordan Mortgage Refinance Company-JMRC); and ii) promoting policy and institutional changes to increase private-sector participation and competition in land and housing development. The housing finance component met expectations as the JMRC steadily provided long-term funds to commercial banks against pledged mortgage loans, thus reducing interest-rate and asset-liability matching risks. The GoJ was less successful in promoting comprehensive changes in the sector that were proposed by the housing sector reform component.

1997 - Reform of the Jordan Housing Bank: The Jordan Housing Bank (now Housing Bank for Trade and Finance - HBTF) was established in 1973 as a limited public shareholding company with primary focus on housing finance. Subsidized by the GOJ, for over 20 years it served as the main source of housing finance. In 1997, the GOJ removed all remaining privileges and it became a full-fledged commercial bank offering a range of commercial banking services. Today, the HBTF is one of the leading Banks in Jordan with a client base of over 1 million clients. As of June 2014, HBTF had total assets of U\$10.7 billion with total capital of U\$1.5 billion.

1999 – Interest Buy-down Program: Although targeting only public-sector workers, in 2000, the government created a new interest rate subsidy that would utilize private sector distribution channels. The self-sustained fund of JD50 million has been allocating approximately 1500 subsidies each year. Eligibility criteria includes number of years working for the government, household income and house prices, and a point system for subsidy allocation. The loan can be used for the acquisition of a housing unit, improvements, or the acquisition of a plot for self-construction. The maximum amount of a loan was set up at JD13,000 (U\$18,200), although the actual average size loan under the program has been only JD6,000 (U\$8,400). The subsidy was a 5 percent reduction from the market rate, applicable for the entire term of the loan (typically 20 years).

2000 - Landlord and Tenants Law 4th amendment: As a mean for implementation of 1996 program, the government introduced structural changes to the law aiming to level the playing field for landlords and tenants, including allowing contracts to include explicit termination dates. New contracts starting in 2000 would be subject to conditions agreed between the two parties. The other important change was to establish December 31, 2010 as the termination date for all leases signed prior to the passage of the March 2000 amendments. While these measures impacted the housing sector by increasing rental rates in all markets (residential, commercial, offices), this benefited affordable housing by encouraging landlords to invest in construction of more units, thus increasing supply for lower-income families and non-Jordanians entering the country.

2008 - Royal Initiative: Decent Housing for Decent Living: The Royal Initiative was unsuccessful due to its inability to produce the promised units, to target public subsidies toward the needy segments of the population, and due to its high fiscal cost. The Program aimed to enable 100,000 Jordanians to have access to affordable housing. In a policy setback, inclusion of private developers was merely as contractors, going backward against the recommendations from the 1989 National Housing Strategy and the 1996 Housing Sector Reform project. Without bearing any risk, developers were paid JD265 (U\$373) per m² on average, and the apartments were sold to the applicants for JD220 (U\$310) per m² on average. Although the units were subsidized by 17 percent plus the share of land, the unit price was still not affordable for targeted groups as unit prices ranged from JD19,000 to JD29,000 for a 118m² unit. By 2011, only 8,500 housing units were built and only a third of those were sold. In addition to the constraints on housing finance and targeting, the location of the projects exacerbated the distance to jobs and opportunities, and access to infrastructure and services.

2012 - Landlord and Tenants Law 5th amendment: The new amendment to the Landlord and Tenants Law created a more favorable environment for landlords (for contracts signed before 2000). Main amendments included allowing landlords to renegotiate existing tenancy agreements and to align rental rates with their market value. Reevaluation and rent amount review could now be done every five years while before they had remained stagnant.

2017 - The Real Property Law: The law brings together all provisions related to real property in one legislation that classifies real estate ownership categories and regulates the processes of demarcation,

surveying and appraising real property, as well as addressing dispute resolution. It tackles all issues related to ownership rights and registration of real property. It also simplifies procedures to put an end to communal land either through disposition or subdivision (by consent of all parties involved or through legal action by designated committees established for this purpose). It also regulates the ownership of buildings, floors, apartments, and real estate complexes, their disposition as well as management of shared elements. It articulates the terms for real estate acquisition and ownership by non-Jordanian and legal persons, regulating relevant procedures. It defines procedures for mortgaging a real estate to secure a loan by the owner or as a guarantee by the owner for a debt of a non-owner. In addition, the law regulates real estate acquisition for the public good, by direct purchase or through acquisition according to certain regulations and procedures. It also abolishes the irrevocable power of attorney that had been heavily used for speculation.

BOX 3: MAIN SUCCESSES AND CHALLENGES FROM HOUSING INITIATIVES

MAIN SUCCESSES

Progressive amendments in de-regulation of rental constraints proved critical to enable the market to respond to the influx of refugees. Since its inception in 1941 the Landlords and Tenant Law was decidedly pro-tenant. The law has been progressively amended (3 times over the past two decades), aiming to level the field for tenants and landlords. These amendments have contributed to the dynamism of rental markets, encouraging landlords to increase supply.

Creation of the Housing and Urban Development Corporation. With the right support to increase institutional capacity and increase its authority, the HUDC's has the potential to promote a new wave of pending reforms related to land planning, building codes/regulations, and taxation.

Sustained expansion of housing finance. The removal of privileges of the Housing Bank, the inception of the Jordan Housing Guarantee Program in 1988, and the JMRC in 1996, proved right to expanded access to housing finance. The expansion of the mortgage market it is certainly a cornerstone to continue supporting the demand for housing for the lower income segments.

MAIN CHALLENGES

Lack of action in fostering regulatory reform to attract the private sector. Despite having been repeatedly proposed and agreed, low political will has slowed the implementation of key reforms to catalyze housing supply by the private sector related to land availability (restrictions on plot size and density), construction permits (slow procedures and high costs), territorial planning and zoning constraints.

Lack of coordination mechanisms. Despite that most of the proposed reforms have included specific deadlines, oversight committees, work-plans and monitorable indicators, there were no clear vertical and horizontal coordination mechanisms that could reduce the clash between stakeholders within the government thus permitting final decisions about reform implementation.

Lack of specific subsidy programs for expanding access for low-income households. Overall, there is evidence that the private sector alone does not supply housing solutions for lower-income segments. In Jordan, the government has yet to develop a comprehensive subsidy program that is linked directly to the household (demand side) instead of to units (supply side).

Lack of programs to support the rental market. Important progressive amendments to the Landlord and Tenants Law have not been complemented by other measures to support affordable rental. Thus, the market is smaller than its potential. This is particularly true for smaller rental properties (for lower income people) as they are more risky renters.

Slow decentralization. Decentralization so far has effectively been '*deconcentration*' without concomitant technical and financial capacity building at the local level. Hence, although mandated to ensure adequate housing for their citizens, local authorities are constrained – both in terms of their technical and financial capacity – to deliver their functions.

2.4 Current Institutional Framework

17. The housing ecosystem in Jordan consists of several actors that undertake different roles in policy, planning, finance, tax, and production. The Housing and Urban Development Corporation (HUDC) is in charge of developing the national housing policy and affordable housing production. HUDC's

Board of Directors is chaired by the Minister of Public Works and Housing. The Ministry of Municipal Affairs (MoMA) undertakes central planning for all Jordanian cities and municipalities except for the Great Amman Municipality (GAM), Jordan Valley Authority (JVA), Aqaba Special Economic Zone Authority (ASEZA), and Petra Development and Tourism Regional Authority (PDTRA). The latter four are independent authorities and take on the development of their master plans including residential area zoning. On the housing finance side, the Central Bank of Jordan (CBJ) regulates the work of commercial banks and monitors their portfolio of housing mortgages. Financial leasing companies enjoy a relatively free structure with little oversight. The Jordan Mortgage Refinance Company (JMRC), a liquidity facility, provides second-tier funding for banks. Under the supervision of the Ministry of Finance, the Department of Land and Survey (DLS) collects the land and properties registration tax. DLS also manages property rights and provide real estate services. Upon agreement with the Ministry of Finance, municipalities collect annual property tax and oversee property valuation and collection.

18. The social protection system in Jordan provides little support to low-income families for housing rental or acquisition. HUDC and the Ministry of Social Development (MoSD) have a mandate to provide affordable housing to low-income groups. MoSD receive allocations from MoF for this purpose while HUDC generates its own revenues. In general, housing subsidy programs in Jordan are scattered and delivered through implicit models, where lower-priced units and plots are provided as part of access to government-owned land. It is worth noting that HUDC and MoSD design their affordable housing programs independently. The lack of coordination among different institutions responsible for providing low-income housing in different ways reflects the lack of a coordinated approach to housing subsidies.

The Housing and Urban Development Corporation (HUDC)

19. The Housing and Urban Development Corporation (HUDC) was established in 1992 as a direct result of the 1989 National Housing Strategy. It was created by merging the Housing Corporation (created in 1966) and the Urban Development Department (created in 1980) as recommended in the National Housing Strategy (1989). HUDC has two main functions: (i) improving the enabling market for housing and (ii) developing and selling serviced land plots in partnership with the private sector. It is HUDC's responsibility to enable middle and lower-income households to access suitable housing solutions, to support upgrading poor areas and to engage local labor, thus contributing to poverty reduction.

20. HUDC enjoys financial autonomy and is governed by a board of directors. The board of directors, which is chaired by the Minister of Public Work and Housing, includes representation from the Water Authority, MOMA, DLS, CBJ, GAM and the Ministry of Planning and International Corporation (MoPIC) in addition to four representatives from the private sector. Close to 400 staff work for HUDC and their salaries account for nearly 28 percent of HUDC total expenditures (including the *Royal Initiative*). HUDC is organized into three main areas: (1) policy and strategy which includes housing policy, strategy, and planning; (2) production and marketing including properties, research, design, tenders; beneficiary affairs, and supervision; and (3) services including finance and management affairs.

21. HUDC's ability to enforce and oversee the implementation of recommendations is limited by the multi-sectoral nature of housing, where HUDC is co-equal with other major players. Urban planning, land use, zoning, building regulations, and property taxations are all fundamental to devising a sound housing policy, yet, they sit outside of HUDC's de-facto influence. Therefore, little improvement on regulatory reform has been achieved, including land-use, re/downzoning, and building standards (e.g., smaller plot sizes, reduced set-back requirements, or fewer off-street parking facilities). Although HUDC has a seat in the Higher Planning Council, which is the higher entity in the process of the approval of master

plans of cities and town, HUDC's contribution, similar to other members, is usually limited to approving (or not) already developed master plans. Therefore, HUDC has no role in providing guidance on the development of these master plans in order to integrate affordable housing strategies.

22. In 2008, HUDC was forced to go backwards and take once again the government/developer role in charge of constructing units as part of the *Royal Housing Initiative*. Since establishment, HUDC has provided 35,590 serviced pieces of land. To implement the *Royal Initiative*, HUDC started to construct units, with private developers as mere contractors and to re-sell them at subsidized prices. The *Royal Initiative* delayed the proposed transition of the government's role (and thus HUDC itself) from a provider to a regulator of land and housing supplied by the private sector. It also led to misallocation of resources as subsidies didn't reach to the lower-income households.

23. Although HUDC is a financially autonomous entity generating its own revenues, its budget setting process conforms to the overall government's fiscal consolidation. HUDC's land holdings range from a large number of small plots in developed areas with high values per square meter, to large tracts in prime areas ready for development and in areas not likely to be developed for many years (holdings as strategic stock). HUDC generates revenues by developing and selling these plots at market rates in addition to partnerships with the private sector to cross-subsidize other serviced plots to targeted groups. Despite that HUDC sets its budget to meet an annual target of serviced plots, its budget needs to be approved as part of the overall government's yearly budget and may be subject to cuts that hinder its ability to meet this target.

24. The HUDC was instrumental in promoting a series of reforms carried out in the 1990s, however, it has played a less active role in policy making over the past decade. The challenges that HUDC faces, and the constant need to shifting strategies and approaches to affordable housing provision, resonate with global examples where housing institutions have repositioned themselves to improve their resource allocation and to serve their target groups better. A good example is the case of Chile, where the Ministry of Housing and Urban Planning (MINVU), underwent a reform in 2002 that shifted its mandate away from direct construction of houses and mortgage provision. Instead, following the reform, MINVU focused on targeted subsidy programs for home acquisition. As presented in BOX 4, Chile's housing programs target different income groups with innovative and customized tools and a variety of subsidy offerings.

BOX 4: HOUSING INSTITUTIONS AND PROGRAMS: THE CASE OF CHILE

From direct unit production to targeted subsidies

Chile has a strong institutional structure led by the Ministry of Housing and Urban Planning “*Ministerio de Vivienda y Urbanismo*” (MINVU). MINVU formulates housing policies and design subsidy programs. Housing and Urbanization Services (SERVIU), which are regional private entities, manage subsidies in a decentralized approach.

MINVU underwent reform in 2002 that aimed to shift its business model away from the direct construction of houses and mortgage provision to focus on targeted subsidy programs for home acquisition in an effort to better focus its resource allocation. Before the reform, MINVU was the largest real estate firm and the second largest mortgage bank in the country, regarding the number of houses built and the number of mortgage loans issued. Simultaneously, MINVU funded and managed subsidy programs. Following the 2002 reform, MINVU stopped giving mortgage loans and gave up the direct construction of houses. In 2004, 96 percent of MINVU’s resources were targeted to subsidy programs and only 4 percent to building programs compared to more than 50 percent spent on direct housing construction before the reform.

Addressing the issue of affordability

Chile pioneered the introduction of ABC program (Saving, Bonus, and Credit) the first program in the world to subsidize the demand to buy a housing unit. The program introduces lumpsum subsidies to complement households’ savings, making mortgage financing more accessible. Chile started two sets of reforms in the financial and social sector to support the ABC program:

- Social security system reforms: individual saving accounts managed by private fund managers.
- Financial sector reforms: allowed financial institutions to access these resources to fund mortgages

Diversity of subsidy offering

Chile has a very well diversified product offering including (i) free homes; (ii) vouchers for families for home acquisition; (iii) subsidy for rentals; (iv) subsidy for remodeling and rehabilitation.

Wide access and coverage

Out of all homeowners, 41 percent of them are said to have benefitted from some form of housing subsidy, which is a very high proportion. The annual volume of housing subsidies 4-4.2 percent of the total national budget. The eligibility criteria range for the low-income population to the middle class. Subsidies are available for immigrants as well.

Location and coordination

In 2005-2006, Chile was successful in incorporating location requirements for subsidized homes to ensure that they are not located too remotely from schools and job opportunities. Moreover, Chile’s housing subsidy policy is prepared in line with the national urban policy and works cohesively.

RECOMMENDED ACTIONS

- HUDC should have a clear mandate to formulate long term housing policy, tools to regulate and enforce policy recommendations, and to contribute to drafting housing-related laws.
- HUDC should be able to also work with Greater Amman Municipality (zoning and housing policies)
- Consider creating a centralized Housing Information System (HIS) within HUDC, and develop stronger monitoring and evaluation systems, and capacity building initiatives.

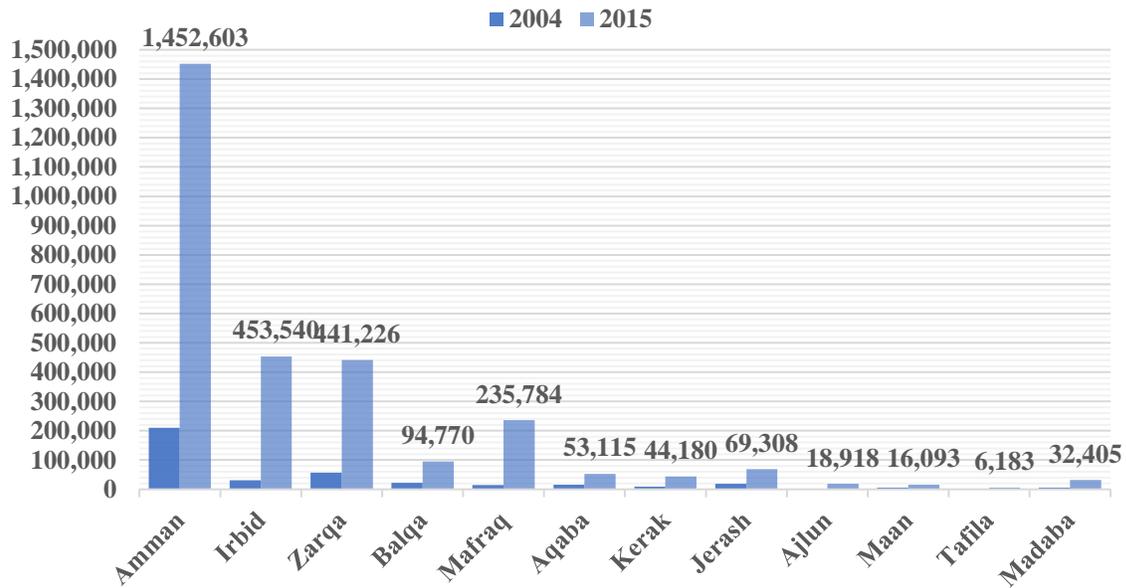
3 The Main Challenge Faced by the Housing Sector

3.1 Extraordinary Increase in Population

25. Jordan's housing needs today are driven by exceptionally rapid population growth resulting from the significant influx of refugees, migrants and workers in recent years, primarily from Syria and Egypt, but also from Yemen, Libya and Iraq. According to the latest census, annual population growth averaged close to 6 percent between 2004 and 2015, exceeding population projections by almost 30 percent. Over this period, annual growth rate of Jordanians was close to 3 percent, while the non-Jordanian population living in the country grew at an average rate of 22 percent annually. In 2004 non-Jordanians accounted for about 8 percent of the total population, while in 2015 they were close to 31 percent. As presented in Figure 4 and Figure 5, governorates such as Irbid, Mafraq and Aljun, showed an increment in non-Jordanian population of more than 30 percent annually. The most prominent case relative to its local population is Mafraq, where non-Jordanian population grew from 15,000 in 2004 -which represented only 6 percent of their total population- to over 235,000 in 2015, which represents over 43 percent of their total population. The maps in Figure 6 and Figure 7 show the population growth rate and the distribution of Syrian refugees by sub district.

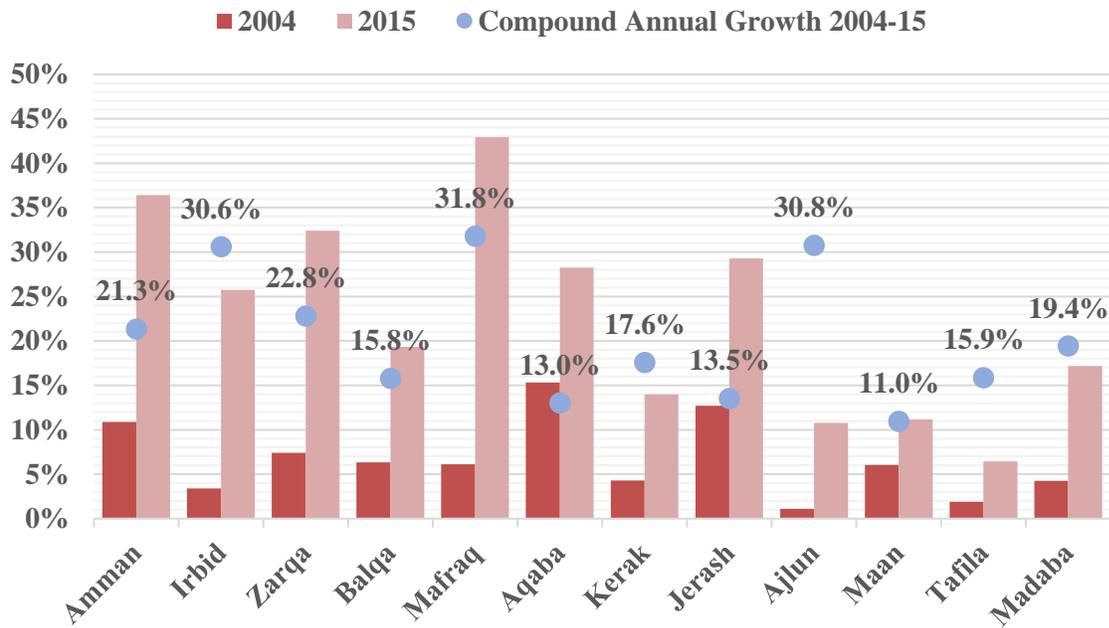
26. High influx of migrants has increased the concentration of people in the core urban areas. Over 42 percent of the total population is concentrated in Amman Governorate (4 million inhabitants), followed by Irbid with 19 percent (1.8 million), Zarqa with 14 percent (1.3 million), Mafraq and Balqa with 5 percent (500,000). In terms of number of households, the increase was even higher at 6,8 percent (due to the arrival of single refugees forming one-person household), going from over 900,000 households in 2004 to close to 2 million households in 2015. While 70 percent (1.45 million) of households are Jordanian (including Jordanians abroad) the households formed during the past decades (1 million) were half Jordanians and half foreigners. In 2015, the country counted over 600,000 non-Jordanian households, including over 260,000 Syrian ones.

Figure 4: Population Growth of Non-Jordanian Residents by Governorate, 2004-2015



Source: Prepared by authors using Jordan Census 2015

Figure 5: Percentage of Non-Jordanians Relative to Total Population by Governorate, 2004-2015



Source: Prepared by authors using Jordan Census 2015

Figure 6: Map of Annual Population Growth Rate by Sub-districts, 2004-2015

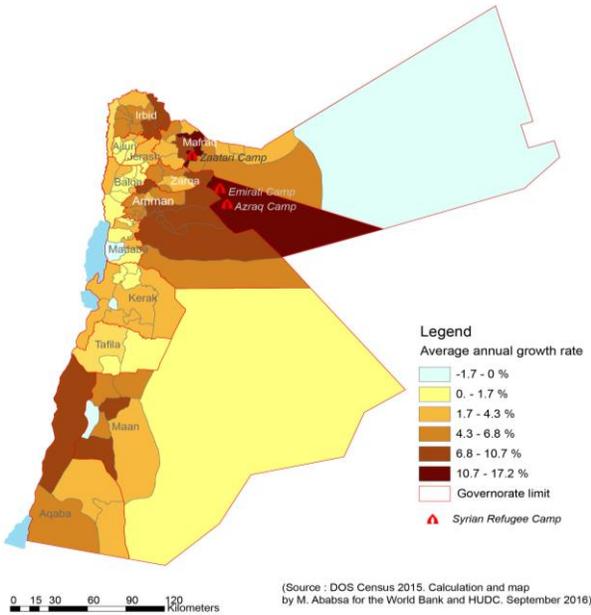
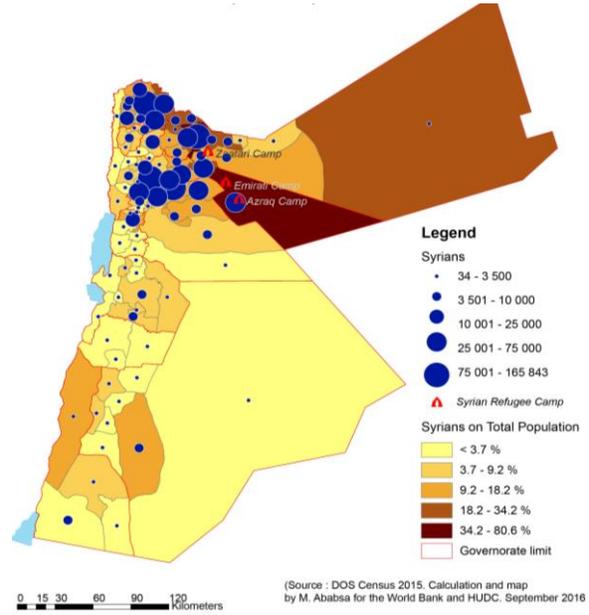


Figure 7: Map of Distribution of Syrian Refugees by Sub-districts, 2015



Source: DOS, Census 2015

27. Jordan is expected to host between 1.7 and 3.5 million new residents over the next 13 years. According to three possible scenarios (high, medium and low population growth)⁵ run by the Department of Statistics (DOS), the total population of Jordan will reach at least 11.1 million inhabitants and a maximum of 12.9 million (9m Jordanians and 3.9m non-Jordanians) by 2030. In the high growth scenario 49,000 new households would be created annually, thus it is expected that over 220,000 new households would be formed by 2020 (168,000 Jordanian and 53,000 non-Jordanian) (see Table 1).

⁵ The High Scenario is based on a 2.9 percent increase of the Syrian population, a fertility rate of 3.4 children per woman, a life expectancy stable at 73 years for men and 74,3 for women, and a net emigration flow of Jordanians at 11,863 men and 1,318 women per year. The Medium Growth Scenario predict the progressive return of the Syrian population to their country, reaching the number they were in 2011, a reduced fertility rate at 2,4 children per women, a life expectancy at 74,37 years for men and 75,77 for women.

Table 1: Population Projections and Household Information, 2015-2030

	Basic High Growth Scenario			Medium Growth Scenario		
	Total	Total HH	New HH	Total	Total HH	New HH
2015	9,401,993	1,950,588		9,401,993	1,950,588	
2016	9,605,782	1,992,877	42,289	9,574,155	1,986,229	35,640
2017	9,814,014	2,036,084	43,206	9,749,470	2,022,536	36,307
2018	10,026,785	2,080,226	44,143	9,927,994	2,059,523	36,987
2019	10,244,194	2,125,326	45,100	10,109,788	2,097,203	37,680
2020	10,466,345	2,171,404	46,078	10,294,911	2,135,590	38,386
2021	10,691,405	2,218,101	46,697	10,467,701	2,171,508	35,919
2022	10,921,315	2,265,802	47,701	10,643,391	2,208,045	36,537
2023	11,156,181	2,314,528	48,727	10,822,030	2,245,211	37,166
2024	11,396,109	2,364,303	49,775	11,003,667	2,283,018	37,806
2025	11,641,209	2,415,148	50,845	11,188,353	2,321,476	38,458
2026	11,886,280	2,465,992	50,845	11,345,325	2,354,358	32,882
2027	12,136,512	2,517,908	51,915	11,504,500	2,387,719	33,361
2028	12,392,015	2,570,916	53,008	11,665,908	2,421,566	33,847
2029	12,652,900	2,625,040	54,124	11,829,580	2,455,906	34,340
2030	12,919,279	2,680,303	55,263	11,995,549	2,490,747	34,841

Source: DOS Population Projections 2015-2050. Figures given for intermediate years 2015, 2020, 2025, 2030, households number given for the Medium Growth Scenario, other values calculated by the World Bank

4 The Market Response

4.1 Unprecedented Housing Production

28. The Jordanian housing sector has proven resilient and able to respond to the high population growth and a declining GDP per capita. In 2004, the number of dwellings in Jordan was close to 1.2 million units. At the time, the government estimated that in the following decade, the country would produce an additional 300,000 units for a projected 2015 total of 1.5 million dwellings. Instead during the 2004-2015 period the construction sector produced over 1.1 million units, reaching over 2.3 million units in 2015, far exceeding Government estimates by an impressive 800,000 more than predicted, which is an indication of the intense building activity.

29. More importantly, production of housing in Jordan is prominently performed through the private sector, including formal registered constructors, private housing cooperatives, informal companies and owner-builders. Between 2004 and 2015, over 99 percent of the housing production was private, out of which 60 percent were produced by owner-builders, and 40 percent was done by construction companies. Public housing production was limited only to 809 housing units. These impressive numbers are rarely seeing in countries with similar challenges, proving that the private sector in Jordan is prepared to respond to external shocks, smoothing negative externalities.

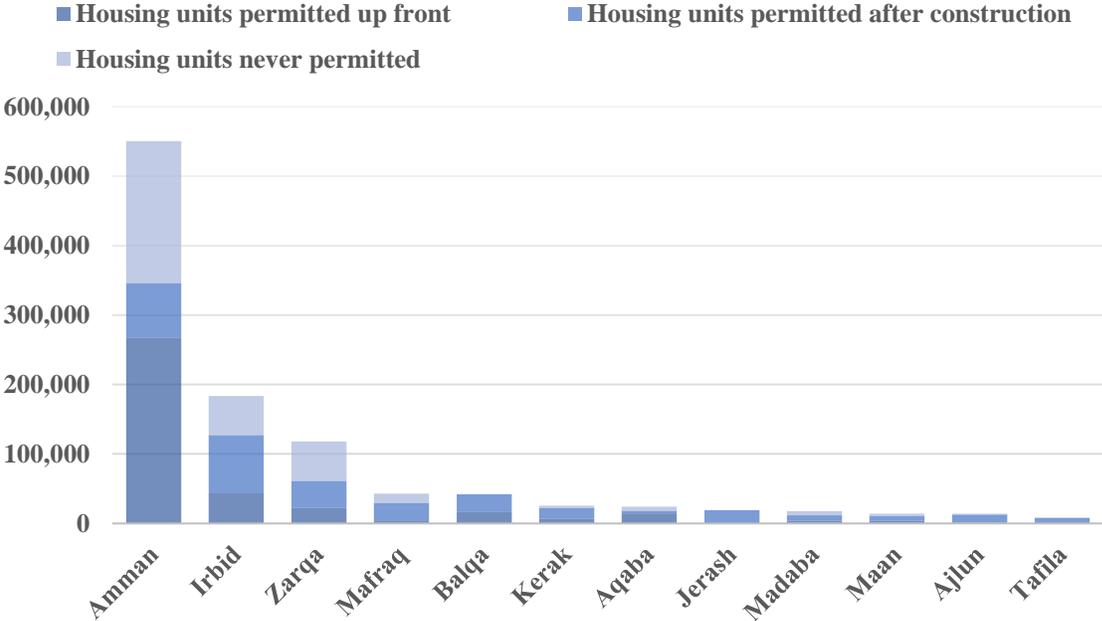
30. Of the 1.1 million new units built in the past decade, one-third were licensed up front, almost one-third were licensed after construction and the remainder were built without any kind of licenses. Although the majority of new units are permitted, the *after-construction permits* are still highly attractive because taxes due are less onerous than for those units permitted up-front. Between 2004-2015, over 388,000 housing units were produced with a proper construction permit (*khursa al bina*), which constitutes close to 37 percent of all the new housing units. During this period, close to 320,000 housing units were licensed after completion (regularization of existing housing units), which constitutes less than 30 percent, including units built prior 2004. Informal housing construction thus accounted for the remainder 33 percent (350,000 out of 1.05m) between 2004 and 2015.

31. The upfront versus after-the-fact permitting importance varies substantially by governorate, however, in most governorates, after-the-fact permitting is the most common. As presented in Figure 8 and Figure 9, between 2004 and 2015 half of Amman new housing units were permitted prior to construction, while over 14 percent were registered after completion, and 37 percent are still unpermitted (see Annex B). In most governorates, less than 30 percent of the new housing units have a building permit (30 percent in Maan, 26 percent in Kerak, 24 percent in Irbid, 23 percent in Madaba, 21 percent in Tafila, 19 percent in Zarqa, 11 percent in Mafraq, 10 percent in Jerash, 8 percent in Ajlun). In those governorates, Jordanians have managed to produce new housing units without taking building licenses. Relatively to its housing production, Aqaba is the governorate where the legislation is better followed with 61 percent of the new housing units permitted before construction. ASEZA seems to better control the housing production, as the city is rather small, and significant foreign direct investment is going through to the Kingdom's only port. BOX 5 presents the process of acquiring a housing permit in Jordan.

32. The private sector faces several regulatory challenges, ranging from coordination issues among the several stakeholder agencies regulating construction activities, to the high degree of unpredictability involved in approval decisions, particularly vis-à-vis large projects. The lack of

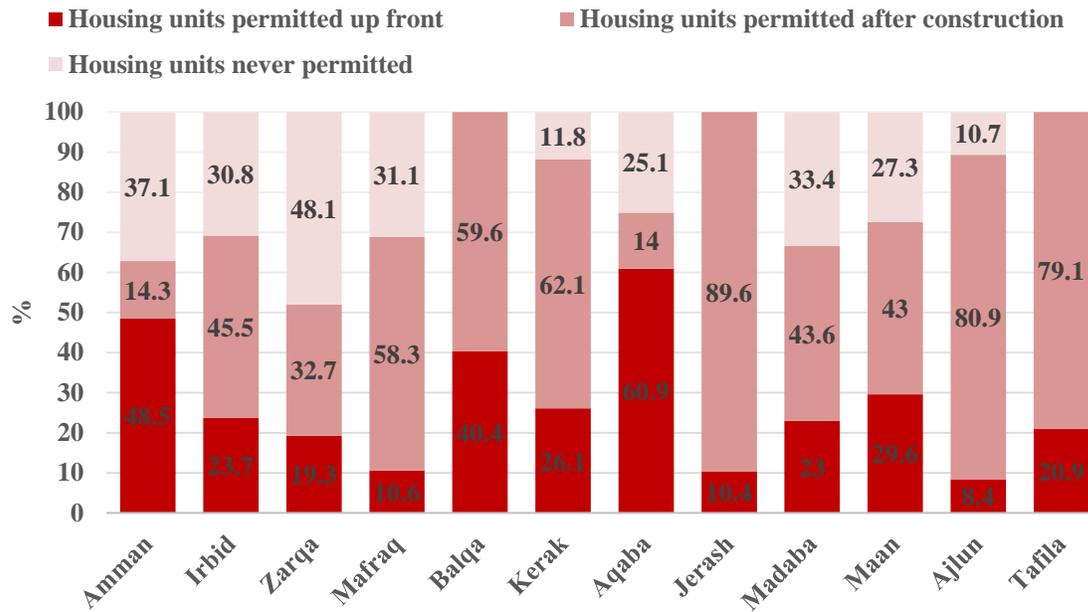
detailed regulations for specific project categories, combined with the high frequency of amendments in the municipal codes, the limited provisions for communicating these changes, and the high degree of discretion and unpredictability in development fees have resulted in a weak investment climate for developers. In municipalities outside Amman’s governorate, misaligned incentives such as the low cost of illegal building regularization, combined with weak enforcement in effect encourage illegal construction activity and result into poor building stock quality. Improving coordination between the various stakeholder agencies to reduce transaction costs, as well as providing a more predictable regulatory framework for developers and more effective enforcement outside of Amman can help Jordan achieve a more robust regulatory system for construction.

Figure 8: Building Permits by Number and Percent of Housing Units, 2004-2015



Source: DOS Construction Statistics, sent to HUDC 13-6-2017

Figure 9: Building Permits by Percentage of Housing Units, 2004-2015



Source: DOS Construction Statistics, sent to HUDC 13-6-2017

BOX 5: PROCESS TO BUILD A HOUSING UNIT

According to Doing Business (2018), Jordan ranked 72nd out of 190 countries in registering a property and 110th out of 190 countries in issuing construction permits. On average, at a national level building permits require 62 days to be issued (in GAM, it can take up to four months, as the auditing bureau (*diwan muhasiba*) only has 7 representatives for the entire city). Typically, the process for housing development is as follows: In areas zoned for urban use, land is subdivided and sold. The owner (developer or individual) then consults with the Municipality on the land use options and may have to pay “improvement taxes” if the use has been changed from residential to commercial.

Land use changes as well as amendments on the building terms for each land plot are frequent, and as a result, consultations with the authorities prior to any development are necessary. Subsequently, the owner seeks approvals from several referral agencies such as the Jordanian Engineers’ Association, the Civil Defense Department (CDD) and Ministry of Tourism and Antiquities, as well as utility providers, before applying for a building permit at GAM. Additional clearances may be required by other referral agencies (Public Security Department) and GAM units (e.g. Traffic Control Department or Special Projects Department) depending on project type and complexity. Once the structure is complete, and third-party inspectors from GAM and CDD have cleared the project, a Completion or Occupancy Permit (*idhan ashghal*) is issued from the municipality to occupy the building; this is necessary to get utility connections (e.g., electricity, water).

The owner bears the cost of bringing the trunk infrastructure from the nearest available network to the site, which can be very high (JD300 per electricity pole at 30-meter intervals). The land owner must pay a building tax of 0,75 JD per m² to the municipality (*rusm al inchaa*) and build an underground safe space or “refuge area” (*majla*) not smaller than 10 percent of the surface. The new Municipal Law adopted in 2015 includes a JD150 fine per m² built in contravention in order to push citizens and builders to follow zoning and building norms, including parking lots.

RECOMMENDED ACTIONS

- The current tax/fee system makes permitting-after-construction less expensive than permitting-before-construction; consider measures to flip the incentives by making permitting-after-construction costlier and harder.
- Consider measures to reduce red-tape for permitting and promote knowledge exchange between governorates to learn from good practices from governorates with high up-front permitting.

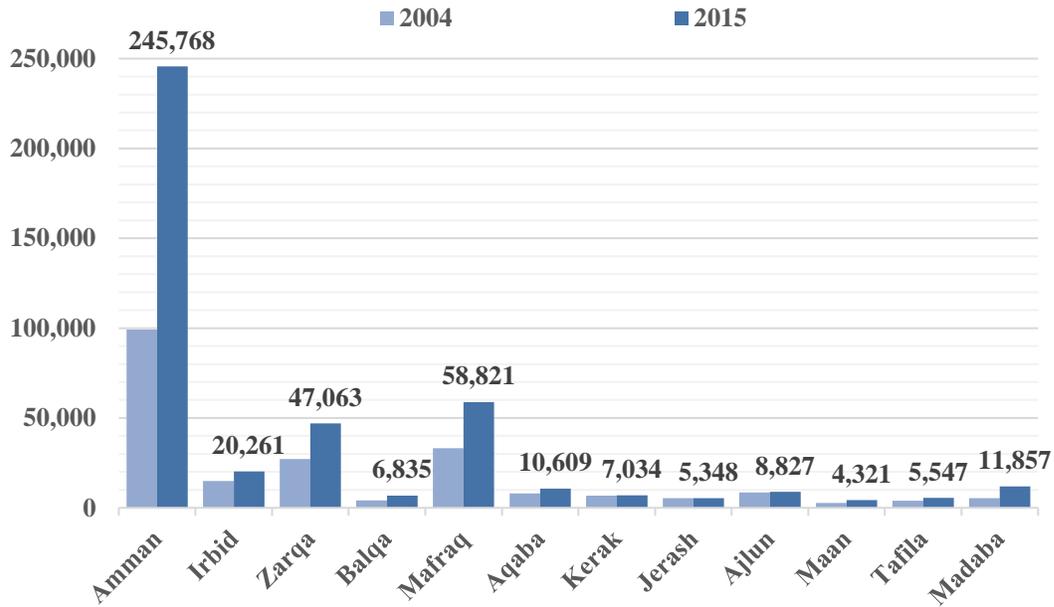
4.2 Stagnant Vacancy Rates

33. Although Jordan has produced sufficient housing units to host its total population (2,270,967 dwellings for 1,953,194 households)⁶, the vacancy rate has remained significantly high, reaching 18.4 percent in 2015, much above the 5-10 percent that is expected to see in a well-functioning market. In 2004, the number of vacant units in the country was close to 220,000, which represented close to 18 percent of the total housing stock. Over the following decade the number of vacant units doubled to 432,000 units (see Annex C). Given the sudden increase in housing construction, especially in Amman, in relative terms the vacancy rate slightly increased to just 18.4 percent in 2015, however, the number of vacant units today in the market it is a much bigger challenge than it was in 2004. Some of the vacant apartments are seasonally occupied by Jordanians expatriated in the Gulf countries. Most of them were not sold as they were not adapted to the market, being too large and expensive.

34. The unprecedented increase in vacancies in Amman, is limiting the country from reducing nationwide vacancies. As presented in Figure 10Figure 11, Amman experienced a 9.5 percent compound annual growth rate of vacant houses resulting in the Amman vacancy rate increasing from 20 percent in 2004 to 23 percent in 2015. Amman now concentrates close to 57 percent of vacant units nationwide, reaching over 245,000 units. Far below, Amman is followed by Mafraq which now concentrates close to 14 percent of vacant units nationwide (59,000 units), Zarqa with 11 percent (47,000 units), and Irbid with 5 percent (20,000 units). Although the *number* of vacant units increased in all governorates, it is worth noting that the *share* increased only in 3 governorates (Amman, Maan, Madaba), while the share dropped in seven governorates and remained constant in two (Zarqa and Balqa). The high vacancy rates can be partially explained by factors such as reduced real estate taxes for vacant units, speculative investments mainly coming from a large Jordanian diaspora in the Gulf countries, increased supply of large units (specially in Amman), and increased use of apartments only during the summer.

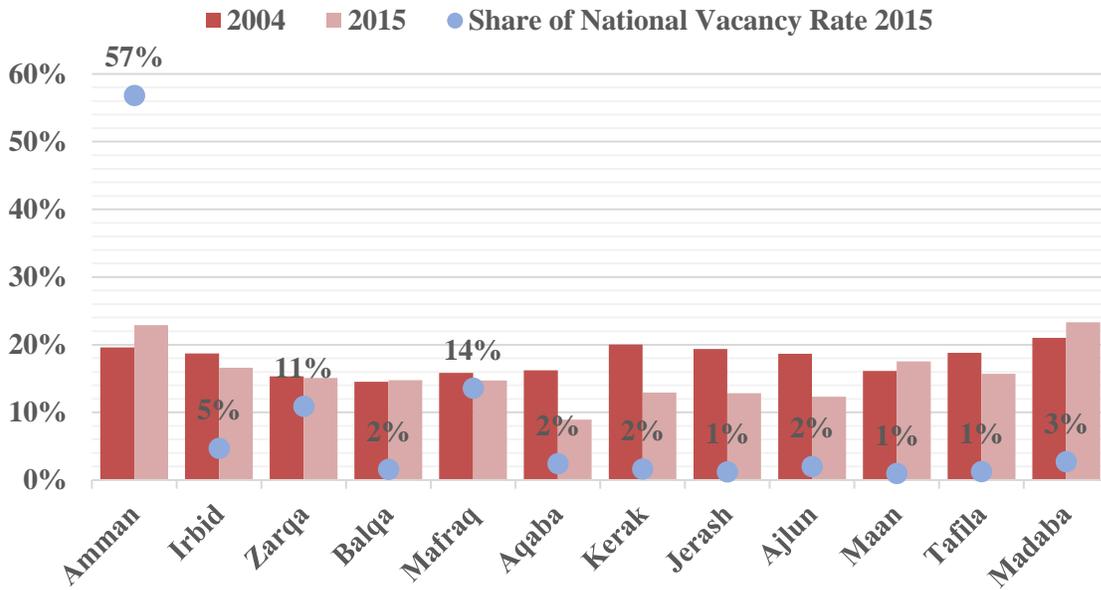
⁶ JPHC 2015, Table 2.1. Total housing units of 2350,490, including 79,523 under construction.

Figure 10: Vacant Units per Governorate 2004-2015



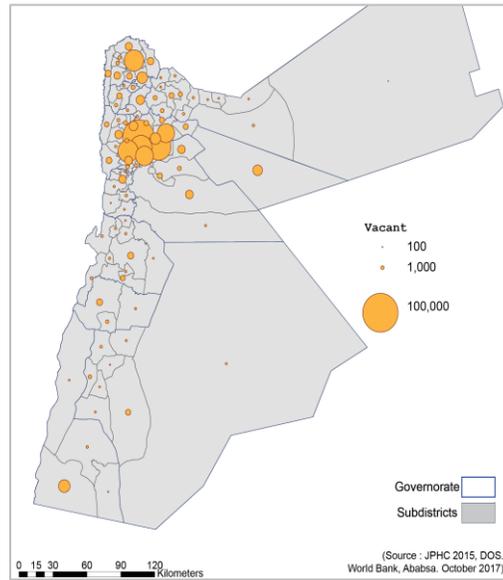
Source: Prepared by authors using Jordan Census 2015, Table 2.1

Figure 11: Vacancy Rates per Governorate 2004-2015



Source: Prepared by authors using Jordan Census 2015, Table 2.1

Figure 12: Distribution of Vacant Housing Units by Sub-District, 2015

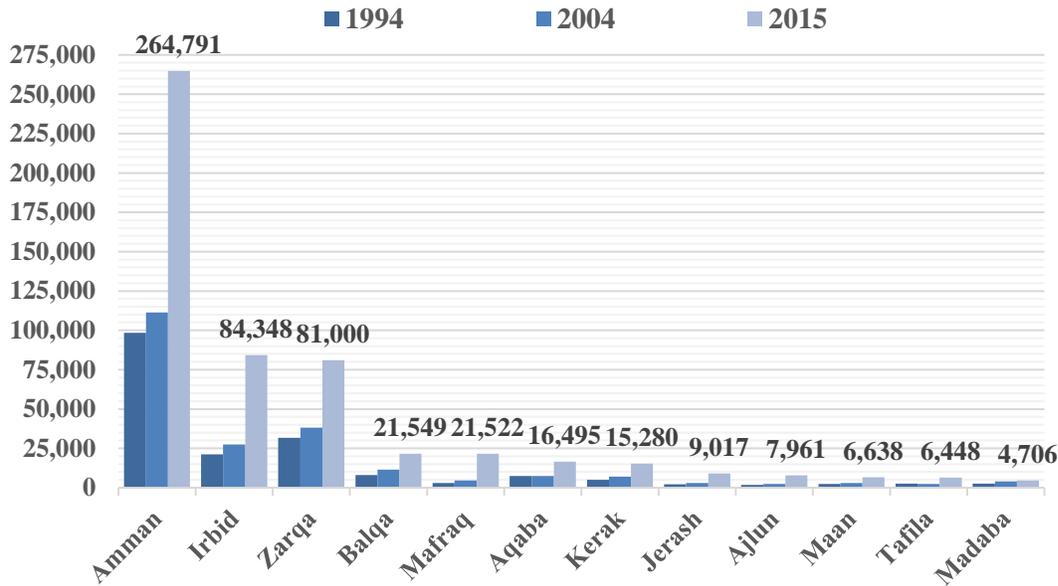


Source: DOS, Census 2015

4.3 Expansion of the Rental Market

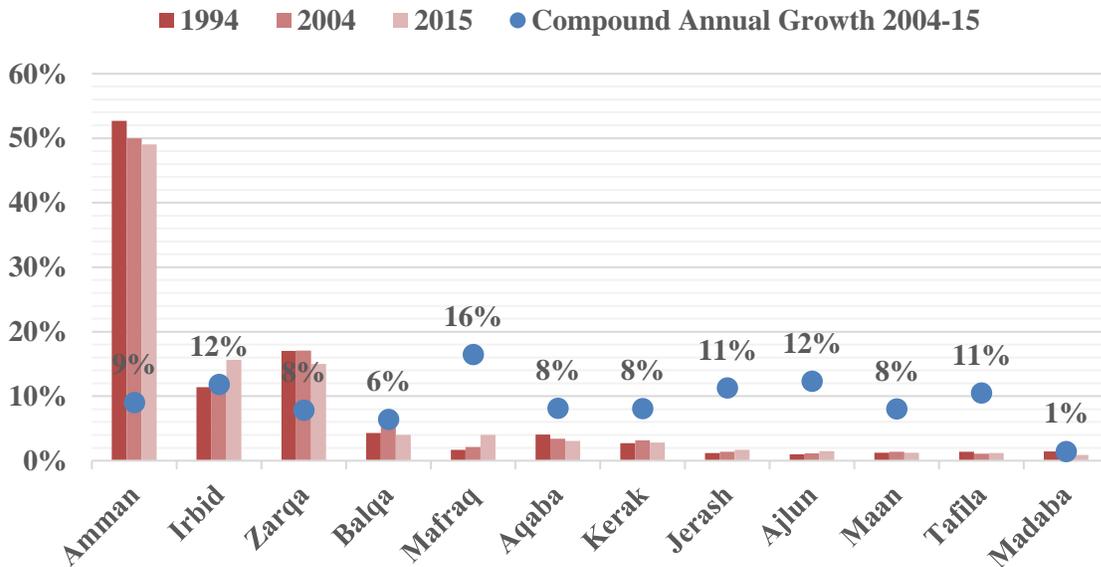
35. Over the past decade, the number of housing units in Jordan that were rented more than doubled, increasing rentals as a share of housing stock. In 2004, the number of rented housing units was close to 223,000 units (24 percent), while in 2015 this number grew almost 2.4 times, reaching close to 540,000 units (30 percent). In absolute numbers, most of this increment was concentrated in Amman, where the rental units grew from 110,000 to over 260,000 (48 percent of the new housing units rented). Irbid concentrates 17 percent of the new rented housing units and Zarqa 13 percent. However, in relative terms, five Governorates showed higher growth rates than Amman. The most prominent is the case of the Mafrqa Governorate, where the growth rate reached an impressive 16.5 percent annually. In absolute terms, units rented grew by 460 percent over the decade, increasing from 4,500 units rented in 2004 to over 21,000 in 2015. Among the larger Governorates, Irbid was the one with the highest rental growth rate of nearly 12 percent annually with 57,000 new housing units rented over the period, while Zarqa created 43,000 new rented housing units (see Figure 13 and Figure 14).

Figure 13: Rental Housing Units by Governorate, 1994-2015



Source: Prepared by authors using Jordan Census 2015

Figure 14: Percentage of Total Rental Units by Governorate, 1994-2015



Source: Prepared by authors using Jordan Census 2015

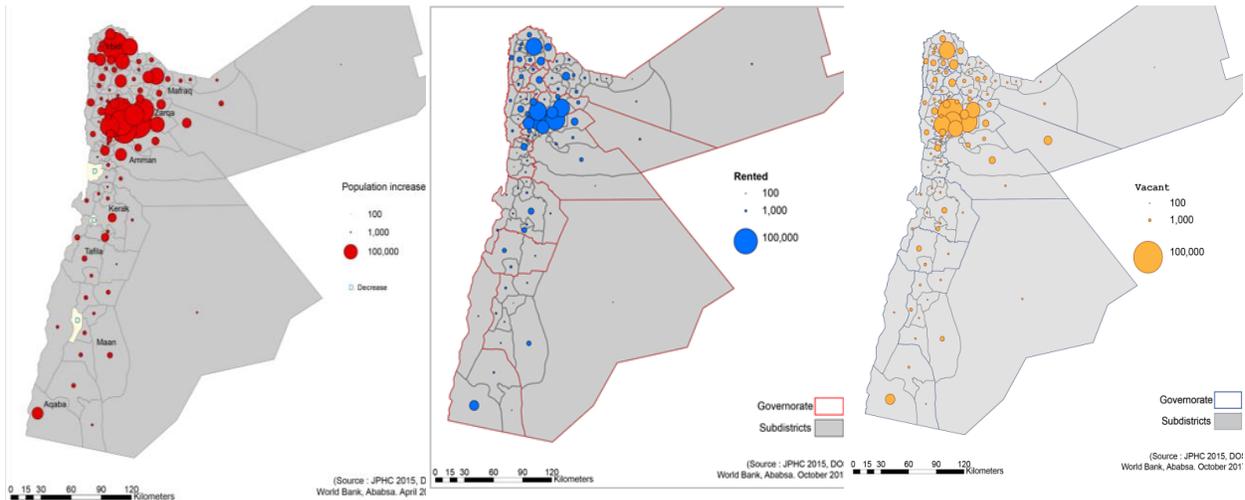
36. The Governorates that showed the highest annual growth rates in rental units also have had the greatest growth in non-Jordanian population. Governorates such as Irbid, Mafraq and Ajlun, where rental units grew at a higher rate compare to the rest of the country (above 12 percent), also showed an

increment in non-Jordanian population above 30 percent annually. Vacancy rates are also concentrated in the governorates that had the highest growth rates in population and rental units.

Figure 15: Annual Population Growth (%) by Sub-districts, 2004-2015

Figure 16: Rented Units (#) by Sub-districts, 2004-2015

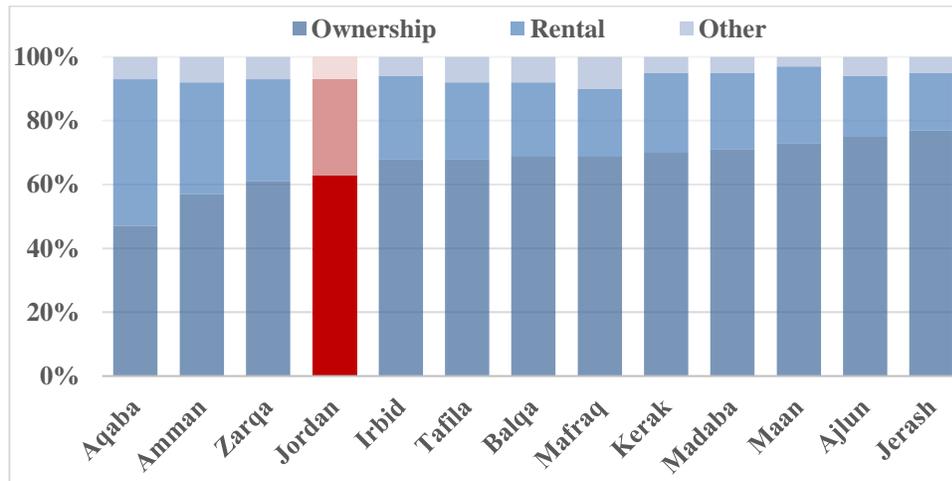
Figure 17: Vacant Units (#) by Sub-districts, 2004-2015



Source: DOS, Jordan Population and Housing Census 2015

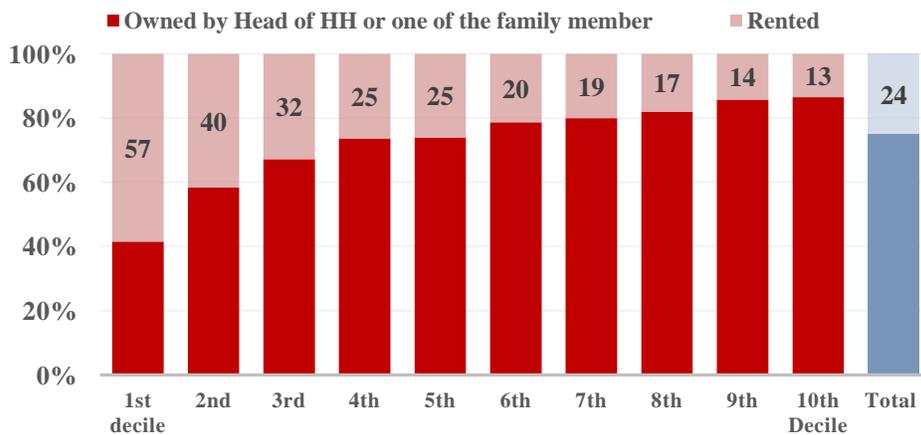
37. As a result of the recent increases in rental rates, housing tenure in Jordan is now relatively well distributed compared to other countries at a regional level and across regions, laying at the average for both ownership and rental tenure rates. In 2015, housing ownership was close to 62 percent while rental housing reached 30 percent, which is similar to that of Latin America and Europe. Although there is no single variable that explains the differences in rates of ownership between countries, homeownership shows a weak tendency to decline as income rises. Across governorates, housing tenure display high variance between the most and least populated Governorates (See Figure 18). The Governorate of Aqaba in the south, is the one with the lowest ownership rate (47 percent) and highest rental rate (46 percent) due to touristic activities, while Jerash has close to 77 percent of ownership and only 18 percent of rental. In addition to Aqaba, Amman and Zarqa are the only ones who display rental rates above 30 percent. Close to 49 percent of the rentals are concentrated in Amman, followed by Irbid and Zarqa with 16 and 15 respectively. Housing tenure is also correlated with level of income. As shown in Figure 19, over 30 percent of households in the poorest deciles are renters, whereas close to 80 percent of household in the richest deciles own their dwelling.

Figure 18: Housing Tenure by Governorate, 2015



Source: Prepared by authors using latest data available between 2000 and 2017 from UNSD Demographic Statistics; Jordan Population and Housing Census 2015, Department of Statistics.

Figure 19: Housing Tenure by Income Deciles, 2015



Source: Jordan Population and Housing Census 2015, Department of Statistics

BOX 6: GENDER GAP ON HOUSING OWNERSHIP

In Jordan ownership of property is male dominated with women dependent on men for housing. This pattern is prevalent in both inheritance and property ownership. The law requires registration of the building on a plot of land, not every apartment in the building. During the past twenty years more women have managed to have apartments registered in their names upon marriage, especially in the major cities of Amman and Irbid. As a result, 19.5 % of the registered apartments in Jordan were owned by women in 2014. But these registered apartment, mainly built as a form of investment, form only 42 % of all the housing units. As a consequence, women own a mere 10 % of all apartments.

Source: Ababsa, Myriam, 2016

RECOMMENDED ACTIONS

- Consider conducting a detailed study focused on the characteristics of the stock of vacant houses. With apartment size, location by neighborhood, construction date.
- Consider levelling the taxation rates of vacant units, owner-occupied and rented units. The taxation base is much lower for vacant unit.
- Consider creating supply-side incentives such as insurances or guarantees for owners that release vacant units for renting to low-income families
- It is essential to formulate a comprehensive rental policy, that i) improves enabling environment (regulation and taxes), includes ii) landlord insurance for damages, iii) encourage financial sector to develop targeted products for small landlords to develop rental units, and that considers low-income rental voucher-type subsidy both for Jordanians and non-Jordanian when financial situation allows
- Consider making registration of each housing unit within a building mandatory (as incentive, make it free of charge for the existing stock). This will help women to inherit.

5 The Impact on Housing Deficit and Affordability

5.1 Increased Housing Deficits

Quantitative Deficit

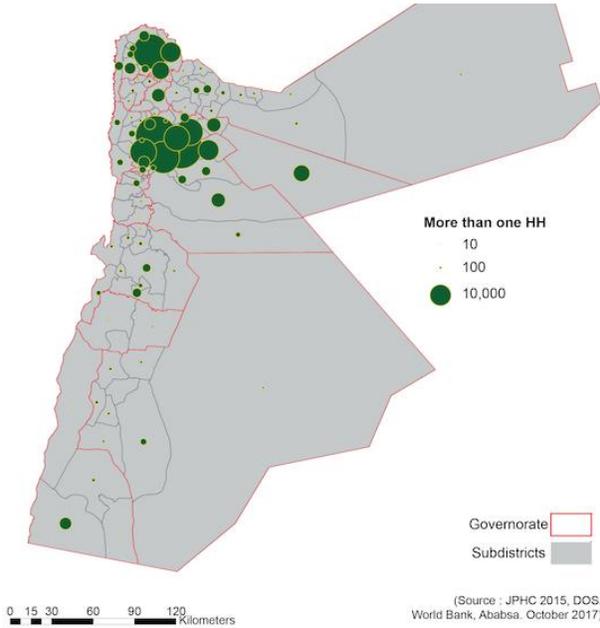
38. The quantitative housing deficit in Jordan is close to 10 percent at a national level. Per 2015 Census, A total of 298,890 households (15 percent of total households) were sharing conventional dwellings by two or three families. Close to 27 percent (81,218) were Jordanian families, mainly young married sons, while 73 percent (217,672) were foreign families, mainly Syrians and Egyptians. Out of the 81,218 Jordanian households that are sharing units, 75,292 were sharing an apartment with another family, so half of them (37,646) were unhoused, and 5,926 other Jordanian families were sharing apartments by three households, so two thirds of them (3,950) were unhoused. In total, 41,596 Jordanian households were unhoused.

39. Over two-thirds of households experimenting quantitative deficits are non-Jordanian. Out of the 217,672 non-Jordanian households that were sharing dwelling, 114,586 shared apartments by two families, thus half of them (57,293) need a new unit, and 103,086 were sharing housing by three families, thus two thirds of them (68,724) need a new unit. In total, 126,017 non-Jordanian households were unhoused. Overall, the 2015 census showed that 167,613 (41,596 Jordanian + 126,017 non-Jordanian) households were in need of a new housing unit. Additionally, 20,629 households were living in dwellings that cannot be repaired, and 11,003 households living in non-conventional dwellings. The total quantitative housing deficit affects 199,245 households in Jordan⁷.

⁷ Note that this does not include the 34,983 families (mostly Syrian refugees) living in caravans as they are under UN and governmental control in UNHCR and Emirati camps

Quantitative Deficit (QTD) = 199,245 households = 41,596 Jordanian households + 126,017 non-Jordanian households + 20,629 households living in dwellings that cannot be repaired + 11,003 households living in non-conventional dwellings

Figure 20: Map of Distribution of Households Sharing Units by Sub-district, 2015



Qualitative Deficit

40. The qualitative deficit in the country measured as single households in overcrowding conditions is estimated at 6 percent of total households. Given that families might be in a situation in which they suffer from both quantitative (more than a single family per housing unit) and qualitative (more than 2,9 persons per room) deficits, we shall consider only the housing units that were occupied by single households to avoid double counting the same family. Thus, in 2015 187,338 housing units were overcrowded at more than 2,9 persons per room, out of which 111,681 housing units were occupied by single households. The latest numbers amount to 6 percent of total households.

Qualitative Deficit (QLD) = 111,681 households suffering overcrowding at more than 2.9 persons per room

Total Deficit

41. The total housing deficit in Jordan reaches over 15.9 percent at a national level, not including the Syrian refugee camps. The total level of housing deficit in Jordan can be calculated as 167,613 households sharing housing units, plus 20,629 households in dwellings that cannot be repaired), plus 11,003 households living in non-conventional units such as tents, barracks, and 111,681 households living in overcrowded conditions, for a total of 310,926 households. This represents over 15,9 percent of total households (1,977,534), not including the households living in the Syrian refugee camps.

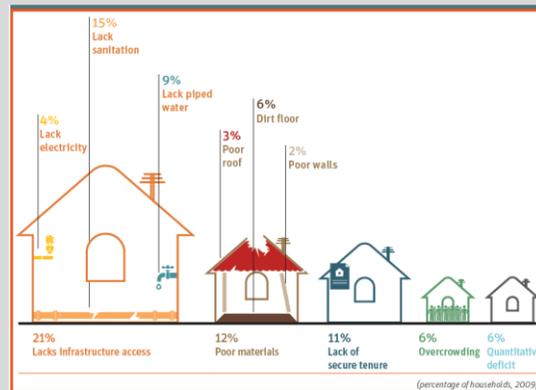
Total Housing Deficit = 310,926 households = 199,245 (QTD) + 111,681 (QLD)

BOX 7: STANDARD METHODOLOGY TO CALCULATE HOUSING DEFICIT

Standard Definition

Generally, *quantitative deficits* measure the households that live in inadequate housing and without possibilities of repair, together with multiple households who share the same roof. *Qualitative deficits* measure households that they live in dwellings whose tenure is insecure, and/or whose walls are built based on waste materials (such as palm leaves and cardboard), they have dirt floors, lack of basic services (electricity, potable water and adequate sanitation) or they have overcrowding (three or more people per room). See example for the status of the housing deficit in Latin America.

Figure 21: Housing Deficits in Latin America



Source: IADB, 2014

How we calculate the quantitative deficit in Jordan?

Given that the Government does not provide specific statistics regarding housing deficits, we limited the definition of quantitative deficits to the share of households in excess of available housing units, which is calculated by the **difference between the total number of households and the number of occupied housing units** (e.g. when two families are sharing one housing unit, half of them are unhoused; when they share dwellings by three, two-thirds of them are unhoused). We have added to this the **households living in housing units without possibilities of repair**, which are those built in materials such as muds and stone walls, **and non-conventional dwellings** (tents, barracks, or work places, excluding the caravans in refugee camps).

How we calculate the qualitative deficit in Jordan?

Given the lack of data on tenure and because access to services is very high (99,9 percent of households connected to electricity and 96,7 percent to water), we limited the definition of qualitative housing deficit to the **share of households experimenting overcrowding** (more than 2,9 persons per room).

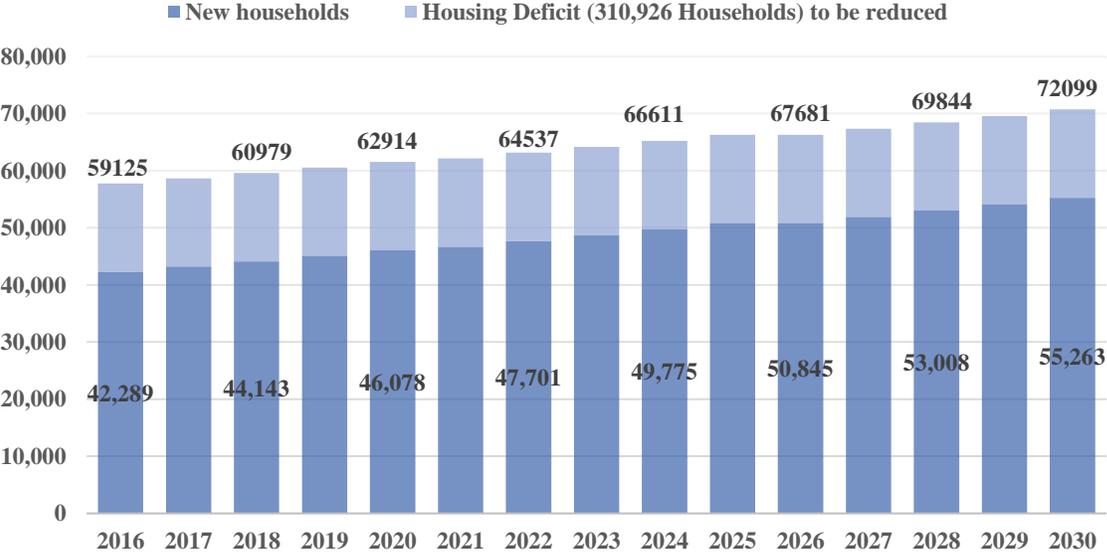
How we calculate total housing deficit?

The total housing deficit is a simple addition of the quantitative and qualitative deficits.

42. Over the next decade, Jordan will need to produce between 62,000 to 74,000 housing units annually to reduce the current deficits and keep up with new household formation. Jordan needs to produce housing units for its new households. According the medium growth scenario, an average 35,000 new households will be formed until 2030. This figure goes up to 50,000 in the high growth scenario (Table 1). To this, one must add the reduction of the backlog of unhoused families (231,919 ones, or 15,461 units per year between 2016 and 2030), and the replacement of old buildings (20,629 housing units built with

mud walls or composite materials, or 1,375 units per year) to reduce the total housing deficit. In total, in the high growth scenario, Jordan will need an average of 55,800 housing units per year from 2018 until 2020, then 68,200 housing units per year between 2020 and 2025, and 72,400 housing units per year between 2025 and 2030, in the High Growth Scenario. In the medium growth scenario, these figures are reduced to 48,655 housing units between 2018 and 2020, 56,600 housing units between 2020 and 2025 and 53,300 housing units per year between 2025 and 2030 (see Figure 22).

Figure 22: New Housing Needs (High Growth Scenarios), 2016-2030



Source: Authors calculations using Census 2015 and DOS demographic growth scenarios

43. Another more rapid and less costly solution would be to actively pursue policies to reduce the vacancy rate. Some policies could be relatively simple, such as improving the mechanisms available for home repossessions or creating a system of rental guarantees. This would help expand the supply of housing units available for rent, creating incentives to add to the market at least part of the considerable stock of vacant units. If, for example, the government sets a target to reduce the vacancy rate to at least 8 percent of the stock (188,039 instead of the current 432,291 vacant ones), such policies have the potential to incentivize the private sector to release/make available to the market over 240,000 housing units, not only with the potential to reduce the deficit but to generate additional sources of income for property owners.

5.2 Less Affordability

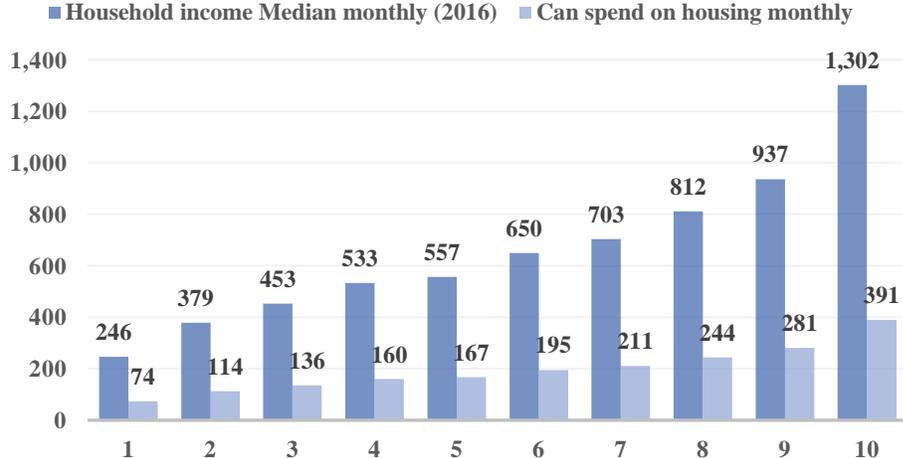
44. Affordable housing relates to a house that is reasonably adequate in standard and location and does not cost so much that a household is unlikely to meet other basics needs on a sustainable basis. Following this principle, there is a consensus that a household should not spend more than 30 percent of their income on housing costs including i) home purchase prices, ii) prevailing terms of housing finance loans, or iii) rent prices. This is especially relevant for lower income households (bottom 5 deciles) as it is

estimated that spending more than 30 percent of their income on housing purposes it is done at the expense of other important expenditures such as health, nutrition, or education. Understanding this, most of financial institutions do not provide housing loans in the amount higher than 30 percent of household income.

Affordability of Ownership

45. Economic indicators and trends show that housing affordability in Jordan has been affected negatively, yet increased pressure on public budget limits government ability to support subsidies for housing. Economic trends show that i) real GDP per capita decreased which leads to decreased surplus income in the hands of people, and ii) real estate price index for residential properties increased from 103.6 to 110.4 in 2015 which means less affordability to the low and middle-income citizens. In 2016, the household’s average annual income varied from JD2,951 (1st decile) to JD15,619 (10th decile). Figure 23 presents the average household monthly income by deciles and, assuming a cap of 30 percent, the maximum amount these households should spend on housing related costs (either repaying housing loans or paying monthly rent).

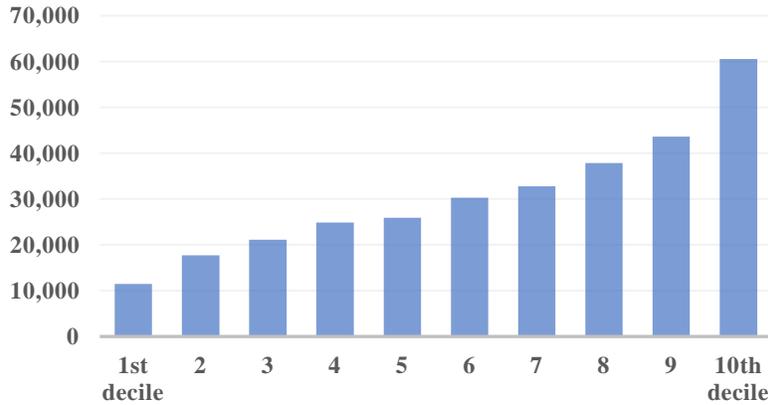
Figure 23: Income and Max. Affordable Spending on Housing by Deciles



Source: World Bank (<https://data.worldbank.org/country/jordan>)

46. Given current household incomes and the prevailing terms of housing finance loans, low-income households in Jordan do not have access to housing finance, and households below the 5th decile cannot afford to purchase a housing unit of more than JD25,000. Housing institutions in Jordan are currently providing loans (on average) for 25 years at 8,5 percent variable interest rate and 80 percent loan-to-value and limits their loans to families earning more that JD400 a month. This market characteristics limits access to formal housing finance to families that are at the bottom of the pyramid (the bottom 2 deciles). Households at the 3rd to 5th deciles can afford to take loans below JD20,000 and only the 8th, 9th and 10th deciles could access loans of more than JD30,000. Figure 24 presents the cost of a housing unit that can be afforded given current household incomes and the prevailing terms of housing finance loans (25 years loan at 8.5 percent interest rate).

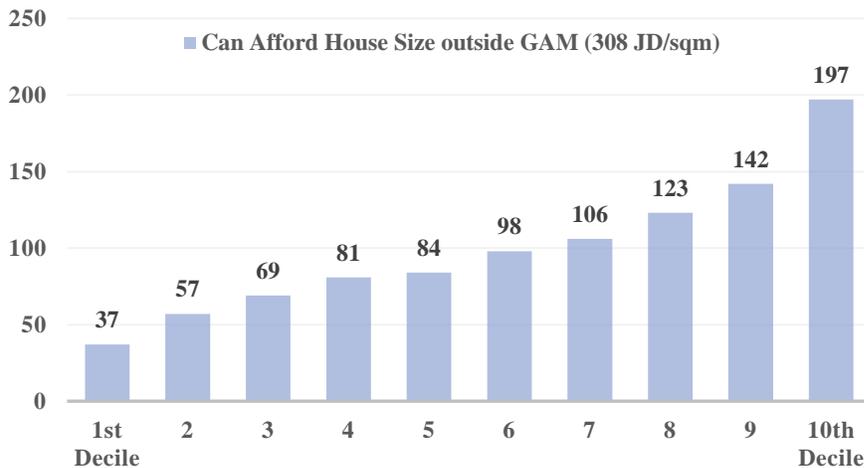
Figure 24: Cost of an Affordable Housing Unit Given Current Household Incomes and the Prevailing Terms of Housing Finance Loans (25 years loan at 8,5 percent IR), 2016



Source: HEIS 2013. Calculation World Bank, using loan calculator. <http://www.irn.ru/calc/>

47. Based on the current real estate market prices in the main Jordanian cities, only 30 percent of households can afford to buy houses above 100m² without spending more that 30 percent of their monthly income; in Amman, this is limited to only 10 percent of households. Other households if they need to buy a house bigger than 100 m² need to save more than 20 percent of the housing price and/or buy a house of poor quality and inconveniently located. The amount of money each household can spend monthly on housing purposes enables to calculate how big is a house that each household can afford to purchase at the average price per square meter. It is estimated that the average price of one square meter of a house outside Amman is JD308, and within Amman is JD600. Figure 25 presents the size of a housing unit that could be afforded given the current household income (by deciles) and the current market prices outside Amman.

Figure 25: Affordability per House Size by Deciles Outside GAM (m², JD)



Source: HEIS 2013

48. Although the financial capacity of households (potential demand) is concentrated predominantly in units below 100m², over the past decade, housing developers have concentrated production in larger units in the 120-200m² range, exacerbating the mismatch between supply and demand (70 percent of supply is catering to the top 30 percent). As presented in Figure 26, half of the new housing units built between 2004 and 2015 have an area over 150m², while 40 percent of production was concentrated in units between 100-149m² and 10 percent on units less than 100m². The new 120-150m² units coming into the market may be attributed in part to the exemption of transaction fees (4 percent registration fees plus 5 percent sales tax) for units smaller than 150 m². Although incentives to make developers produce smaller units (120-150m²) may have worked, the trend shows an increase in bigger apartments. Units of less than 100m² composed a third of the housing stock in 2004, but have been reduced to 22 percent in 2015; apartment of 100-149 m² remained stable at 36-38 percent, but the number of apartment of more than 200m² has nearly doubled from 8 percent to 13 percent. Compared to the affordability exercise presented in Figure 27 (replicated from above), the mismatch between supply and demand is evident, as 70 percent of supply is catering to the top 30 percent of households with higher income.

Figure 26: Share of Housing Units Developed by Size, 2004-2015 (m², %)

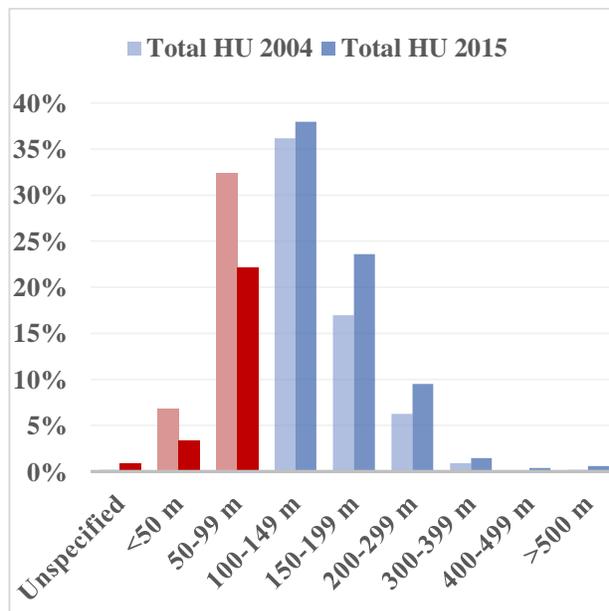
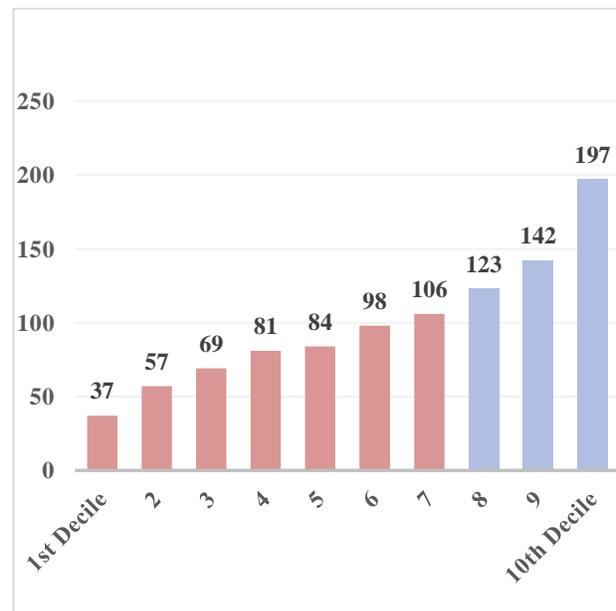


Figure 27: Affordability per House Size by Deciles Outside GAM (m², JD)



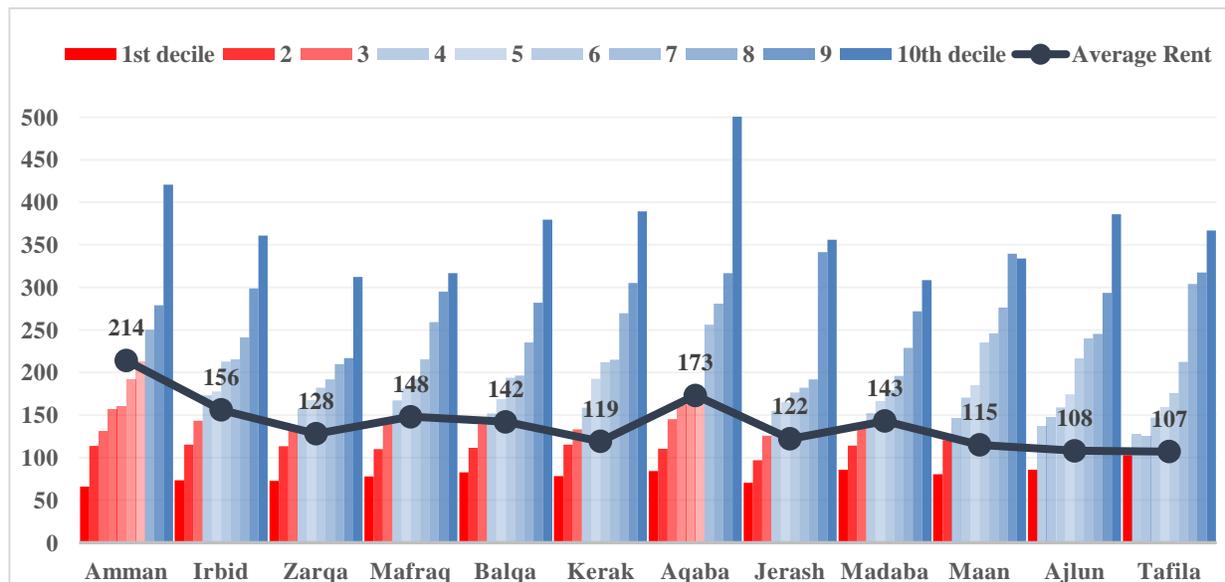
Source: HEIS 2013, PHC 2015, table 2.12 and JPHC 2004 table 2.14.

Affordability of rental

49. Although affordability of rental is better than affordability of ownership, the bottom 30 to 40 percent of households can only afford rent below the market average, which translates into families accessing below average houses in terms of quality and location. Rentals are less than a third of the average family income in all governorates except for Amman and Aqaba, which gathers nearly half of the population. In Amman, at an average rent of JD214 per month (JD444 for the western part of the city rented apartments), affordability is limited to the top 30 percent of households. In the case of Aqaba, thanks to

being a tourist destination, rents are not affordable for 60 percent of households. In the rest of the country, affordability seems to be less of a problem as 70-80 percent of households can afford to pay higher than average rents. Figure 28 below presents the average median income by deciles, and the average monthly rent paid in each governorate.

Figure 28: Affordability of Rents by Governorates, 2016



Source: HEIS 2013, <https://data.worldbank.org/country/jordan>, <https://jo.opensooq.com>

50. Although rental affordability seems to be manageable at a national level, rental prices have more than doubled in the past decade (2004-2015) while inflation remained at 4.4 percent annual rate, signaling that future affordability might be at risk. In Mafrq, the average rental price has tripled from JD51 in 2004 to JD148 in 2015, while they have doubled in Amman (from JD98 to JD214), in Zarqa (from JD60 to JD128), and in Aqaba (JD82 to JD173). These trends affect affordability and pushes low-income and refugee families to share apartments by two or three families, exacerbating the quantitative deficit, or living in small units in overcrowded conditions, thus negatively affecting the qualitative deficit.

RECOMMENDED ACTIONS

- It is crucial that the government develop/formulates a housing policy with short, medium and long term goals, with programs to reduce the deficit including: i) actions to expand and incentivize formal renting; ii) incentivizing production of smaller units, iii) targeted actions to expand access to housing finance including supporting the development of a sound Islamic financing as a path for ownership; iv) a transparent targeting system to ensure that all residents have access to adequate housing;
- The mandate and role of HUDC in designing and enforcing programs and eligibility should be clarified and strengthened. Programs should support the transition demand side approaches (ie, subsidizing households instead of units). the demand side (when fiscally possible).

6 Potential Solutions in the Supply Side

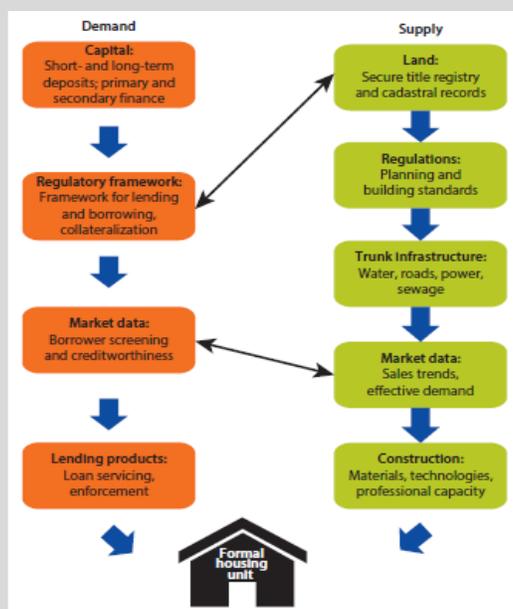
6.1 Housing Supply Value Chain

51. **Housing is the product of a complex set of supply and demand value chains which directly influence the quality, availability and cost of housing.** Whether it is produced through formal or informal channels, housing requires the same inputs (land, construction, materials, infrastructure and finance), which themselves are regulated through the legal and tax frameworks at national and local levels. A value chain approach allows for policy makers and stakeholders to better understand particular links in the chain and their influence on housing delivery. This enables the public and private sectors to coordinate policy reforms aimed at improving access to quality housing, particularly for the urban poor, who face the greatest challenges in finding adequate housing options (WB, 2017).

BOX 8: SUPPLY AND DEMAND VALUE CHAINS FOR FORMAL HOUSING DELIVERY

The *Value Chain Approach* highlights how housing is delivered (from both the supply and demand sides) and identifies key areas of policy attention for improvement by highlighting the linkages between supply and demand inputs. Inputs such as land, infrastructure, design, and construction proceed in parallel with a corresponding set of demand side inputs related to housing finance. The supply side assumes that land and property markets are active and widespread, that legal claims to property are clear and enforceable and price information is widely known. Further, it also requires that a reasonable set of construction, planning, and infrastructure standards are supported by governments and to which private development activity conforms. On the demand side, construction firms must also have access to capital to assemble land and complete housing projects and to sell them to consumers via mortgage products. For banks to create mortgages, they must have access to sources of long-term capital and must be supported by an appropriate financial regulatory system.

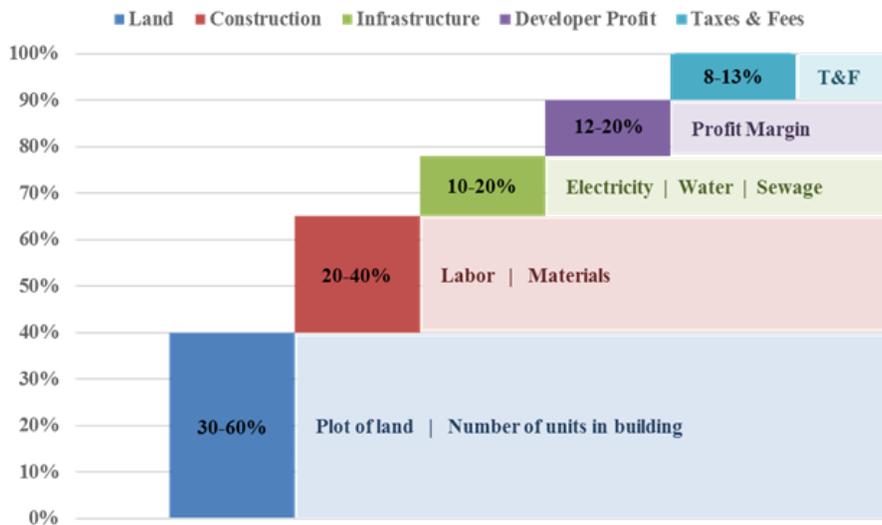
Figure 29: Supply and Demand Value Chains for Formal Housing Delivery



Source: Central America Urbanization Review, WB 2017

52. A breakdown of costs for delivering one unit of housing in Jordan is valuable for understanding the contributing factors of low housing affordability. As Figure 30 shows, the single most important factor is the cost of a plot of land, which accounts for 30-60 percent of the unit cost of housing (reportedly up to 60-70 percent in Amman, and 25-40 percent in the rest of the country⁸). This high percentage is similar to the trends in major metropolitan areas such as New York, Mumbai, or Rio de Janeiro (see Figure 31). Construction cost, or the costs of labor and building materials is the second most important cost factor, accounting for 20-40 percent of housing cost. On-site infrastructure, profit margin, and taxes and fees each account for around 10% of the total costs. The rest of this section will discuss each cost factor in detail and make recommendations on how to reduce costs in the Jordanian context.

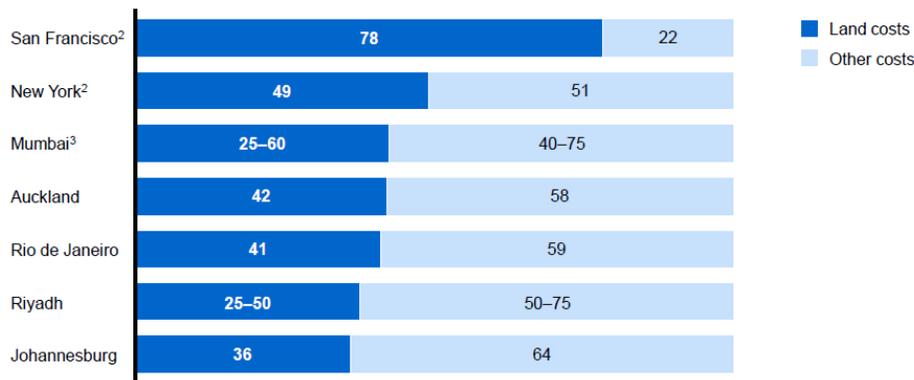
Figure 30: Cost structure of an Average Housing Unit Delivered by the Private Sector



Source: Authors using information from HUDC and TAG-Consult

⁸ Figures produced by TAG-Consult, in the report *Housing Supply Value Chain*, Submitted to the Ministry of Public Work & Housing in 2017

Figure 31: Average Share of Land Costs per Unit Price in Selected Cities (%)



1 Mumbai, Rio de Janeiro, and Riyadh, 2009; Auckland, Johannesburg, New York, and San Francisco, 2013.

2 New York and San Francisco figures represent "land value share of home value."

3 Range estimated from average property price and sample land transaction in Goregaon, Malad, Chembur, and Mulund, where land transaction data were available. Assumed floor-area ratio = 1.33 as average of Mumbai city.

Source: McKinsey Global Institute, 2014

6.2 Examining Land Costs

53. Land costs are high in Jordan due to a number of structural and regulatory issues. First, there is a structural shortage of land. The types of residential land available on the market, and the types needed are mismatched, which reduces the land available for affordable housing. Second, where land is available for housing, zoning regulations and building codes discourage efficient land use, resulting in low-density, high-cost housing development. These two factors combined lead to limited number of housing units available, and high costs per housing unit.

Mismatch between supply and demand limiting land available for affordable housing

54. Jordanian cities have sufficient quantities of land, but not the right types of land for housing, creating a structural shortage. Even in the most rapidly growing areas, sufficient vacant land exists. The maps and graphs below show the extent of the built-up area in 2015 in the main urban centers of GAM, Irbid and Zarqa. According to a World Bank report on Urban Growth Scenarios assessing current and future land uses, vacant land in GAM is so much that if all developed, could accommodate future population growth of the city up to year 2030, without consuming any new land (World Bank/ CAPSUS, 2018).

Figure 32: Vacant Lands in Greater Amman Municipality, 2015

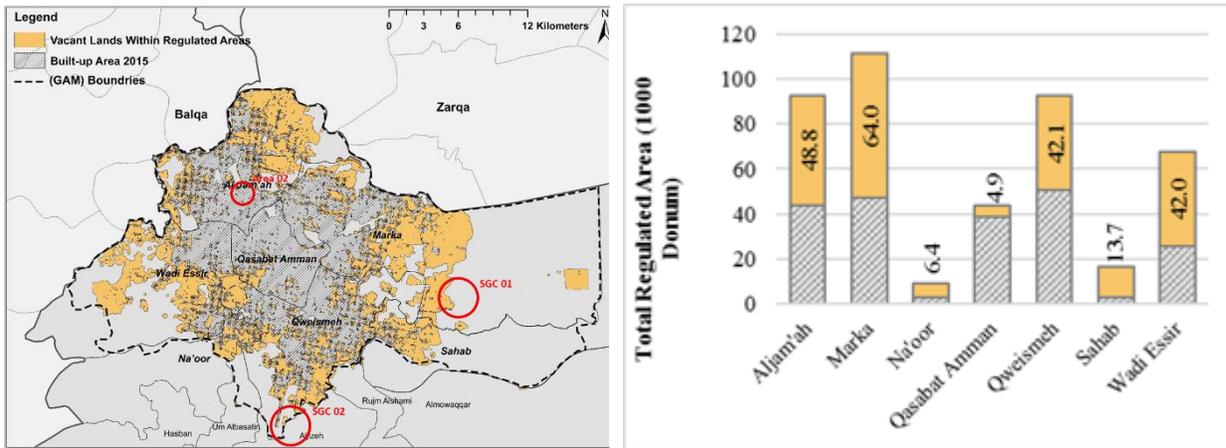


Figure 33: Vacant Lands in Irbid, 2015

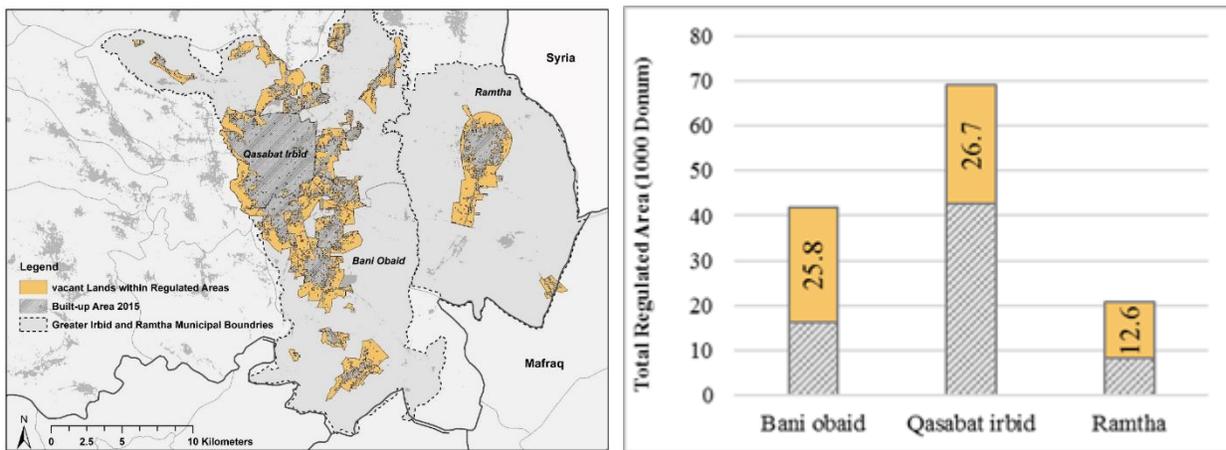
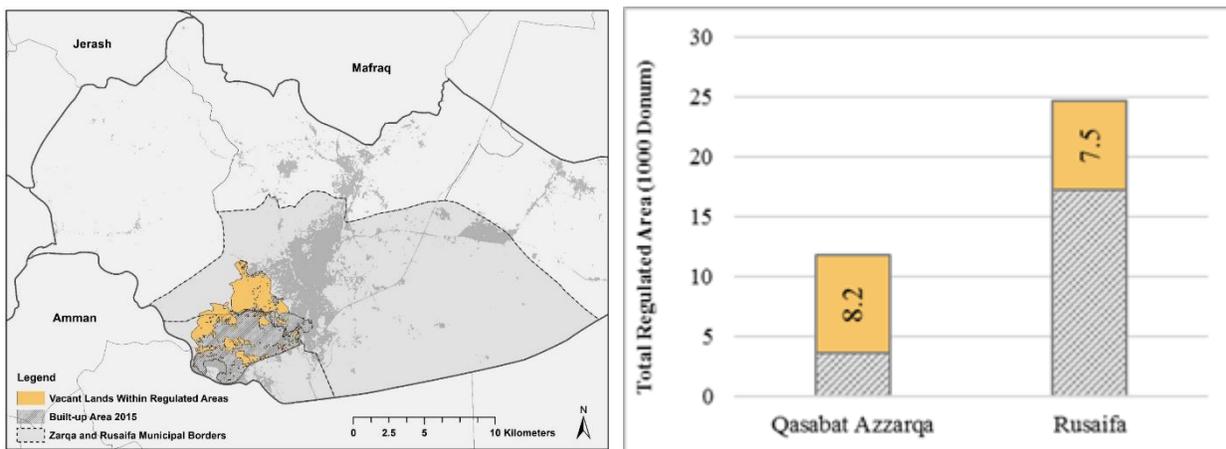


Figure 34: Vacant Lands in Zarqa, 2015

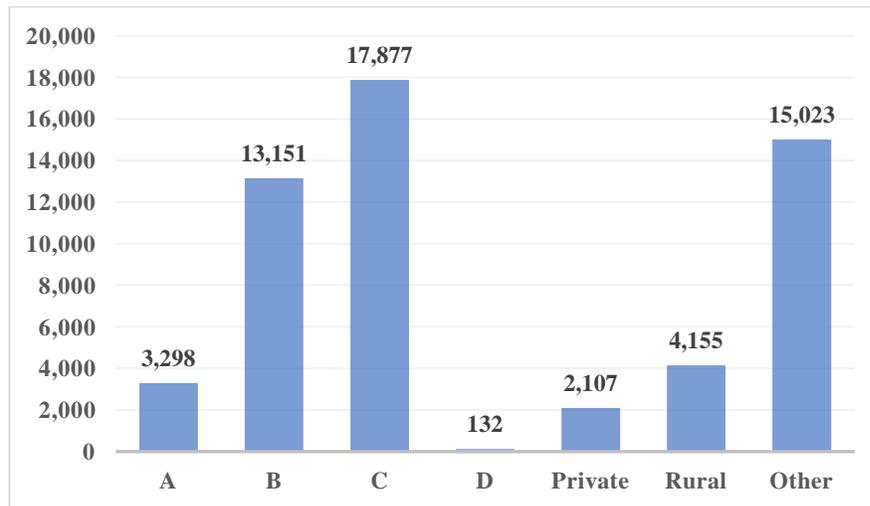


Source: GHSL Built-up Area, 2015. TAG-Consult (2017), GAM, 2017; MoMA, 2017.

55. Inappropriate zoning types reduce the land available for affordable housing. There are primarily four zoning categories in Jordan, labeled as Residential Zones A, B, C, and D. Residential Zone A is for villas and luxurious housing, Residential Zone B lower-density, higher-end housing, and Residential Zones C and D higher-density, more-affordable housing. Over the past decade, 55.7 km² of new urban area have been zoned, three quarters of which are located within Greater Amman Municipality. This in theory should increase supply of land for housing. However, a closer look reveals that most of the newly added land for housing is zoned for the higher-end of the housing market— Residential Zone A accounts for 5.9 percent of total new land, and Residential Zone B 23.6 percent. Land for middle to low-end of the housing market account for relatively small portion of the new urban land—Residential Zone C accounts for 32.1 percent while Residential Zone D, the one with smallest plot size and therefore the most affordable type, accounts for a negligible 0.2 percent.

56. Most of the vacant land within Amman cannot be used for affordable housing. With low demand for higher-end housing, as presented in Figure 21, many plots designated as Residential Zones A and B are over-supplied on the market and thus sit idle. On the contrary, Residential Zone D has a very small supply, despite of the high demand, therefore creating a shortage of affordable housing. If Amman could downgrade Zones A and B to Zones C and D, the land markets for housing would be more efficient and balanced. In this way, vacant land within the municipality would be reduced and at the same time, housing affordability improved.

Figure 35: Newly Zoned Areas in Jordan, 2004-2015 (donums)



Source: HUDC Zoning statistics, 2004-2015.

Rigid Zoning Regulations and Building Codes Increasing per Unit Land Costs

57. Rigid zoning regulations and building codes limit number of units built and push up per unit land costs. First of all, a significant percentage of land in residential zones is required to be set aside for public purposes. All residential zones need to designate land for public functions such as streets, schools, and public buildings. In certain areas, such as the newly urbanized ones, extra land needs to be used for city infrastructure and services, and sometimes even for productive uses in order to create

employment. On average, 29% of the land in residential areas is set aside for public purposes and cannot be used for housing.

58. Minimum plot size is set too generously, discouraging the development of small housing units.

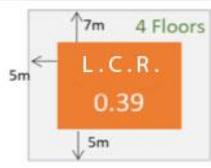
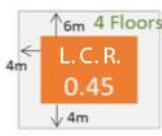
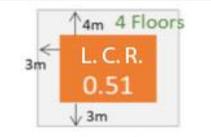
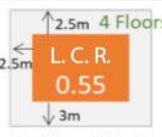
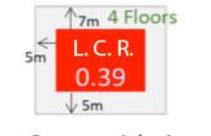
For land used for housing, plot size affects how much and what type of housing will be built; minimum lot size in different categories of zoning is quite high, affecting housing affordability. As explained earlier, there are four types of residential zones. The minimum lot size for each category is as follows: 1000 m² for Residential Zone A; 750m² for Residential Zone B; 500m² for Residential Zone C; and 300 m² for Residential Zone D in municipalities other than Amman, and 250 m² for Residential Zone D in Amman. Housing units built on smaller plots are much affordable than on bigger plots, as land is the most important cost factor. The generous minimum plot sizes in Jordan imply that the option of building smaller, cheaper is quite difficult.⁹

59. Low land coverage ratio, wide setbacks and a height limit combined lead to low density development.

For each plot designated for housing, only 39-55 percent of the area can be built. Furthermore, the building needs to abide by the requirements of wide setbacks—for example, for Residential Zone A houses, the front setback is 5 meters, side setback 5, and back setback 7. Furthermore, on the small percentage of actual developable land, a height limit of 4 stories above street level is enforced. This archaic height limit--which was already an improvement from the 3-story limit before 1991-- remains in force today. Figure 36 is a visual illustration of these requirements. The combination of low land coverage ratio, wide setbacks and height limit directly translates into low floor area ratio (FAR), a key indicator of density. The residential FAR in Jordan ranges from 2.4 in high density zoning to 1.56 in low density zoning. This is significantly lower than international standards. Table 2 has detailed calculation of how these building codes translate into developable land within each plot for different types of residential zones.

⁹ As an exception, HUDC has its own land use regulations, as variations on the type C, including that buildings can be semi-detached, with 0 meter set back on C type. HUDC has the possibility of building in Type E with a minimum lot size of 175 m².

Figure 36: Building Regulation Codes

CODE	Current	
Low Density	 <p>Residential - A 1000 m²</p>	 <p>Residential - B 750 m²</p>
High Density	 <p>Residential - C 500 m²</p>	 <p>Residential - D 300 m²</p>
Commercial	 <p>Commercial - A 600 m²</p>	

Source: TAG-Consult, Housing Value Chain Report, Nov 2017

Table 2: Building Norms per Zoning Type in Greater Amman Municipality

	Plot surface (sq m)	Plot width (m)	Front setback (m)	Side setback (m)	Back setback (m)	# Floors	Building max height (m)	percent of plot that can be built (Law)	Buildable area within setbacks, m2	percent of plot that could be built within setbacks
Resid A	1000	25	5	5	7	4	15	39 percent	390 to 420	39 to 42 percent
Resid B	750	18	4	4	6	4	15	45 percent	316 to 336	42 to 45 percent
Resid C	500	15	4	3	4	4	15	51 percent	191 to 228	38 to 46 percent
Resid D	300	13	3	2,5	2,5	4	15	55 percent	135 to 140	45 to 47 percent
Resid Popular	150	10	2	0	2	4	11	-	90 to 110	60 to 73 percent
Resid rural	4000	40	12	10	10	2	8	10 percent	1560 to 2240	39 to 56 percent
Resid agric	10000		15	15	15	2	8	4 percent	-	-
Green A	2000	40	5	5	7	2	8	39 percent	1120 to 1140	56 to 57 percent
Green B	2000	40	4	4	6	2	8	45 percent	1260 to 1680	63 to 64 percent
Green C	1200	25	3	3	4	2	8	51 percent	756 to 779	63 to 65 percent
Green D	800	20	3	2,5	2,5	2	8	55 percent	508 to 690	63 to 86 percent

Source: World Bank calculation. Greater Amman Municipality building norms.

BOX 9: THE IMPORTANCE OF MODERNIZING PLANNING

The Law on Regulating/Planning Municipalities, Villages and Buildings (Temporary Law No. 79 of 1966, as amended) provides the main legal framework for planning and was developed based on early 20th century British planning practices. Based on outdated principles and focused primarily on land use, the Law does not permit the inclusive and integrated approaches of more modern planning laws. In practice this means that a number of larger secondary cities, which have developed modern integrated plans (ie, that connect economic development to physical planning, take into account social and environmental impacts, integrate spatial and infrastructure planning and draw from stakeholder consultation) are not able to have their plans approved as the plans do not comply with the Law.

Another shortcoming of the Planning Law is that it does not cover the entire country. Some of the most important areas (Greater Amman Municipality, Aqaba Region, Petra Region and the Development Zones) have been exempted from the Planning Law and permitted to develop and adopt their own planning regulations, which are more in line with international good practice.

Source: AECOM. 2010. "Urban Planning Management Strategy." Report prepared for the Regional and Local Development Project (Ministry of Municipal Affairs).

60. Each of the constraints discussed above limits the amount of land directly available for housing development and the number of units that can be built on a plot; those factors combined result in high land consumption and therefore high land costs per unit. Table 3 below shows step-by-step calculation of the land consumption per housing unit in different zoning type. We will use Type A as an example to show current planning regulations and building codes lead to low land use efficiency. Minimum plot size for Type A development is 1,000 m². This plot size implies two things: (1) because 29% of land needs to be set aside for public use, to develop a plot of 1,000m² in residential area, the total land assumption is 1,290m², including the land reserved for public uses. (2) With a land coverage ratio of 0.39, only 390m² out of 1000m² could be built. Further, on the 390ms of land directly used for housing, only a four-floor building can be built, translating into 1,107.6 m² of floor area. Based on the minimum requirement of floor area for each housing unit, this floor area is at the maximum enough for 10.6 apartments. That means, 10.6 apartments together consume a total land of 1,290m², and each unit 121.7m². The cost of each apartment building has a built-in cost of 121.7m² land consumption. The lower density, the less units of housing can be built on a plot, the more land consumption each unit incurs, and in the end the high land costs for each unit. To reduce housing costs per unit, planning regulations and building codes need to be changed to encourage higher-density development.

Table 3: Land Consumption in Residential Areas

	Plot surface (m ²)	Floors (#)	percent of plot built	max land coverage (m ²)	Total floor area (m ²)	FAR	max # of apartments	Land area, adding m ² for public uses (29 percent of plot size)	Land consumption in residential areas, per apartment, m ²
Type A	1000	4	0,39	390	1560	1,56	10,6	1290,0	121,6
Type B	750	4	0,45	337,5	1350	1,8	9,2	967,5	105,4
Type C	500	4	0,51	255	1020	2,04	6,9	645,0	93,0
Type D	250	4	0,55	137,5	550	2,2	3,7	322,5	86,2
Type E*	175	3	0,6	105	315	1,8	2,1	225,8	105,4
Attached type	500	2	0,4	200	400	0,8	2,7	645,0	237,1
Pop. attached	150	3	0,6	90	270	1,8	1,8	193,5	105,4
Green ¹⁰	2000	2	0,15	300	600	0,3	4,1	2580,0	632,4
Resid Rural	2000	2	0,15	300	600	0,3	4,1	2580,0	632,4
Resid High	4000	8	0,3	1200	9600	2,4	65,3	5160,0	79,0

Source: World Bank, 2016, *Accommodating the population increase in Jordanian cities*

*"Type E" is a category only for HUDC. It has a smaller minimum lot size of 175 m², compared to other types

61. On a related note, the requirements on parking in building codes further increase housing costs. The building codes require construction of one parking per each housing unit in Residential Zones A and B, and one parking per two units in Residential Zones C and D. Although the plot in each type comes with wide setbacks, parking is not allowed on land surface. The only way to construct parking is in underground floors. According to local developers, the construction of one parking spot can cost up to

¹⁰ The green category refers to the share of garden. It is due to the inclusion of former residential rural in urban limits

JD8,000 in the first basement floor, and JD16,000 in a second basement floor. Although this additional cost due to parking requirement is part of construction costs, not land costs, it is a direct result of land use regulations. This is another area that calls for regulatory changes.

RECOMMENDED ACTIONS

- Improving zoning regulations and building codes can significantly improve the efficiency of land markets, and allow for higher-density development, leading to more housing units available at lower cost per unit. Specific regulatory changes could include:
- Bring Planning Law No. 79 of 1966 up to date with internationally recognized best practices and extend it to the entire country.
- Downzone Residential Zone A and B to Residential Zone C and B, especially in areas close to city center. This will solve the mismatch between supply and demand for certain types of residential land, reduce vacant land, and make more land available for affordable housing.
- Reduce the minimum plot size in residential zones by either changing the current parameters in certain types or adding new types with smaller minimum size (such as Type E allowed for HUDC projects). This will allow housing units to be built on smaller plots of land, reducing unit cost.
- Examine and update building codes with regard to land coverage ratio, setbacks, and height limit, and update the parameters. The current parameters are outdated and can no longer address the challenge of rapid urbanization and shortage of affordable housing. Higher land coverage ratio, narrower setbacks, and an increased height limit could all allow for more number of housing units to be built on a plot of land, therefore spreading the land costs across more units, and reducing per unit land cost.

Costs of Infrastructure and Urban Services

62. As illustrated in Figure 30 above, the direct costs of infrastructure for new housing is about 10-20 percent of total housing development costs, covering both on onsite and offsite infrastructure. Onsite infrastructure includes connection to the main utilities networks of electricity, water, and sewerage, and construction of access roads. Offsite infrastructure include mainlines of utilities as well as roads. Costs of community services such as health and education facilities are also important costs and affect housing value. While these costs are relatively easy to understand and estimate, informal housing development and low density urban growth will add to the “hidden costs” of infrastructure investment and service provision.

63. Unplanned (or informal) development in Jordan has increased in the past decade, and global experience shows that when infrastructure provision follows informal development, installation costs increase. In one study it is estimated that after development is taking place, retrofitting infrastructure could cost 2.5 times more than if infrastructure is installed prior to development (Abiko et al. 2007). Except for Greater Amman Municipality, cities in Jordan do not have a master plan which guides land development and infrastructure planning and construction. Even in Amman, informal development has happened on a large scale. For example, between 2000-2014, 1,329 hectares of land has been informally developed, compared to 2,891 hectares formally developed. When planning and infrastructure follows development in

the case of informal development, rather than the other way around in the formal development, infrastructure costs are increased and hinder the affordability of housing.

64. There are also additional costs of infrastructure and services which are determined by the spatial structure of a city. In general, a city of lower density and a sprawling growth pattern will have much higher infrastructure investments and service costs than a city of higher density and more efficient land use. Inefficient growth patterns mean that to accommodate the same size of population, more land will be consumed for development. The government will need to build more roads, pave more streets, and spend more on street lighting, waste collection and so on. Utility companies will pay for expanding their networks, and more leakages in an expanded network adds to the costs.

65. Although not reflected in the transaction costs of a new housing unit, indirect costs of infrastructure are eventually born by the government or households. A recent World Bank study on urban growth scenarios points out that in Amman, if land use follows the current low-density, low efficiency path, by year 2030, the municipal government will need to invest 231.7 million JD, whereas if the city follows a compact growth pattern, prioritizes infilling rather than outward expansion, and densifies the areas along the new bus rapid transit (BRT) lines, the investment costs in 2030 will be only about 17 million JD, a 93% reduction. The additional costs paid by utility companies in expanding the networks are eventually passed to households as increased fees or tariffs, reducing their disposable income. The same report by the World Bank shows that municipal service costs per capita per year will be 58.19JD in 2030 if current land-use trend continues, and down to 49.75JD if compact growth is followed instead (World Bank/Capsus, 2018).

66. Buildings of low energy and water efficiencies will increase demand for resources and increase service costs; instead, enforcing green building codes could generate savings for households. A recent World Bank study on future growth of Jordanian cities finds that if no measures are taken, that is, if Amman grows in a business-as-usual scenario, by Year 2030 the energy consumption per housing unit will be 12,724KWh per year, and water consumption per housing unit per year will be 518 m³. By contrast, if green building codes are enforced for 90% of the new housing units in Amman, by Year 2030 the energy consumption per housing unit will be 11,686KWh per year, an 8% reduction from the business-as-usual scenario, and water consumption 330 m³ per unit per year, a significant 36.3% reduction. Less energy consumption and water consumption directly reduces electricity and water bills paid by the households. Furthermore, it means that there will be substantial savings in the municipal budget in energy and water provision, which are also passed to the households as further savings. This is another way to reduce the "hidden costs" which are not directly paid by the developers but which will be borne by the government and households eventually. Cutting these hidden costs will further improve housing affordability.

Taxes and Fees

67. The housing sector in Jordan is considered to be heavily taxed as the totality (direct and indirect) of taxes and fees paid on housing projects can reach up to 30 percent of the total cost of the project. The high taxation rates increase final housing prices. These taxes include the following: i) Income and sales taxes paid under the assumption that the housing company and the buyers acquire bank loans; ii) sales taxes paid by the developers over equipping the units with furniture and kitchens; iii) fees on changing land-use to the residential category; iv) fees and customs taxes over imported raw materials used in construction by providers; v) taxes on raw materials fabricated locally (see BOX 10).

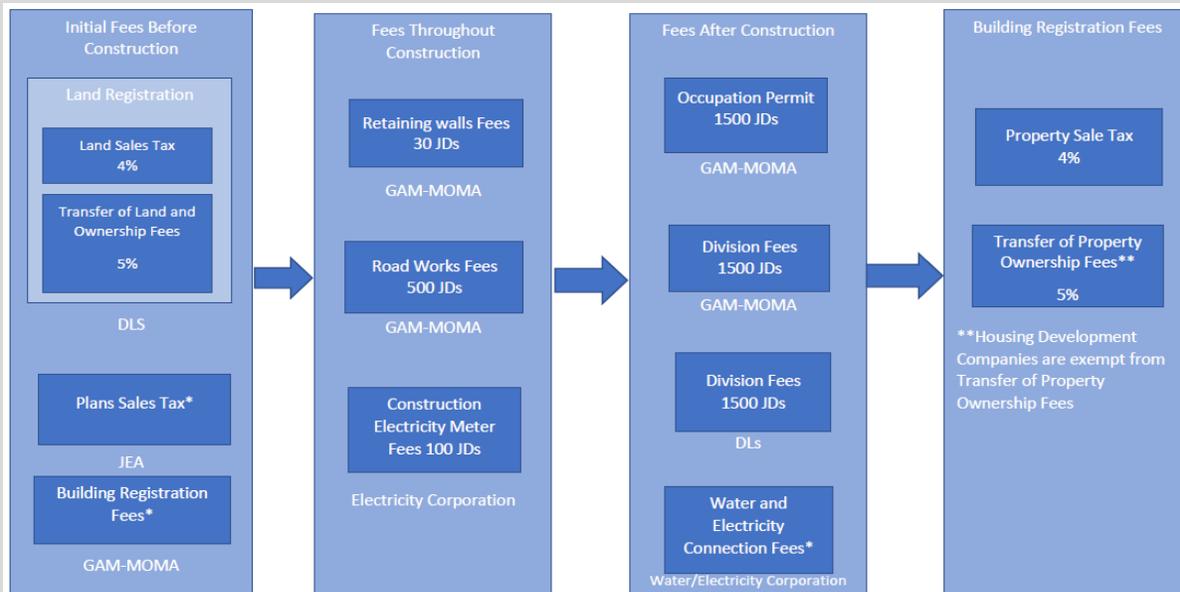
BOX 10: MAIN TAXES ON HOUSING DEVELOPMENT

The Building and Lands Tax Law regulates taxes, the mechanism of imposing them, their calculation and collection, and the statement of exemptions and fines imposed on taxpayers. The property tax is imposed depending on the status of the property as follows:

- *For units inhabited by their owners:* the annual tax is 15 percent of Estimated Basic Value (EBV) minus a depreciation allowance of 20 percent. The EBV is based on valuation coefficients defined by municipal category (A, B, C and D), type of zoning (A, B, C and D), type of building and type of construction.
- *For rented units:* the annual tax is 15 percent of the Estimated Annual Rent Value (EARV), which is the rent value stated in the contract. A depreciation allowance of 20 percent is applied.
- *For vacant housing units:* the annual tax is 10 percent of the Estimated Annual Rent Value (EARV). A depreciation allowance of 20 percent is applied.
- *For vacant land:* the tax is 0.04 percent of the Estimated Property Value (EPV), which is calculated by multiplying the land area by the estimated price per square meter.

Figure 37 sums up the main taxes levied on the processes of development and construction. The buyer would pay Land Sale Tax and the Transfer of Ownership Tax to DLS. The owner would then proceed to preparing the designs and construction plans for the project, contracting an engineering consultation firm, and paying a sale tax for the plans to the JEA. The owner would also pay the building registration fees to the municipality after having the plans approved by the JEA and the Department of Civil Defense, the owner pays a building and land tax as well, yet the property is charged as a vacant land until the building is completed. The contractor would pay approximately up to 25 percent from total cost on indirect taxes, retaining walls fees for the municipality (if retaining walls are used), and road works fees to prepare the streets servicing the property. After construction, the owner would pay for an occupation permit at the municipality, division fees to DLS, registration fees for each unit, and connection fees for water and electricity. The end user would pay 9 percent sale and transfer of ownership taxes to acquire the property.

Figure 37: Main Direct Taxes on Housing Development (Development stage)



*Fees that vary according to property area, land use or power consumption
 Source: TAG-Consult, Housing Value Chain Report, Nov 2017

68. **On average, the property tax on rented apartments is three times higher than on owner-occupied apartments, and the tax on vacant units is two times higher.** As presented in BOX 10, Property tax bases are different according to the tenure in Jordan, as a consequence, the property tax collected is much lower on owner-occupied units than on rented or vacant units. For example, as presented in Table 4 collected taxes varied from JD101 for an occupied 120m2 apartment in Amman Residential A, to JD345 when the apartment is rented, and JD230 when it is kept vacant. In Irbid and Zarqa, those prices goes from JD58 for an occupied 120m2 apartment, versus JD173 for the rented apartment, and JD115 when vacant. Preferential treatment to owners also includes vacant land, as it is only taxed at 0,04 percent of its rental value, even when located in areas provided with infrastructure. The estimation of the rental value is based on the agricultural production the land could give. As a consequence, a 10,000m2 of vacant land is taxed in Amman only with JD40 per year, which may turn into an incentive to keep the land out of the market.

Table 4: Taxes on Occupied, Rented, Vacant Apartment in Amman and Other Major Cities, 2017

Amman				Major cities			
120m2	Occupied	Rented	Vacant	120m2	Occupied	Rented	Vacant
Market Value	72,000	72,000	72,000	Market Value	37,000	37,000	37,000
Basic Value	840	2880	2880	Basic Value	480	1440	1440
Exemption 20%	168	576	576	Exemption 20%	96	288	288
15% tax	101	345	-	15% tax	58	173	-
(10 % tax)	-	-	230	(10 % tax)	-	-	115

Source: World Bank calculation, interview with the head of property tax at the Ministry of Finance, November 2017.

RECOMMENDED ACTIONS

- Consider simplifying property valuation, linking it directly to the market value of the property (phasing out conditionality on municipal category, zoning and building type), and unifying the property valuation for owner-occupied, rented and vacant units
- Consider removing the preferential treatment of vacant land in the built-up zone of urban areas, and move to a cadastral system of annual revaluation or indexing. This is a major policy to develop, that will bring land prices down and limit land speculation.

6.3 Commercial Finance for Housing

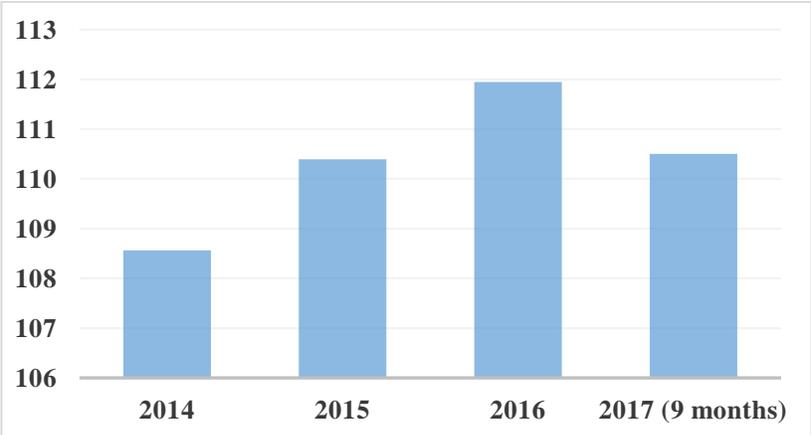
Financing the Supply of Housing (Construction Financing)

69. On average, in Jordan developers build 40 percent of new housing units, while the remaining 60 percent are built by households for their own use. In most of the cases, developers purchase land parcels, secure finance for their development, prepare the necessary documentation, sub-contract construction companies, and sell housing units to individuals. Development projects where the developer retains ownership of units after completion and rents them are uncommon and will not be considered in this section. When securing finance to develop a housing project, Jordanian developers may choose between three sources of finance: i) commercial loans, ii) financing from a leasing company, or iii) advance payments from individuals who will own the housing unit in the future. Financing of housing developments via REITs (Real Estate Investment Trusts) does not exist in Jordan. This section outlines the key risks that are pertinent to the system of construction/developers’ finance in Jordan and suggests the approaches that are to be taking into account under the roadmap to address these risks.

Construction Financing by Up-front Payments (advances) from Individual Buyers

70. Out of the different forms of finance for housing developments, the one based on up-front payments from future buyers is the riskiest. This practice is not commonly used in developed countries and in many developing countries (for example in Russia) is outlawed, given that it bears significant potential risks for individual buyers. The key risk relies in the possibility that the developer fails to complete the project -resulting in individual buyers losing all the money they invested in advances- due to a common practice to use advances collected from one project to purchase land and prepare documentation for another one. Such financial scheme enables developers to maximize their profit, however, when demand for housing slows down, the developers become unable to collect advances for the second project, jeopardizing the finalization of both projects. Although at the time cases of developers not being able to fulfill their obligation and individual buyers losing their advances are rare in Jordan, declining housing prices since 2017 (see Figure 38) are increasing the risk profile of this type of construction financing.

Figure 38: Residential Real Estate Index, 2014-2017



Source: Central Bank of Jordan. Jordan Real Estate Price index(<http://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=212>)

71. Although being the riskiest construction financing option, the tax system that is currently in place is incentivizing developers to continue using up-front payments for financing housing projects. Currently, if a developer finances a project using a bank loan, the sale tax (4 percent) is paid when the housing units are sold/transferred. However, if the development project has been financed by advances of individual buyers the tax is waived. As of now the only measure taken to mitigate the risk outlined above is to permit individual buyers to register their advance agreements in DLS. This measure mitigates the risk of fraud (when a developer pre-sells one housing unit to several buyers) and makes it easier for a buyer to sue the developer in case the project is not completed. However, if the developer has gone bankrupt this measure will not help.

RECOMMENDED ACTIONS

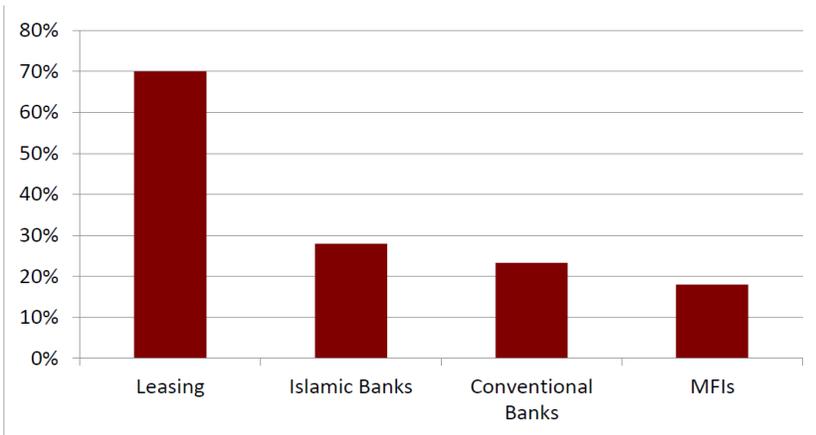
- Explore to eliminate the current tax incentive or to introduce additional taxation to discourage up-front financing.
- Consider making registration of advance agreements in DLS (which is now voluntary) mandatory.
- Consider making registration of each housing unit within a building mandatory (as incentive, make it free of charge for the existing stock. This will help women to inherit.

Construction Financing by Commercial Loans and Leasing Companies

72. Thanks to legal loopholes in the tax system, houses financed by leasing companies are nearly 10 percent less costly for developers as in regular bank financing, discouraging bank financing. Leasing agreements presumes that the project is in ownership of the leasing company (lessor) and not in the ownership of a developer (lessee). When the project is completed and leasing payment has been made in full, the title is then supposed to be transferred to the developer. This transfer is not subject to any fees and taxes (Leasing law, clause 15c). The sale of the finished unit to individual buyers is then taxed at 4 percent of sale tax and 5 percent registration fee. However, the transfer of title to developer and then to buyer is not happening, instead, the developer arranges reassignment of the lessee rights to the individual buyer. This can be done if the buyer instead of taking a mortgage loan from a bank also finances housing purchase through the same leasing company. The buyer obtains the housing unit as a lessee. Since the lease agreement is the same, the buyer pays neither sales tax nor registration fee. When the buyer repays the home price to the leasing company and registers the property into his/her ownership, these taxes are also waived according to Leasing law.

73. Thanks to the incentives previously described, the share of housing finance conducted by leasing companies in Jordan is significantly and is constantly growing. As presented in Figure 39, currently about 70 percent of leasing operations in Jordan are for real estate. As a result, Jordan is in a unique position compared to the world, in terms of having leasing companies being involved mostly in real-estate transactions rather than in leasing machinery and equipment. Given that leasing companies are not regulated by the Central Bank of Jordan, the concentration of a big share of real estate operations in these institutions increases uncontrolled risks for the financial system.

Figure 39: Share of Housing Loans in Different Types of Financial Institutions



Source: CBJ. Financial stability report. 2015.

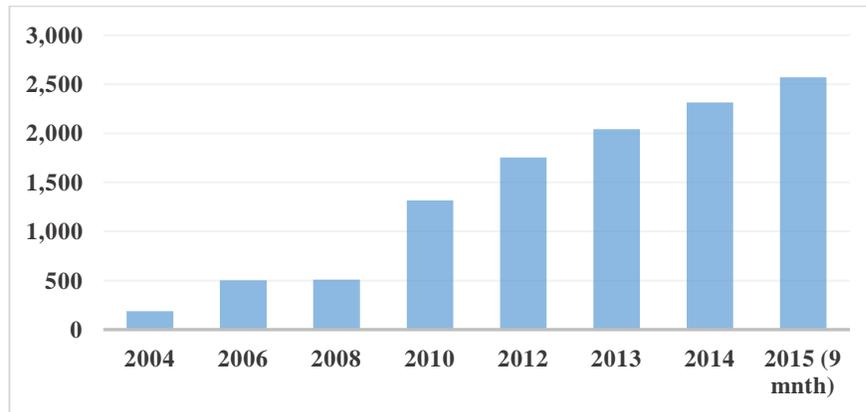
RECOMMENDED ACTIONS

- Explore legal/regulatory changes to ensure a level playing field between banks and leasing companies, including considering limiting the possibility to reassign lessee rights for real-estate related transaction.
- Consider making leasing companies that are involved in residential real-estate transactions subject to Central Bank regulations.

Financing the Demand of Housing (Mortgages and self-construction)

74. Finance to individuals to purchase homes is still rather small in proportion to other countries. Mortgage depth ratio to GDP is comparatively small and stays at about 5 percent (Hofinet, 2013). This is one of the lowest ratios in the region. In countries such as Kuwait, Lebanon, Tunisia and Morocco this ratio is close to 20 percent while in most developed countries this ratio is 70-100 percent. It means that substantial portion of buyers purchase houses using their savings and informal borrowing from relatives and friends. However, as presented in Figure 40, the market is developing, and volume of housing loans portfolio is growing rapidly.

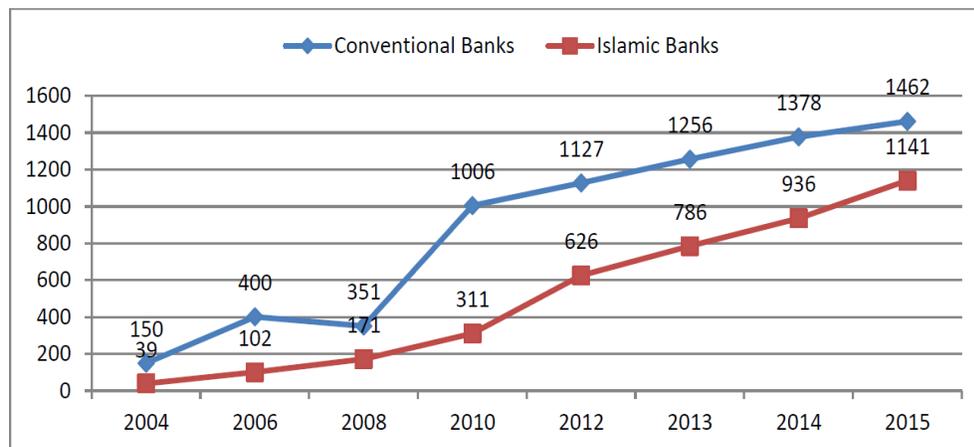
Figure 40: Volume of Housing Loans Extended to Individuals by Banks, 2004-2015 (JD)



Source: HUDC

75. The market for financing house purchases is shared across conventional banks, Islamic banks, and leasing companies, but the share of the later has been constantly increasing. Salaried employees are served largely by banks, while people with irregular and/ or informal income are mostly served by leasing companies. Islamic lending is also prevalent, especially for lower income households. As presented in Figure 41, Share of Islamic banking in home purchase lending has been constantly growing and in 2015 reached the level of 43.6 percent. Islamic banks for housing finance use ijara loans (which are close in nature to leasing operations) and murabaha loans. Share of housing finance conducted by leasing companies is also constantly growing due to the described above loopholes in the leasing law.

Figure 41: Housing Finance by Conventional and Islamic Banks (Million JOD)



Source: HUDC 2015. Report on housing sector 2004 – 2014.

76. From the point of view of borrowers’ protection, housing finance arranged as a leasing operation is the most disadvantageous for individual property buyers. The disadvantage is grounded in the differences of the nature of the lease contract and the mortgage lending contract. In case of a conventional bank’s mortgage loan (or a Murabaha loan of an Islamic bank) a housing unit that a borrower

purchases, using loan proceeds, belongs to the borrower. This property is a collateral which means that in case of the borrower’s default, the property is sold to compensate the bank for the unpaid debt. The rest of the sale proceeds is returned to the borrower. If most of the debt has been repaid by the borrower by the time of the default, the bulk portion of the sale proceeds goes to the defaulted borrower. In case of the lease agreement (or Ijara loan of an Islamic bank) the property belongs to the leasing company (or Islamic bank). If the borrower defaults after part of the loan is repaid (even if the major part of the loan is repaid) the borrower can’t claim anything because the property belongs to the lender (Islamic Bank or Leasing company). The Central Bank developed a special regulation protecting Islamic Bank clients borrowing under ijara contract against losing all their payments in case of defaults, however, clients of leasing companies do not have any protection.

RECOMMENDED ACTIONS

- Explore developing a special legislation regulating default cases of housing loans presented in the form of leasing contracts.

The Role of the Jordan Mortgage Refinance Company (JMRC)

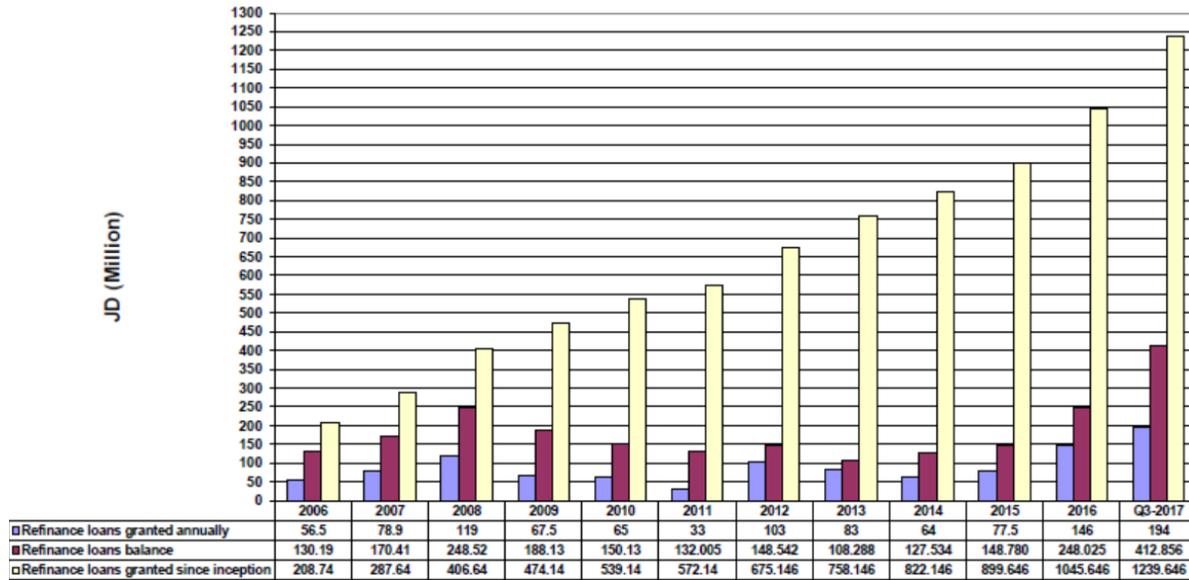
BOX 11: JORDAN MORTGAGE REFINANCE COMPANY (JMRC)

JMRC is a mortgage liquidity facility. A key goal of a liquidity facility is to tap long-term funding from securities market. That funds are on-lent to financial institutions to be used for long-term mortgage loans. If there is no liquidity facility, financial institutions are making long-term mortgage loans using short term deposits. This creates substantial liquidity and interest rate risks for financial institutions. Liquidity facilities like JMRC help financial institutions to manage the risk providing them with long-term funding. Liquidity facilities like JMRC exist in many countries. Investors perceive debt of liquidity facilities as a low-risk investment, because their assets -- the loans that the liquidity facilities provide to financial institutions – are collateralized by portfolios of mortgage loans. Liquidity facilities have exposure to Financial Institutions, however in a case of a Financial Institution default, the underlying mortgage loans remain active and continue to provide funding for repayment of the liquidity facilities’ debt. Such exposure both on Financial Institutions and (in case of the institutions’ defaults) on mortgage portfolios, make debt of liquidity facilities a low risk investment enabling them to get long-term funding from the financial markets at better terms than Financial Institutions could do issuing their own debt.

77. Volume of funding provided by JMRC to financial institutions is constantly growing however JMRC does not fulfill its role of provider of long-term funding. By 2017, the number of refinance loans agreements signed reached 234 amounting close to JD1.1billion (US\$1.5billion). The basis for growth of lending operations is the constant growth of JMRC borrowing from capital markets (see Figure 42 and Figure 43). Nevertheless, there are strong issues in the JMRC schemes of operations that accumulate substantial risks for the whole financial system of the country. One of the issues is that JMRC since the begging of 2016 provides only short- and medium-term (not longer than 3-year term) loans to financial institutions. Out of JD321 million attracted from financial market in 2016 – 2017, only 54 percent (JD

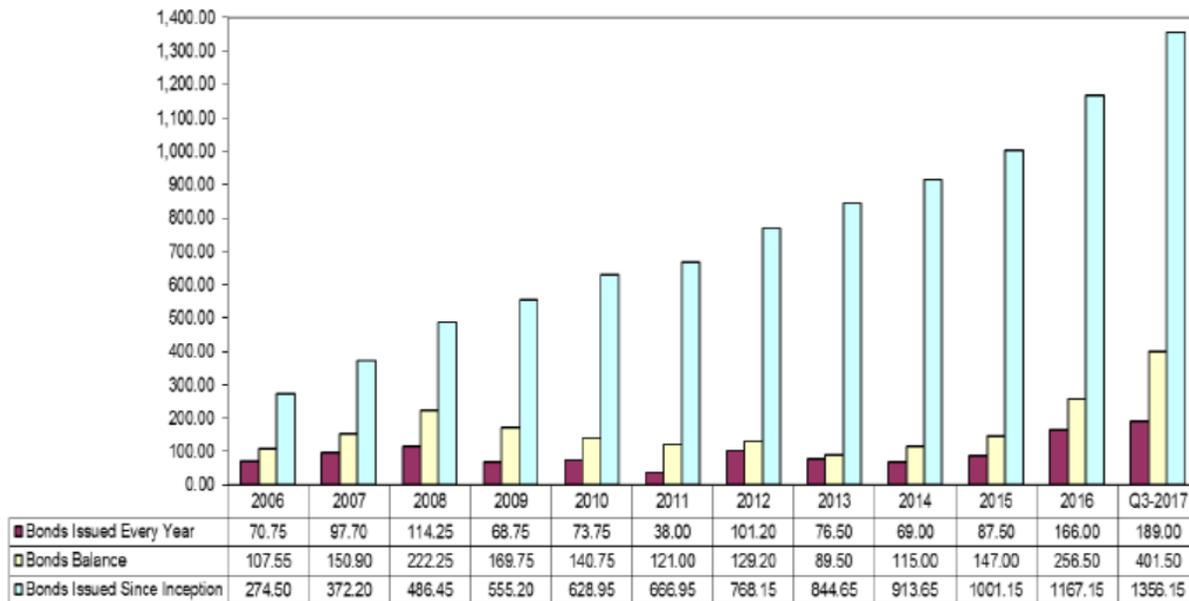
173m) had 3-year term. The rest had 2-year (JD107m) and 1-year (JD41m) terms. Average term of JMRC debt and hence the loans JMRC has provided since the beginning of 2016 to banks has been 2.4 years which is very close to the terms of deposits. It means that JMRC does not provide substantial protection for financial institutions against liquidity and interest rate risks.

Figure 42: Volume of Mortgage Loans Refinanced by JMRC, 2006-2017 (JD)



Source: JMRC

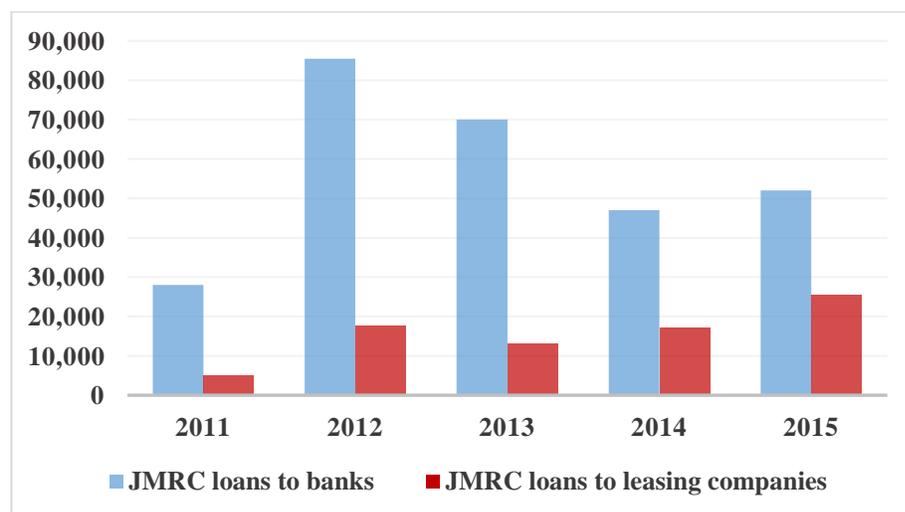
Figure 43: JMRC Bond Issuances, 2006-2017 (JD)



Source: JMRC

78. The share of finance provided to leasing companies in JMRC portfolio has been constantly growing, potentially affecting the interest rates of JMRC loans to banks. As leasing companies can't use loans as collateral for borrowing from JMRC like banks do, JMRC loans to leasing companies are covered only by "comfort letters" of the parent banks that own the leasing companies. This means that JMRC loans to leasing companies do not have double protection (by a financial institution and by the underlying loans). Such limited coverage of risks of part of JMRC portfolio in its turn increases the risk profile of the debt that JMRC issues. As the share of non-collateralized (leasing) debt in JMRC portfolio is growing (see Figure 44), the risk of JMRC debt to investors increases, which may later translate into a higher interest rate of JMRC loans available to banks.

Figure 44: JMRC Loans, 2011-2015 (JD)



Source: JMRC

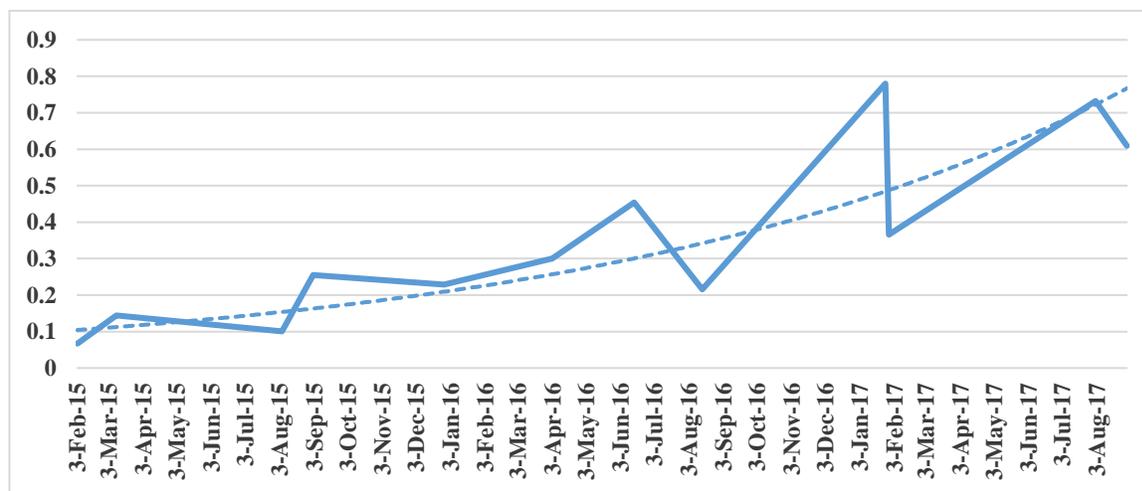
79. The spread of JMRC bonds (3 years) to government bonds of the same maturity has already started to grow. As presented in Table 5 and Figure 45, the spread of JMRC bonds to government bonds has been gradually growing, signaling that risk perception of investors towards JMRC bonds has been worsening. In two and a half years the average spread grew from 0.1 percent to nearly 0.5 percent. This demonstrates that investors are considering JMRC debt more and more risky. The growing spread (and hence growing cost of funds) makes borrowing from JMRC less and less attractive for banks. Growth of the share of non-collateralized loans (i.e. loans to leasing companies) in the JMRC portfolio seems to be the most reasonable explanation of such growth of perceived risks. It is important to mention that JMRC does not provide liquidity to Islamic banks.

Table 5: Interest Rate on 3-years JMRC Bonds and 3-years T-bonds Issued in 2015-2017

T-bond		JMRC bond		Spread
percent	Day	percent	Day	percent
4.333	22-Jan-15	4.4	3-Feb-15	0.067
3.856	19-Mar-15	4	10-Mar-15	0.144
3.049	26-Jul-15	3.15	5-Aug-15	0.101
2.995	3-Aug-15	3.15	12-Aug-15	0.155
3.271	21-Dec-15	3.5	28-Dec-15	0.229
3.2	12-Apr-16	3.5	3-Apr-16	0.3
3.146	7-Jun-16	3.6	15-Jun-16	0.454
3.184	14-Jul-16	3.4	15-Aug-16	0.216
3.47	26-Jan-17	4.25	26-Jan-17	0.78
3.484	7-Feb-17	3.85	29-Jan-17	0.366
4.418	5-Jul-17	5.15	2-Aug-17	0.732
4.391	22-Aug-17	5	30-Aug-17	0.609

Sources: JMRC (<http://www.jmrc.com.jo/jmrc/Details.aspx?lng=1&type=4&id=11>) and Amman Stock Exchange (https://www.ase.com.jo/en/bonds_table/treasury_bonds)

Figure 45: Growth of Spread of 3-year JMRC Bonds to 3-year T-bonds, 2015-2017 (%)



Source: JMRC and Amman Stock Exchange.

80. Financial institutions use JMRC services not only to obtain liquidity but also to benefit from specific BOJ regulations for JMRC borrowers and investors. The measures increasing attractiveness of investments in JMRC bonds are that (a) JMRC bonds are risk weighted at 20 percent for calculating capital adequacy ratio and (b) are considered as liquid assets for the purpose of calculating liquidity ratio. However, in fact JMRC bonds are not liquid since they are not traded on Stock Exchange and, in most cases, are kept

by investors till maturity. Hence, the regulation makes Jordan banks be considered more liquid than they are disguising risks in the system. The most important measure to increase demand for borrowing from JMRC is a CBJ regulation stating that a bank' loans for construction and purchase of real estate should not exceed 20 percent of the bank deposits with the exception to the loans refinanced by JMRC. In many cases market participants use JMRC services not to obtain liquidity but to formally meet this CBJ regulation. There are even cases when 100 percent of money received by JMRC from a bank – investor in JMRC bonds, is used to provide a JMFC loan to the same bank. In these cases, costs of JMRC services increase cost of mortgage lending while the risks of mortgage lending are not becoming smaller.

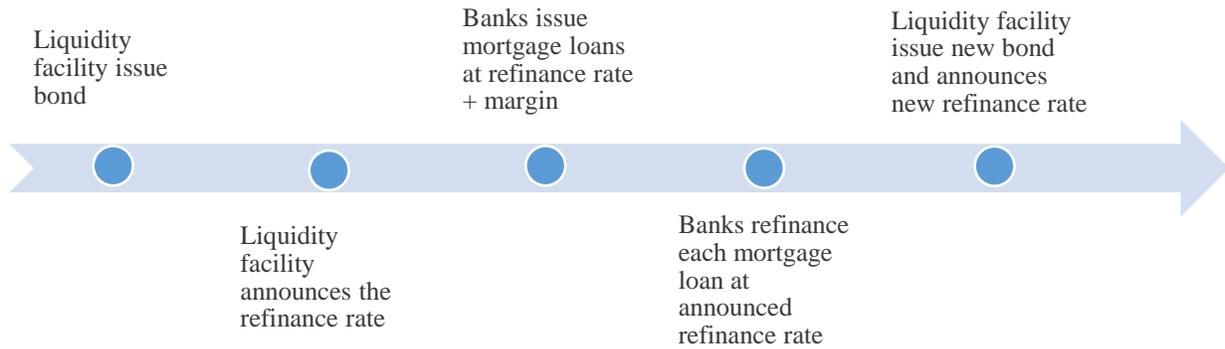
RECOMMENDED ACTIONS

- Consider developing a product for leasing and ijara operations on a recourse base. This product can also be used for conventional loans. Such model will enable JMRC to ensure double protection for its debt (by underlying collateral and guarantees of financial institutions) working with all types of financial institutions involved in housing finance in Jordan. Lower risks will reduce cost of borrowing and enable JMRC to issue more long-term debt.
- Consider a scheme under which JMRC will buy loans without recourse. In this case loans will get out of banks' balance sheets enabling them to reduce capital requirements. Such scheme might be highly demanded by banks and hence be priced higher by JMRC increasing JMRC profits. However, this scheme will require much more rigorous assessment of credit risks than the one that JMRC has now.
- For the loans of Islamic Banks, consider creating a separate JMRC branch that will use the same mechanism issuing debt to investors in the form of sukuk.

JMRC Current Financing Scheme

81. Refinancing by JMRC of banks' mortgage portfolios rather than of individual mortgage loans causes higher interest rates on mortgage loans. Cooperation with JMRC is arranged in a way which is very inconvenient for commercial banks. The traditional form of a liquidity facility operations is that it (a) periodically issues its bonds; (b) knowing the cost of their funds obtained from the capital market, the liquidity facility announces at what rate it is going to provide refinancing loans to banks; (c) having this information, banks start issuing mortgage loans at the cost equal to the announced refinance rate plus their margin, (d) each mortgage loan, as soon as it is issued, is refinanced by a liquidity facility at the rate announced, (e) upon changes on the capital market, the rate is changed and banks are informed about it.

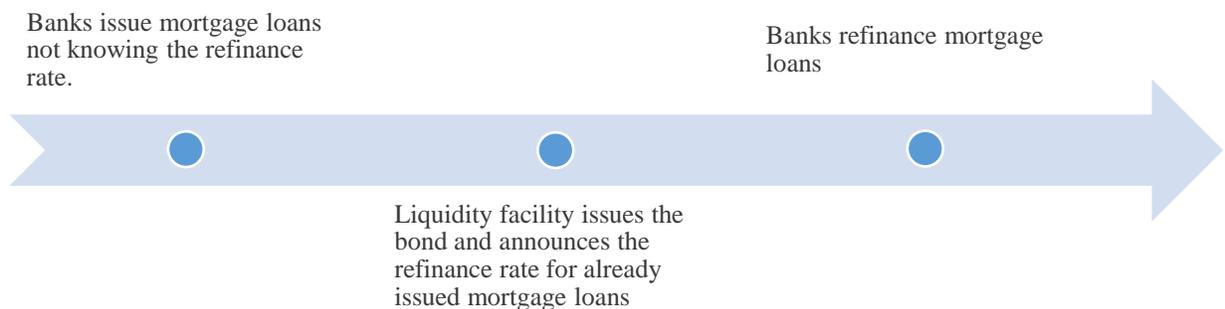
Figure 46: Traditional Operation Scheme of a Liquidity Facility



Source: Authors

82. The current financing scheme creates uncertainty, increasing the final cost of mortgages. In Jordan, the refinance rate is not announced by JMRC to banks. Banks must issue mortgage loans using their own funding. Only after a substantial mortgage portfolio (in most cases JD 5 – 10m) is collected, the bank can get refinancing from JMRC. Only at that stage, the bank gets information about the rate at which the mortgage loans will be the refinanced. The uncertainty at the moment of the loans’ issue, and the necessity to use their own funding till substantial portfolio is collected, create risks for banks. These risks ultimately result in higher interest rates for final borrowers, that would be possible if banks knew the JMRC refinance rate beforehand and could refinance each mortgage loan as soon as it is issued.

Figure 47: JMRC Simplified Operation Scheme



Source: Authors

83. Mortgage deed transfer fees of 1 percent have been annually waived however lack of decision to waive it permanently creates uncertainty. Since JMRC uses mortgage loans of banks as collateral, the transfer of mortgage deeds to JMRC for each collateralized mortgage loan should take place. Under this transaction a fee (1 percent) is to be paid. Such fee, if collected, would automatically transfer into the increase of interest on mortgage loans. Given that the fee is waived every year. The issue is that investors in JMRC bonds are not sure that the waiver will be granted the following years and hence can’t assess what

will be the financial performance of JMRC. This makes them price the risk, ultimately increasing interest rate on mortgage loans.

RECOMMENDED ACTIONS

- Consider developing a new scheme of financial management for JMRC under which JMRC debt will be issued periodically and used to refinance loans one by one as soon as they are issued. This change will provide higher liquidity of JMRC bonds because these will be emerging on the market regularly enabling potential investors to consider them as an element of their investment strategy.

Housing finance products need improvement to reduce risks and strengthen the rental market

84. Currently the majority of conventional housing loans have variable rates adjusted in accordance to changes in JODIBOR. The usage of variable rate mortgage loans enables banks to minimize interest rate risk. The interest rate risk emerges when banks issue long-term fixed rate mortgage loans. The risk is that the cost of funds (deposit rates, loans from JMRC) may increase for the bank (if there are macro changes) while the repayments from mortgage loans (if at fixed rate) remain the same. If it happens the bank loses its profits and may become insolvent. Variable rates mortgages used by banks in Jordan permit this risk to be managed by changing the inflows from mortgage loans (due to adjusted mortgage interest rate) in parallel with changes in cost of funds.

85. However, the mechanism creates significant potential risk of massive defaults and hence destabilization of the whole financial system. The reason this risk exists, is because the share of the monthly mortgage loan repayment in the borrower's monthly income – debt to income ratio (DTI) – is approximately 50-55 percent. The share is calculated based on the interest rate at the moment of the loan disbursement. If JODIBOR at the moment of any of monthly repayments becomes higher than at the moment of the loan issue, the monthly repayment becomes higher than 50 percent-55 percent of the monthly income of the borrower. In case of a sharp increase of JODIBOR rate, the relevant sharp increase in the size of a monthly repayment may cause payment shock and hence defaults of numerous borrowers.

86. Rental housing needs to be financed by long-term mortgage loans provided to owners of rental houses. Such houses often consist of many housing units managed by a professional rental operator. Calculation of a borrower's repayment capacity for these mortgage loans is based on the assessment of potential rent income and rate of occupancy, unlike classical mortgage loans for which repayment capacity is based on the borrower's income. As of now such loans (if created) will not be refinanced by JMRC because it does not have relevant program.

RECOMMENDED ACTIONS

- It is advisable to amend the way the banks adjust interest rate of mortgage loans. considering a regulation prohibiting banks from making monthly payments increments higher than a cap specified by the Central Bank. Hence the growth of interest rates, requiring higher growth of monthly repayments will be spread through several months reducing risk of borrowers' defaults.
- Consider stimulating the introduction of fixed rates for the period equal to term of the JMRC loan provided to the bank. Such measure will reduce the risk of payment shock for a loan during the time this loan uses funding provided by JMR.
- Consider providing support to financial institutions in creation of relevant lending product and to JMRC to create a program of refinancing for such type of operations.
- Consider initiating REIT (Real Estate Investment Trusts) to enable small size individual investors efficiently invest in rental projects.

7 Summary of Recommendations

7.1 Short-Term Actions (within the following 2 years)

Institutional Reform to Strengthen HUDC

- An institutional reform within HUDC should be pursued, providing it with a clear mandate to formulate long term housing policy, tools to regulate and enforce policy recommendations, and contribute to drafting housing-related laws.
- Consider creating a centralized Housing Information System (HIS) within HUDC, and develop stronger monitoring and evaluation systems, and capacity building initiatives.
- The mandate and role of HUDC in designing and enforcing programs and eligibility should be clarified and strengthened. Programs should support the transition demand side approaches (ie, subsidizing households instead of units) when fiscally possible.
- HUDC should be able to also work with Greater Amman Municipality (zoning and housing policies)

Regulatory Reform to Improve Urban Planning

- Bring Planning Law No. 79 of 1966 up to date with internationally recognized best practices and extend it to the entire country.¹¹

Regulatory Reform to Improve Land Markets

Improving zoning regulations and building codes can significantly improve the efficiency of land markets, and allow for higher-density development, leading to more housing units available at lower cost per unit. Specific regulatory changes could include:

- Downzone Residential Zone A and B to Residential Zone C and B, especially in areas close to city center. This will solve the mismatch between supply and demand for certain types of residential land, reduce vacant land, and make more land available for affordable housing.
- Reduce the minimum plot size in residential zones by either changing the current parameters in certain types or adding new types with smaller minimum size (such as Type E allowed for HUDC projects). This will allow housing units to be built on smaller plots of land, reducing unit cost.
- Examine and update building codes with regard to land coverage ratio, setbacks, and height limit, and update the parameters. The current parameters are outdated and can no longer address the challenge of rapid urbanization and shortage of affordable housing. Higher land coverage ratio, narrower setbacks, and an increased height limit could all allow for more number of housing units to be built on a plot of land, therefore spreading the land costs across more units, and reducing per unit land cost.
- Encourage Green Building construction with proper roof and wall insulation, using the density bonus, as done by Greater Amman Municipality.

¹¹ AECOM (2010) provides detailed guidance on recommended changes.

Regulatory Reform to Reduce Housing Buyers' Risk

- Consider making registration of advance agreements in DLS (which is now voluntary) mandatory
- Consider making registration of each housing unit within a building mandatory (as incentive, make it free of charge for the existing stock). This will help women to inherit.

Regulatory Reform to Encourage Banks to Expand Access to Housing Finance

- Explore legal/regulatory changes to ensure a level playing field between banks and leasing companies, including considering limiting the possibility to reassign lessee rights for real-estate related transaction.
- Consider making leasing companies that are involved in residential real-estate transactions subject to Central Bank regulations.
- It is advisable to amend the way the banks adjust interest rate of mortgage loans. considering a regulation prohibiting banks from making monthly payment increments higher than a cap specified by the Central Bank. Hence the growth of interest rates, requiring higher growth of monthly repayments will be spread through several months reducing risk of borrowers' defaults.

Regulatory Reform to JMRC and Incentives to Expand Liquidity for Housing Finance

- Consider providing support to financial institutions in creation of relevant lending product and to JMRC to create a program of refinancing for such type of operations.
- Consider initiating REIT (Real Estate Investment Trusts) to enable small size individual investors efficiently invest in rental projects

Detailed Studies

- Consider conducting a detailed study focused on the characteristics of the stock of vacant houses. With apartment size, location by neighborhood, construction date.

7.2 Long-Term Actions (within the following 5 years)

Institutional Reform

- Consider an incremental approach to support the demand side, including the possibility for HUDC to manage/guide demand-side subsidies (e.g. up-front matching grants, rental vouchers).

To Stimulate Supply for Rental Housing

- Consider levelling the taxation rates of vacant units, owner-occupied and rented units.
- Consider creating supply-side incentives such as insurances or guarantees for owners that release vacant units for renting to low-income families.
- It is essential to formulate a comprehensive rental policy, that i) improves enabling environment (regulation and taxes), includes ii) landlord insurance for damages, iii) encourage

financial sector to develop targeted products for small landlords to develop rental units, and that considers low-income rental voucher-type subsidy both for Jordanians and non-Jordanian when financial situation allows

To Tackle the Housing Deficit

- It is crucial that the government develop/formulates a housing policy with short, medium and long term goals, with programs to reduce the deficit including: i) actions to expand and incentivize formal renting; ii) incentivizing production of smaller units, iii) targeted actions to expand access to housing finance including supporting the development of a sound Islamic financing as a path for ownership; iv) a transparent targeting system to ensure that all residents have access to adequate housing;

Regulatory Reform to Improve Land Markets

- Consider simplifying property valuation, linking it directly to the market value of the property (phasing out conditionality on municipal category, zoning and building type), and unifying the property valuation for owner-occupied, rented and vacant units
- Consider removing the preferential treatment of vacant land in the built-up zone of urban areas and move to a cadastral system of annual revaluation or indexing.
- Consider leveling the taxation rates of vacant units, owner-occupied and rented units. The taxation base is much lower for vacant unit.

Regulatory Reform to Reduce Housing Buyers' Risk

- Explore introducing taxation discouraging developers' up-front financing.

Regulatory Reform to Encourage Banks to Expand Access to Housing Finance

- Explore developing a special legislation regulating default cases of housing loans presented in the form of leasing contracts.

Regulatory Reform to JMRC and Incentives to Expand Liquidity for Housing Finance

- Consider developing a product for leasing and ijara operations on a recourse base. This product can also be used for conventional loans. Such model will enable JMRC to ensure double protection for its debt (by underlying collateral and guarantees of financial institutions) working with all types of financial institutions involved in housing finance in Jordan. Lower risks will reduce cost of borrowing and enable JMRC to issue more long-term debt.
- Consider also a scheme under which JMRC will buy loans without recourse. In this case loans will get out of banks' balance sheets enabling them to reduce capital requirements. Such scheme might be highly demanded by banks and hence be priced higher by JMRC increasing JMRC profits. However, this scheme will require much more rigorous assessment of credit risks than the one that JMRC has now.
- For the loans of Islamic Banks, consider creating a separate JMRC branch that will use the same mechanism issuing debt to investors in the form of sukuk.
- Consider incentives to encourage the formation of other similar utilities as JMRC both for traditional and Islamic loans.

- Consider stimulating the introduction of fixed rates for the period equal to term of the JMRC loan provided to the bank. Such measure will reduce the risk of payment shock for a loan during the time this loan uses funding provided by JMRC.

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Annexes

Annex A. Distribution of Housing Units by Type of Occupancy and Governorate, 2015

Table 6: Distribution of Housing Units by Type of Occupancy and Governorate, 2015

	under construction	closed	vacant	hotel	collective housing unit	occupied by collective household	occupied by a private household or more	Total
Amman	34390	19923	245768	2251	3401	4836	755190	1072559
Balqa	4189	635	20261	12	357	806	94909	121953
Zarqa	9034	1333	47063	12	207	1233	252549	312170
Madaba	1665	246	6835	21	124	196	37127	46273
Irbid	15954	2190	58821	14	567	1786	319752	400103
Mafraq	3657	503	10609	6	148	751	103059	118974
Jerash	2506	55	7034	1	62	248	44228	54413
Ajlun	1622	30	5348	4	13	108	34443	41638
Kerak	1939	595	8827	6	71	308	59653	71595
Tafila	968	57	4321	5	80	72	19057	24637
Maan	1731	438	5547	85	127	225	27013	35328
Aqaba	1868	576	11857	181	280	668	35075	50847
Jordan	79523	26581	432291	2598	5437	11237	1782055	2350490

Source : DOS, Jordan Population and Housing Census 2015, Table 2.1.

Annex B: Permitted and Unpermitted Housing Construction 2004-2015

(M. Ababsa) with M. Ahmad Momani (HUDC) and M. Damra (DOS) (June 2017)

1. Of the 1.1 million new units built in the past decade, one-third were licensed up front, almost one-third were licensed after construction and the remainder were built without any kind of licenses. Although the majority of new units are permitted, the *after-construction permits* are still highly attractive because taxes due are less onerous than for those units permitted up-front. Between 2004-2015, over 388,000 housing units were produced with a proper construction permit (*khursa al bina*), which constitutes close to 37 percent of all the new housing units. During this period, close to 320,000 housing units were licensed after completion (regularization of existing housing units), which constitutes less than 30 percent, including units built prior 2004. Informal housing construction thus accounted for the remainder 33 percent (350,000 out of 1.05m) between 2004 and 2015.

2. The upfront versus after-the-fact permitting importance varies substantially by governorate, however, in most governorates, after-the-fact permitting is the most common. As presented in Figures 5a and 5b, between 2004 and 2015 half of Amman new housing units were permitted prior to construction, while over 14 percent were registered after completion, and 37 percent are still unpermitted (see Annex B). In most governorates, less than 30 percent of the new housing units have a building permit (30 percent in Maan, 26 percent in Kerak, 24 percent in Irbid, 23 percent in Madaba, 21 percent in Tafila, 19 percent in Zarqa, 11 percent in Mafraq, 10 percent in Jerash, 8 percent in Ajlun). In those governorates, Jordanians have managed to produce new housing units without taking building licenses. Relatively to its housing production, Aqaba is the governorate where the legislation is better followed with 61 percent of the new housing units permitted before construction. ASEZA seems to better control the housing production, as the city is rather small, and significant foreign direct investment is going through to the Kingdom's only port. Box 5 presents the process of acquiring a housing permit in Jordan.

3. This Annex investigates the permitted and unpermitted construction of housing. It is based on official statistics published by the Department of Statistics: from the Population and Housing Census 2004 and 2015; and from published and unpublished Construction Statistics tables provided to HUDC by DOS. The research identified three categories of housing: (i) units permitted prior to construction; (ii) units permitted after construction; and (iii) units never permitted. Housing built prior to 1978 does not require a permit and utility companies such as Jepco or Miyahuna do not request occupation permit (*izan al achghal*) for units built prior to 1978.

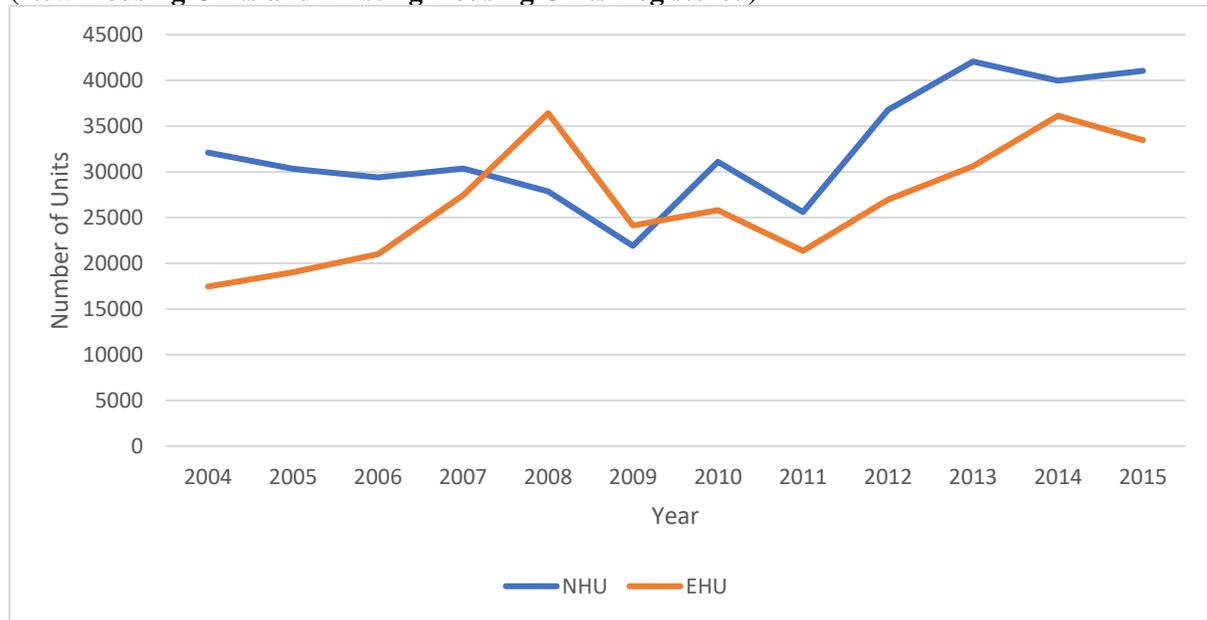
4. Of the 1.1 million units (or extensions to units) built from 2004 to 2015, about one-third (36,7% or 388,000 units) had a building permit prior to construction (*khursa al bina*). In addition, nearly one-third (30.3%) were permitted after construction as this brings some cost savings in terms of fees. One third, 33%, or all housing units produced from 2004 to 2015 were never permitted. It is likely that many of these never permitted units were built outside of zoned areas.

Table 7: Upfront Permits, After-Construction Permits & Total Permitted Units by Year (2004-2015)

	Up front permits issued	After construction permit issued	Total (upfront plus after construction)
2004	32109	17454	49563
2005	30345	19033	49378
2006	29389	20991	50380
2007	30385	27462	57847
2008	27868	36422	64290
2009	21903	24141	46044
2010	31120	25802	56922
2011	25606	21364	46970
2012	36789	26962	63751
2013	42072	30608	72680
2014	39986	36160	76146
2015	41074	33472	74546
TOTAL	388646	319871	708517

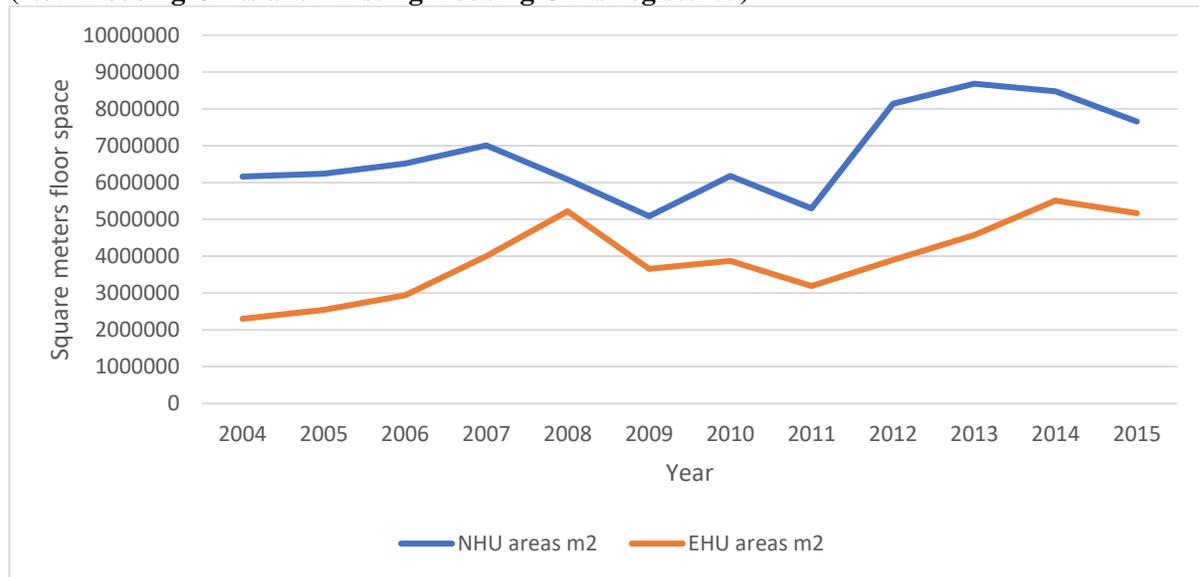
DOS Construction Statistics tables 2.8 and 3.1, and DOS Construction Statistics provided to HUDC

Figure 48: Units Permitted upfront (NHU) & Permitted after Construction (EHU) (2004 - 2015) (New Housing Units and Existing Housing Units Registered)



DOS Construction Statistics tables 2.8 and 3.1, and DOS Construction Statistics sent to HUDC

**Figure 49: Total Formal Housing Areas Produced in Jordan from 2004 to 2015
(New Housing Units and Existing Housing Units registered)**

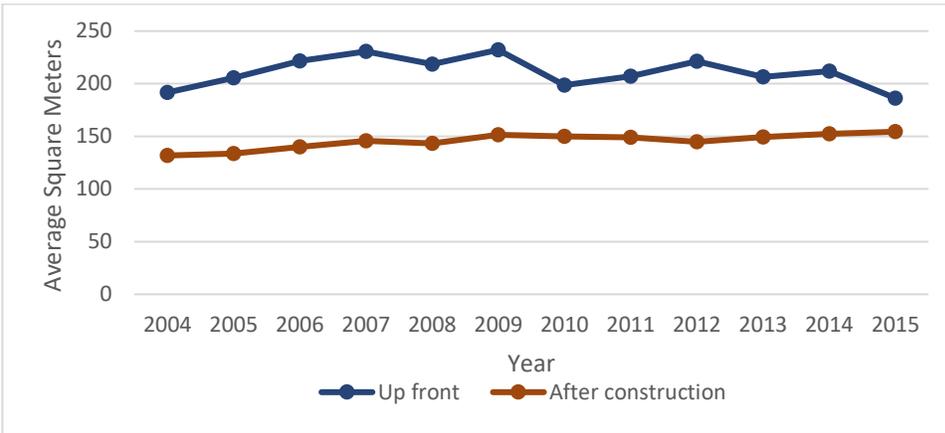


DOS Construction Statistics tables 2.8 and 3.1, and DOS Construction Statistics sent to HUDC

5. As can be seen in Figure 2, from 2004 to 2015 the total floor space for units permitted up front consistently exceeded the total floor space for units permitted after construction. During this period up front permits covered 81.5 million square meters of new housing while after construction permits covered only 46.8 million square meters of floor space. In total during that period 128.3 million square meters of floor space was built in units permitted either up front or after construction.

6. Comparison of the average size of units permitted up front versus those permitted after construction has been completed shows that units permitted up front are consistently larger than those permitted after construction, as Figure 3 below shows. At the same time, the size of units receiving permits up front has been dropping during the past several years from a peak in 2009.

Figure 50: Average Size of Units Permitted Upfront vs After Construction



Source: DOS Construction Statistics, sent to HUDC 13-6-2017

7. Finally, it is important to note the significant differences in up front permitting and after construction permitting by governorate as the table below shows. In Amman and Aqaba, where the population is concentrated in the large cities of Amman and Aqaba, up front permitting rates are very high at 48.5 percent (for Amman) and 60.9 percent (for Aqaba). This reflects stronger capacity in the main cities to control unpermitted construction. But in governorates such as Jerash, Tafila and Ajlun, most of the permitting occurs after construction (80-90 percent).

8. The final column in the table below shows the ratio of unpermitted units to all units built in each governorate from 2004 to 2015. Although most governorates ended up with a substantial share of new units lacking a permit, in three governorates (Balqa, Jerash and Tafila) the share was negative, meaning that the number of permits exceeded the number of new units built by after construction permitting of units built prior to 2004.

Table 8: Upfront and After Construction Permits Compared with Total Units Built by Governorate

	Total New Housing Units	Total New Housing Units Permitted	%	Built without prior license	%	Total Housing Units Registered after construction	%	Unpermitted Housing Units	%
Amman	550534	267134	48,5	283400	51,5	78904	14,3	204496	37,1
Balqa	39396	16299	41,4	23097	58,6	25653	65,1	-2556	-6,5
Zarqa	118164	22775	19,3	95389	80,7	38594	32,7	56795	48,1
Madaba	17739	4078	23	13661	77	7734	43,6	5927	33,4
Irbid	183799	43486	23,7	140313	76,3	83660	45,5	56653	30,8
Mafraq	43007	4540	10,6	38467	89,4	25073	58,3	13394	31,1
Jerash	18590	1925	10,4	16665	89,6	17085	91,9	-420	-2,3
Ajlun	13991	1176	8,4	12815	91,6	11318	80,9	1497	10,7
Kerak	25482	6653	26,1	18829	73,9	15832	62,1	2997	11,8
Tafila	7735	1620	20,9	6115	79,1	6503	84,1	-388	-5
Maan	14265	4227	29,6	10038	70,4	6140	43	3898	27,3
Aqaba	24187	14733	60,9	9454	39,1	3375	14	6079	25,1
Jordan	1056889	388646	36,8	668243	63,2	319871	30,3	348372	33

Source: DOS Construction Statistics, sent to HUDC 13-6-2017

Annex C. Property Tax Roll, 2004-2015

Figure 51: Expansion of the Property Tax Roll (outside GAM), 2004-2015

