



E. Housing: Situation and Prospects

1. Introduction

Housing constitutes an important and complex socio-economic dilemma facing large sectors of the population. The availability and accessibility of suitable housing is a principal goal of sustainable human development that calls for strengthening communitarian ties and improving links to the land and environment.

Since independence, the housing sector has developed at random. Poor urban planning, unbalanced distribution of infrastructure, extensive rural-urban migration, incompatibility between the place of residence and work, and lack of a modern public transport network contributed to the heavy concentration of economic activity and population in the capital and surrounding areas.

This situation has been reflected in the deterioration of the urbanization pattern in general, and in urban and sub-urban housing conditions in particular. Imbalances in the housing sector have been compounded by the fact that relevant official institutions and policies did not emerge until the beginning of the 1970s. The outbreak of the civil war aggravated the situation, rendering the implementation of housing policies practically impossible.

The outcome has been costly for society and the environment: enormous pressure on public utilities and neglect of maintenance; green spaces virtually disappearing in urban and semi-urban areas; spread of random construction and unplanned urban and semi-urban conglomerations; and a sharp rise in population density in the suburbs. The situation was further aggravated by problems relating to waste disposal; increasing water and air pollution; traffic congestion and mounting pressure on the transport system, and lack of parking facilities and open spaces. These factors combined contributed to disturb the ecological balance, and to create a setting leading to the deterioration in living conditions and in the quality of life.

2. Available Housing Indicators

a. Pre-war situation. Prior to the war, the housing situation exhibited a number of imbalances. In 1970, the average number of persons living in one room was 1.73, or approximately one-third higher than in countries at a similar stage of development. For more than 56 percent of the population, the ratio exceeded 2 persons per room. Also, one-sixth of all main housing units-estimated at about 396,000 units in that year - lacked a kitchen and running water; while 12 percent were completely worn out.

In the mid-1970s, Lebanon's housing requirements for the last quarter of the century were estimated at 400,000 units. This would have covered new demand generated by population growth (57 percent), relieving over-crowding (28 percent), replacing worn-out units (12 percent), and replacing improvised units (3 percent).

b. War-related damage. The war caused extensive damage to the housing sector. Estimates - based on a comprehensive field survey - indicate that 11 million square meters (m²) were affected, or the equivalent of 80,000 housing units of an average area of 135 m² per unit, with a total cost of approximately US\$ 2.5 billion. This figure does not take into consideration the price of land, nor the cost of rehabilitating or providing the supporting infrastructure. Earlier estimates by the

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World Bank noted that out of a total of 600,000 units, about 170,000 units were partially or completely damaged during the war, of which 70,000 units were rehabilitated during the war. Of the remaining 100,000 units, 74,000 remained to be rehabilitated, 14,000 partially destroyed and 12,000 completely destroyed were to be reconstructed.

It is noted here that in addition towns and villages of southern Lebanon and the western Bekaa have continued to suffer damage and destruction of housing and other property in the past years. Thus, in the summer of 1993 and in April 1996, 1,000 houses were destroyed each time and thousands of others damaged to various degrees.

c. Current and future needs Housing needs can be divided into two categories: acute and short-term needs, and long-term needs. Available studies indicate that the former category involves 240,000 units, of which 145,000 units are urgently needed; while the long-term needs are estimated at 145,000 units. The aggregate housing need was established at 385,000 units for the 1995-2006 period. This enormous gap illustrates the extent of the imbalance in the housing market.

d. Groups most affected The housing crisis affects mainly the poor and marginalized groups in society, whose numbers have increased after 1975 as a result of the sharp deterioration in per capita income and average wage levels, and the spread of poverty.

- More than two-thirds of new entrants to the housing market - whose aggregate housing needs vary between 10,000 and 15,000 units a year - are in need of accommodation.
- The displaced - who suffered the heaviest losses in the housing sector - are confronted with the same problem. As of mid-1995, renovation and rebuilding had covered only one-fourth of their needs.
- An increasing number of Lebanese, especially in the capital Beirut, live in old and dilapidated houses. Available information (1994) indicates that about 30 percent of buildings in Beirut are more than 50 years old, compared to 12 percent at the national level in 1970.
- The problem of housing affects those living in overcrowded accommodation, whose numbers have risen sharply relative to the total population. On average, the number of people per room in 1995 exceeded 2 persons in Beirut, compared to the national average of 1.73 persons in 1970.
- Housing conditions exert pressure on specific groups, such as families who had lost their provider, or whose provider sustained a physical or psychological handicap as a result of the war; as well as the unemployed.
- The housing problem appears at its worst among unskilled foreign workers. These lack the minimum housing ingredients, which leads to further deterioration of the environment and surroundings.

e. Housing prices. A distinctive feature of the housing - real estate situation is the high price of land. According to estimates made by the Beirut Order of Engineers, the share of land in the total cost of construction ranged between 45 and 50 percent over the past two decades. This reflects the importance of the yield on real estate in determining housing costs.

The small size of the country, preference by the Lebanese for land as an instrument of saving and investment, and low taxes on property ownership and transactions have contributed to bring about a sharp rise in the demand for land and in the number of real estate transactions which rose by 215 percent between 1972 and 1992. The rise has also been linked to the manner in which land prices reacted to

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successive waves of inflation. The housing "commodity" was one of the rare commodities where the rise in prices was not only sufficient to compensate for the effects of the inflationary phase that extended between 1984 and 1992, and for the collapse in the value of the national currency, but also produced a substantial net increase in real terms of over 40 percent, according to available data.

f. Supply - demand imbalance. Since the early 1990s, there has been a surge in reconstruction activity, which may be gauged from the areas for which building permits were delivered (even though this does not necessarily mean that construction was initiated): from an annual average of just under five million m² in the 1980s to 14.3 million m² in the first half of the 1990s. The increased supply did not adequately respond to pent-up demand. Indeed, a basic feature of the housing situation is the large imbalance between supply and demand. This can be observed at four levels:

First: A large imbalance in the rental market. This has been reflected in the virtual absence of offers - due to inflation and the collapse of the national currency - at least until the enactment of the law which liberalized new rents as of 1992. This measure, however, did not resolve the problem for those seeking rent, in view of the high level of rents demanded compared to income levels in general, but especially to those of wage earners. It is noted that at the national level, less than half of households are owners of their dwellings and that in Beirut city the percentage of owners is only 28.7 percent, compared to 56.7 percent of tenants, and the balance other arrangements and situations.

Second: A large disparity in terms of location between offer and demand. This is primarily due to rapid and random urbanization, and the heavy concentration of infrastructure and economic activity in certain areas. The situation was aggravated by the successive waves of forced displacement during the war, which deepened the imbalance between rural and urban areas. At the start of the 1990s, 84 percent of the population were living in urban areas compared to about 60 percent in 1970.

Third: A significant disparity between the structure of demand for housing and the structure of supply, in terms of space and specifications. The high share of land in total construction cost has led investors to focus on relatively large and luxury housing in order to maximize profits. This has been at the expense of small and medium-sized housing units of moderate cost and price. The average area of a housing unit rose - contrary to actual needs - from about 150 m² in the second half of the 1970s to almost twice that size in the early 1990s.

Fourth: Under the impact of these structural disparities, and despite the widening gap between supply and potential demand, the phenomenon of vacant apartments became more pronounced. A number of converging estimates put the number of vacant apartments at mid-1995 between 60,000 and 65,000 units in the Greater Beirut area alone; and the volume of investments tied therein at US\$4 billion to US\$ 4.5 billion. Other estimates put the vacancy rate at 11.9 percent, or approximately 13,868 vacant apartments out of a total of 116,438 in only Beirut administrative district. The fact that most of the construction was auto-financed, and not through the banking system, helped to avert a real crisis.

3. Housing Policies

a. State intervention in the housing domain (1975-1992) The state did not play a direct role in providing housing, confining its intervention to legislation and provision of credit. This has meant leaving market mechanisms to dictate

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production, allowing in the process sharp and exaggerated increases in prices and real estate yields to emerge, excessive investment in real estate, manipulation of building specifications and other phenomena that confirmed the lack of a balanced and regulatory role for the state.

A number of other factors and indicators point in the same direction, including the inability of the government to deal with the shrinking market for rent and the disruption of owner - tenant relations; in addition to the relatively limited role that public and semi-public institutions played in providing financing to meet the housing needs by the groups most affected by the crisis. Over a period of two decades, these institutions combined (the General Directorate for Housing, the Autonomous Housing Fund, the Housing Bank and the National Union for Cooperative Credit) provided fewer than 30,000 loans, i.e. less than 7.5 percent of estimated total housing requirements during the last quarter of the century.

b. New directions in housing policy New directions in housing policy have centered on two aspects: legislation and financing. In the field of legislation, a new rent law was enacted at the beginning of 1992. The law liberalized new rents and adjusted upward rental contracts concluded prior to that date. The latter were also linked to wage correction, stipulating that rents would increase by half the percentage increase on the first tranche of wages. A new rent law was proposed in 1995 but met with several objections that led the government to postpone its decision until the end of 1996, when once again the existing law was extended for another year - until the end of 1997.

In the area of finance, the government moved after 1992 to reactivate public and mixed housing - credit institutions. The capital of the Housing Bank was raised from LL 50 million to LL 50 billion, while the government share was reduced to 20 percent. New rules were also laid down for setting interest rates, and the maximum duration and size of loans were set, respectively, at 20 years and US\$ 50,000. The ceilings on credit provided by the Ministry of Housing and the Autonomous Fund for Housing were also raised. Moreover, in 1994-1995, the government allocated about \$465 million to support the efforts to return the displaced to their original place of abode; and in April 1996, it decided to issue US\$500 million worth of Eurobonds to strengthen housing credit facilities.

c. Evaluation of the new trends in housing policies The liberalization of new rent contracts restored some realism and credibility to the rental market in the country. It is evident, however, that the number of potential beneficiaries has remained limited in view of the wide gap between current rents and income levels in general, but especially for the low and middle-income groups. As for old rent contracts, any haste to liberalize them, before all ingredients of a proper housing policy are put in place, could lead to friction. Hence, the problem is likely to persist for some time.

An assessment of the new trends at the level of housing credit and financing indicates the following:

- The sums designated by the public and mixed sectors for financing housing in the two years 1994 and 1995 are estimated at US\$ 700 million. One-third of this amount was intended for loans by the Ministry of Housing, the Autonomous Fund and the Housing Bank. The balance of two-thirds was for grants to be made by the Ministry for the Displaced and Fund for the Displaced. On the assumption that the entire sum was allocated to deal with the damage caused by the war - estimated at US\$ 2.5 billion - it would have been sufficient to cover about one-third of the requirements. It is noted that the actual allocations for housing in both these years have been considerably

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less than planned.

Table III-16: Planned allocations for housing by the public and mixed sectors
(US\$ million)

| Institution | 1994 | | 1995 | | Total | |
|--------------------------------------|-----------|--------------|------------|--------------|------------|------------|
| | Loans | Grants | Loans | Grants | Loans | Grants |
| Ministry of Housing and Cooperatives | 30 | - | 60 | - | 90 | - |
| Ministry and Fund for the Displaced | - | 232.5 | - | 232.5 | - | 465 |
| Autonomous Fund for Housing | 15 | - | 30 | - | 45 | - |
| Housing Bank | - | - | 100 | - | 100 | - |
| Total | 45 | 232.5 | 190 | 232.5 | 235 | 465 |

Source: Council for Development and Reconstruction, European Commission, Evaluation des dommages, Habitat (Beirut), August 1995.

- In principle, the funds available for housing are not confined to dealing with the damage caused by the war, but also cater to other housing needs. Consequently, the above-mentioned level of financing, even if it were to be renewed annually, would be small compared to the needs. The shortage would be most acutely felt by the poor whose monthly income is less than \$ 500. Given the interest rates charged by credit institutions, the ceilings set on housing loans and the upper limit that the ratio of repayment to income should not exceed, it becomes clear that the poor will find themselves unable to meet their housing needs under the existing system. This highlights the urgency to find other means of financing geared to the specific needs of these groups.
- The ability to respond to the needs of population groups with a monthly income of between US\$ 500 and US\$ 1,000, which are among the groups targeted by the Housing Bank, will depend on the extent to which the operations of this bank are activated and resources made available to it, on the one hand, and on its application of objective criteria in determining access to credit, on the other.
- The more serious discrepancy, however, remains the gap between the credit ceilings applied by the various credit institutions, on the one hand, and the prices of apartments, on the other. People with limited means seeking loans are obliged to cover a considerable part of the cost of housing from their own resources, which is beyond their means. As a result, they will find themselves being pushed gradually to move away from urban centers to peripheral semi-urban locations and to the countryside. Thus, the housing credit system would have contributed to segregate the population and to the exit of the middle and lower classes from the capital and other cities. Such a prospect poses complex issues for the process of social integration which is an essential ingredient in sustainable human development. In addition, a number of features in the operation of credit institutions generally discriminate against certain categories such as the un-married, female heads of households, tenants and especially those that can not provide adequate collateral.
- On a broader and more comprehensive level which relates to the totality of short and long-term housing needs, the credit system in place will not be able

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to resolve more than a fraction of the housing problem. Applying the same procedure as the Council for Development and Reconstruction (Housing study, 1995), the cost of financing these needs can be estimated at US\$ 13 billion, excluding both the price of land and repairing the damage caused by the war. This exceeds by far the volume of financing that could be expected to become available to concerned public and semi-public institutions.

4. Towards a solution to the housing problem

The housing problem can not be dealt with from a housing perspective only, but should rather be considered within the broader framework of economic and social development, especially with regard to the allocation of capital investments and achievement of balanced economic growth.

High economic growth rates should provide a climate conducive for expanding demand and for attracting resources for investment in the housing sector. This, in turn, will contribute to raise the level of domestic output by expanding employment opportunities, value added and incomes in the housing sector. However, this positive interaction will not necessarily be achieved through the operations of free-market mechanisms.

Finding solutions to the housing problem will require reinforcing existing policies and finding new initiatives to make optimal use of material, human and social resources available to the housing sector. It also requires harmony between economic incentives for developing the housing sector and the social character of housing as a "commodity".

Overall housing policies should focus on developing and activating housing legislation and financing to achieve a better utilization of urban space and planning; rectify urban-rural imbalances; promote the rent market; and provide and rationalize public transport services. Efforts should also focus on using tax policy to reconcile the supply of housing with demand; establishing a real estate reserve belonging to the state, municipalities and other public entities to be used in mixed housing projects; and amending the currency and credit laws with a view to making additional long-term financing available for housing projects.

As to the groups most affected by the housing problem, the first step would be to identify these groups, to be followed by the elaboration of programmes to provide them with direct and tangible support. Such programmes could include, in addition to loans, grants, a reduction of interest rates on loans, and the construction of housing units at affordable rents.

The contribution of the private sector to these efforts could usefully focus on developing and adapting the construction industry and housing specifications; urging banks and funding institutions to expand the scope of their operations to finance housing, from both the supply and demand end; and encouraging real estate companies and developers to orient the supply of housing towards the actual needs of the population.

The civil society could also be called upon to assume a bigger role in overseeing and evaluating the course of development in the housing sector, and in ensuring the preservation of basic environmental balance and the quality of life. It should also get involved in the utilization of the large real estate reserve - belonging to the state, municipalities and religious endowments - to cater for the needs of the poor segments in society.

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**DON'T STOP HERE .. THERE IS MORE TO READ IN CHAPTER THREE
GO TO SECTION F:
EDUCATION AND SUSTAINABLE HUMAN DEVELOPMENT**