

April 2009

Palestinian Housing: Survey Results and Affordability Analysis

Rationale

- The Palestinian Affordable Housing Programme is expected to provide much needed housing and create employment and investment in the local construction sector and related industries.
- It is an excellent example of how donor funding can attract private investment. Anticipated \$1bn investment programme over 5 years: \$150 million from donors to fund infrastructure and public facilities **leveraging** \$850 million from the private sector.
- In May 2007 TPT and PMHC commissioned Near East Consulting to conduct a socio-economic demand survey on housing and housing finance: 20% of people surveyed were hoping to move out and buy a new house.
- Given local and global changes in housing markets and housing finance TPT commissioned NEC to update the survey and analyse incomes and affordability in October 2008.

Housing Definitions

The aim is to provide:

- **Affordable housing** = For those whose needs are not met by the market. Can include both subsidised housing and market housing that meets the definition of affordability (our aim in the presentation is to address affordable market housing and not subsidized housing).
- **Affordability** = Housing that is available to buy at about 3.5 to 4 times of annual earnings. Or where monthly housing costs do not exceed 30 to 35% of monthly household income. Targeting low to middle income groups.

This is different to:

- **Public or social housing** = Generally owned by the state or not-for-profit organisations and provided at a reduced rent to low income and vulnerable groups.

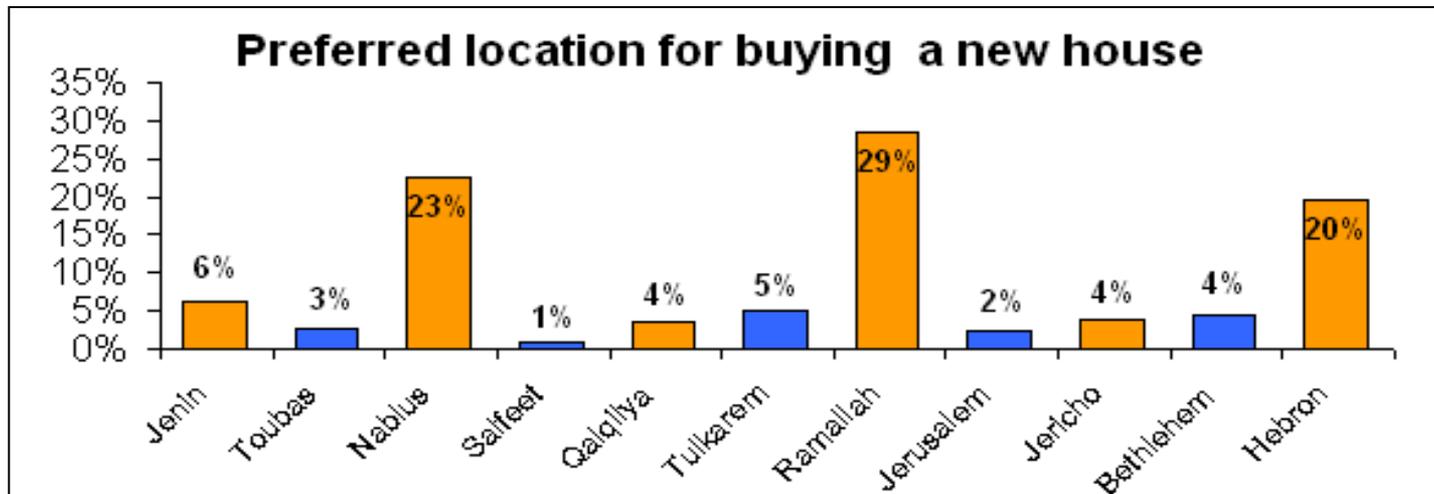
Methodology

1. Considered different definitions of housing
2. Examined the Palestinian context
3. Conducted the survey
 - 1199 respondents interviewed by phone in 2nd part October 2008
 - Sample from across the West Bank: 47% from North; 29% from Middle; 24% from South
 - From different income groups: 39% below poverty line; 61% above poverty line (household income = NIS2,200).
4. Analysed incomes, finance and affordability

Demand and Preferences

Results from NEC survey:

- 23% of respondents above the poverty line are looking for a new house. Highest demand is from those in the Middle West Bank (25%).
- Cities of Ramallah, Hebron and Nablus are preferred locations for new housing.

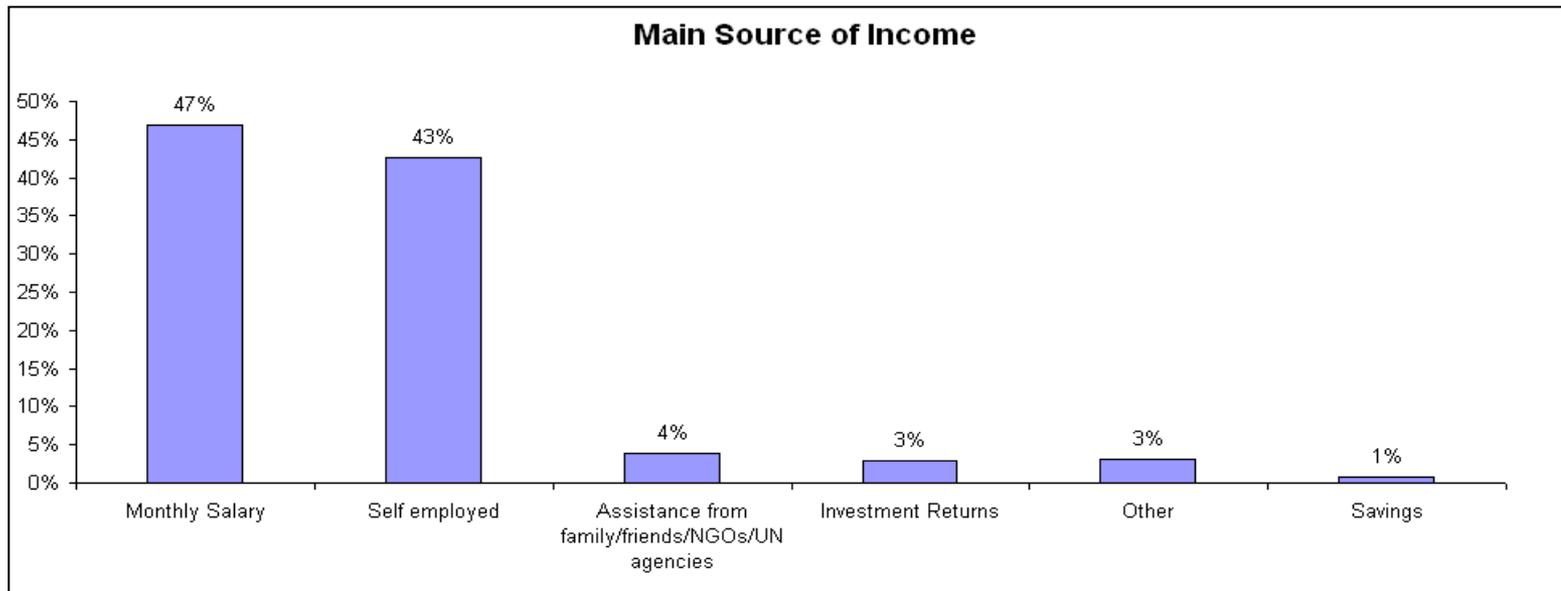


- Majority, almost 64%, prefer a dwelling of size between 120-165m² and 23% of size over 165m².

Sources of Income

Results from NEC survey:

- The majority (90%) of respondents main source of income is either from salaried employment or self-employment.

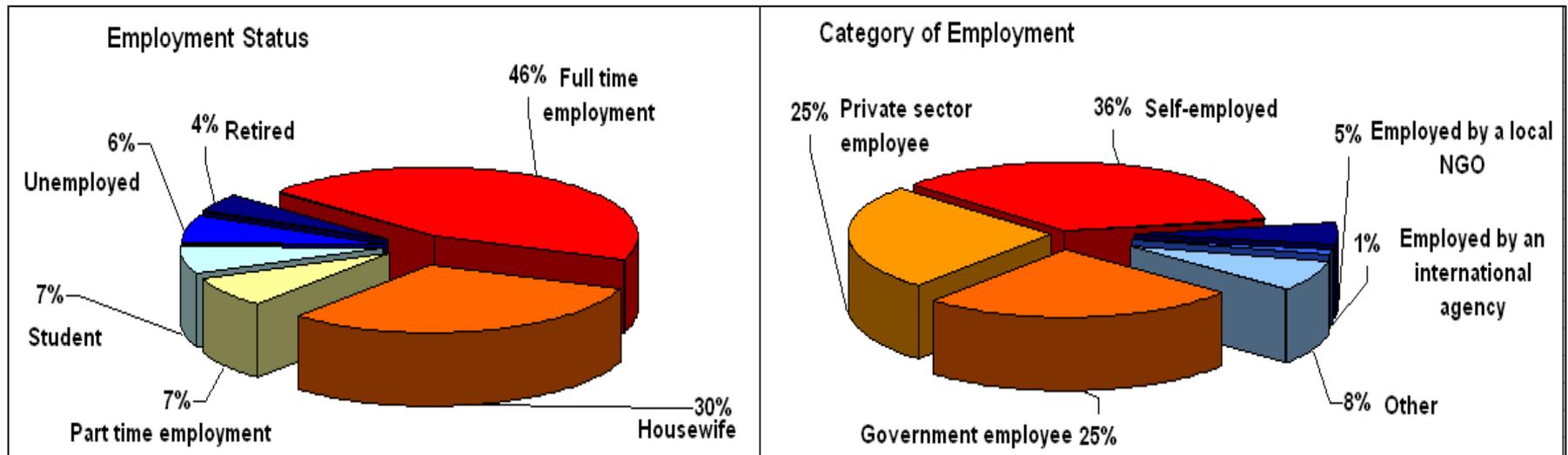


- Average number of individuals supported by household income is 6.
- Less than 40% of salaries are transferred to a bank account.

Types of Employment

Results from NEC survey:

- 46% in full time employment
- Of those 50% are public or private sector employees.



Indicative Monthly Salaries

Government Employees (25% of respondents):

- Section workers = 2,000 NIS
- Section head = 2,500 NIS
- Department head = 3,000 NIS

Private Sector (25% of respondents):

- Graduate trainee = 1,600 NIS
- Coordinator = 4,000 NIS
- Manager = 8,000 NIS

Other Key Public Sector Workers:

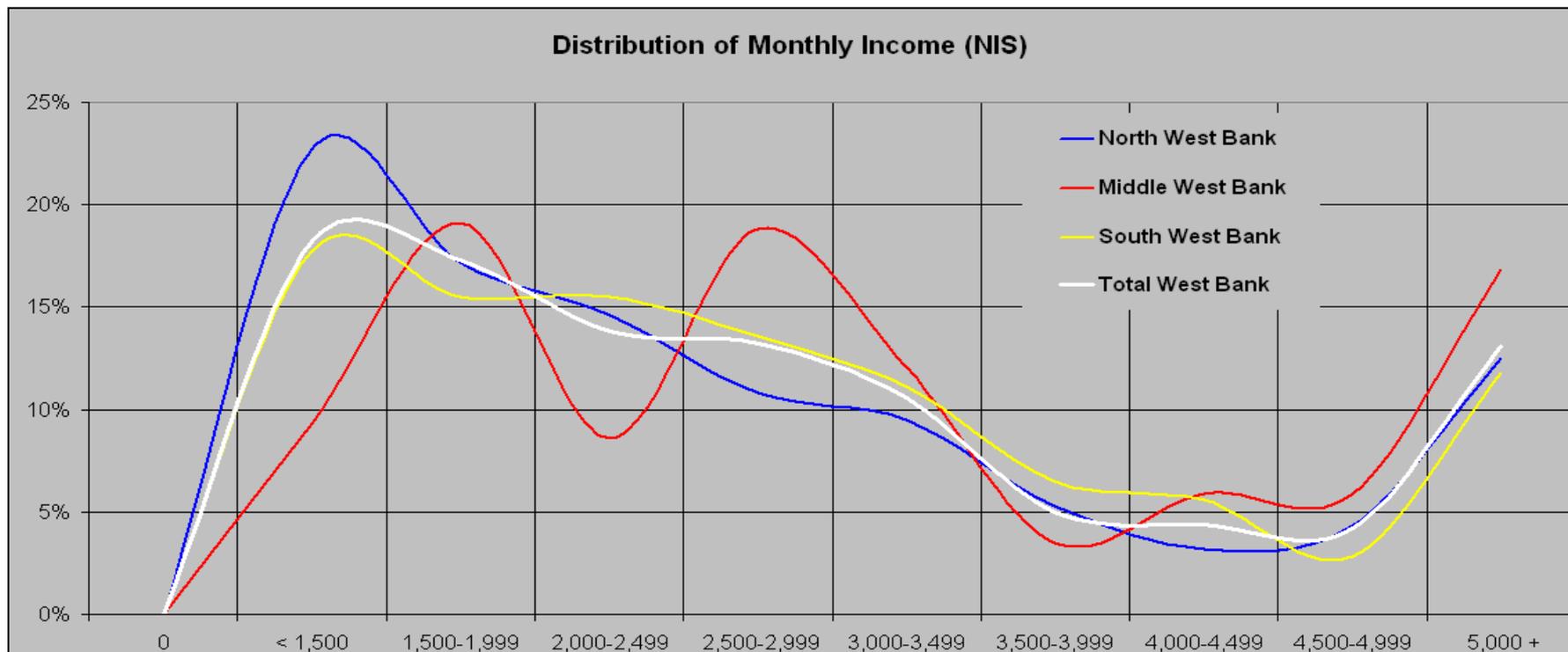
- Nurse = 2,500 to 4,000 NIS
- Teacher = 2,500 to 4,000 NIS
- Doctor = 3,500 to 7,000 NIS

Household Income Data

Income Distribution of NEC Survey Respondents					
Monthly Household Income NIS	North West Bank	Middle West Bank	South West Bank	Total West Bank Valid Percent	Total West Bank cumulative
< 1,500	23%	9%	18%	18%	18%
1,500-1,999	17%	19%	16%	17%	36%
2,000-2,499	15%	9%	16%	14%	49%
2,500-2,999	11%	19%	14%	13%	63%
3,000-3,499	10%	12%	11%	11%	73%
3,500-3,999	5%	4%	7%	5%	78%
4,000-4,499	3%	6%	6%	4%	83%
4,500-4,999	4%	6%	3%	4%	87%
5,000 +	13%	17%	12%	13%	100%
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	

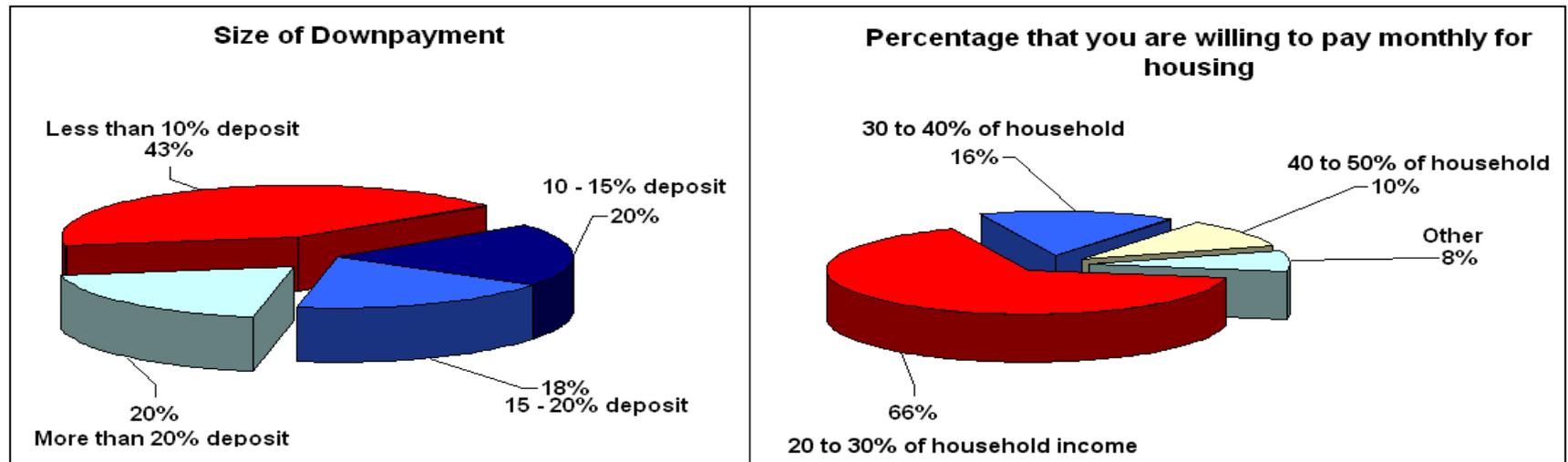
Household Income Analysis

- NEC confirmed with PCBS that the income distribution results are consistent with emerging findings of Census 2008
- 35% below 2,000 NIS pcm, 27% with 2,000 – 3,000 NIS pcm; 24% with 3,000 – 5,000 NIS pcm; and 13% above 5,000 pcm.



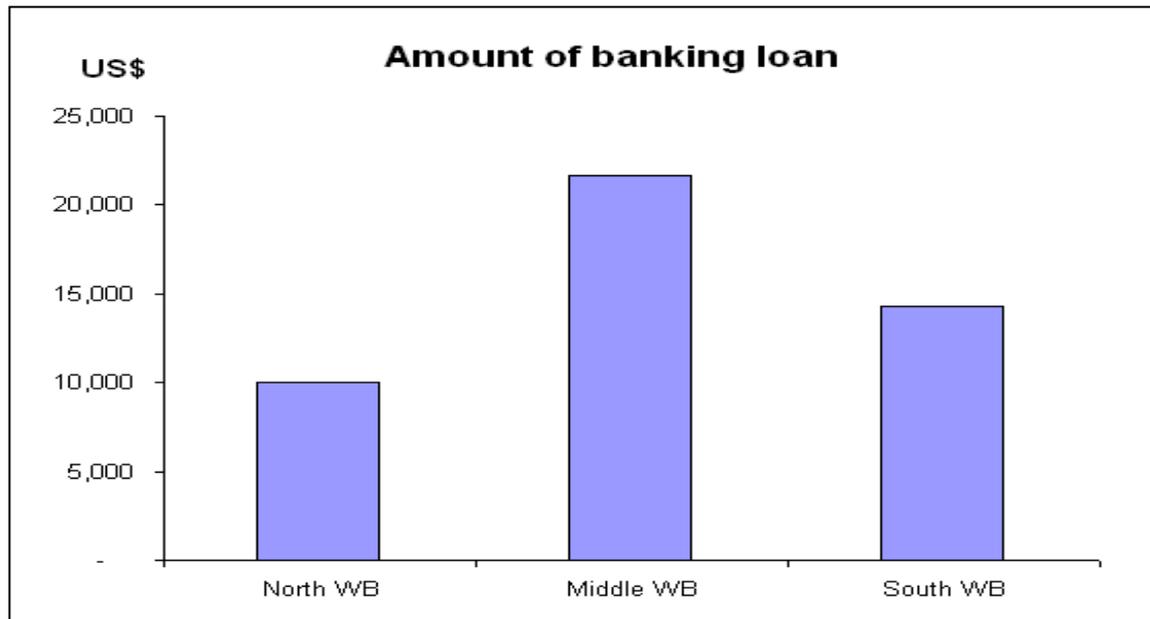
Attitudes to Housing Costs and Debt

- Expected price of affordable housing in West Bank is around \$60,000.
- Over 80% of people willing to take loans prefer a fixed interest rate if considering longer term lending (15 years +)
- Only 20% of people are willing to pay more than 20% of total housing costs as a downpayment. 43% prefer a downpayment of 10% or less.
- The majority of respondents are not willing to spend more than 30% of monthly household income on paying for a new house.



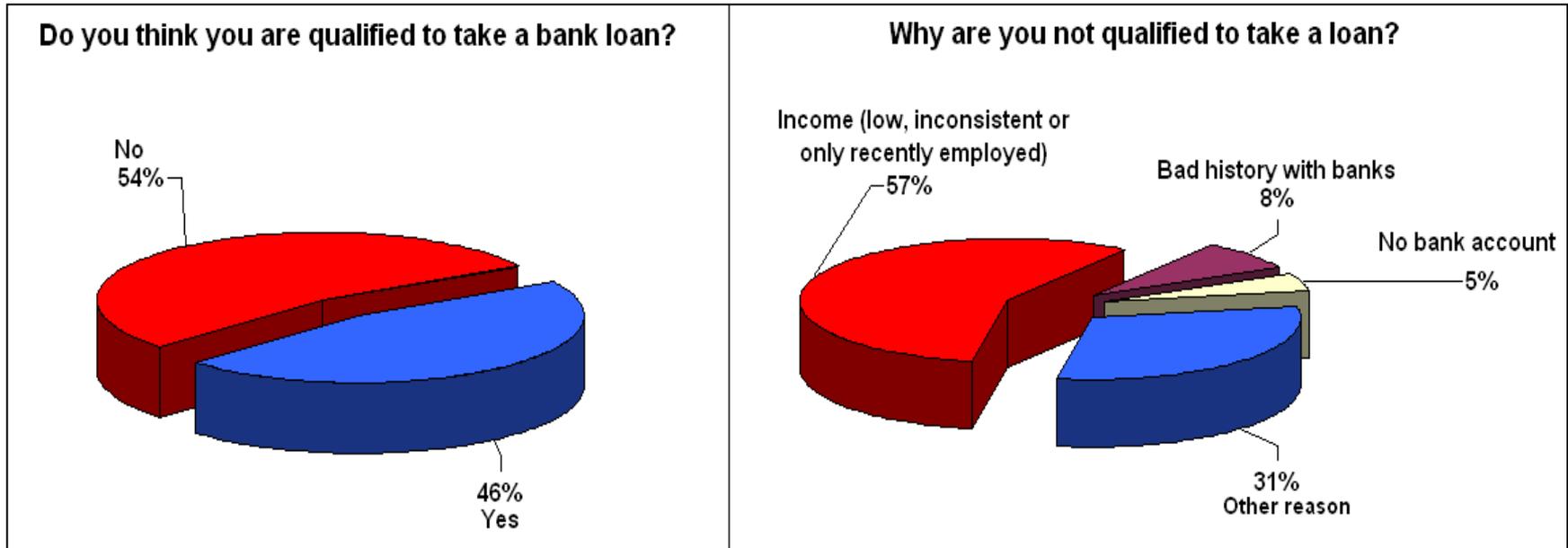
Exposure to Finance

- In Q3 2008 \$545m credit from banks to consumers (source PMA).
- 75% of respondents above the poverty line have never had a bank loan.
- For those that have had loans the average loan period is 4 years.
- Average loan size is approximately \$15k but regional differences.



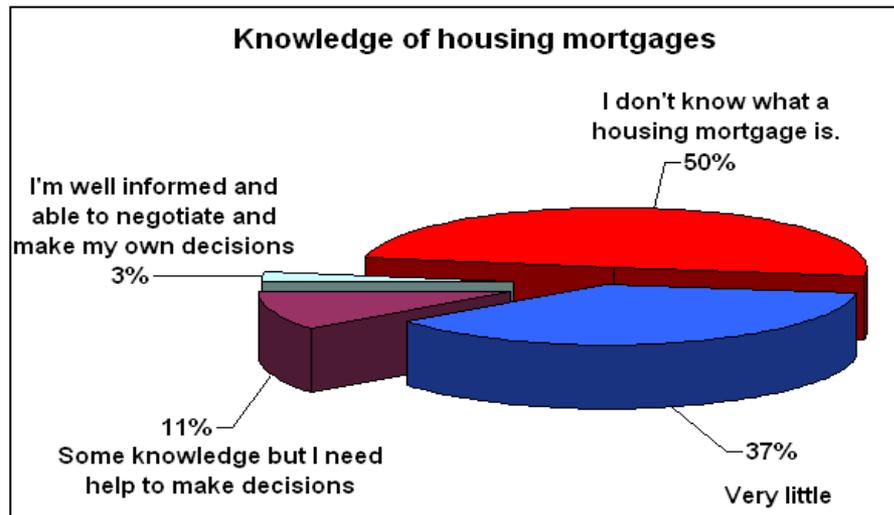
Access to Bank Loans

- Majority do not think they would qualify for a bank loan, predominantly because their income is too low or unstable.



Knowledge of Mortgage Finance

- Majority know very little or nothing about mortgage finance.



Supply of Finance: Banks

- Current bank assets at \$6 billion (net).
- Banks have in excess of \$400m for mortgages (PMA statistics June 2008).
- Current loan to deposit ratio of 20%. PMA set minimum threshold of 30% lending of deposits.
- However most banks only provide short term mortgages to top clients for 4-5 years.

Supply of Finance: Mortgages

PMHC

- Provide secondary mortgages and mortgage insurance to end users through the banks.
- Offer banks long term mortgages at 5.5% fixed rate (adjustable every 5 years).
- Currently have \$19m float out of \$25m capital
- Mortgage insurance facility is separate with \$5m.

AMAL

- New mortgage lending facility with investment of up to 500 Million, DFID (£10m first loss guarantee).
- Fixed for up to 25 years at a rate expected to be < 8%.
- Expected to be online at end 2009.

Variables in Housing Finance

- To generate significant demand and benefits from housing boom then **target is to provide housing at affordable rate for middle income Palestinians, i.e. household income + 3,000 NIS**
- Size of downpayment, interest rate on lending and debt-to-income ratio (DTI) all affect the cost to households and affordability.
- Portland Trust have analysed housing costs based on different scenarios:
 - Downpayment of 10% and 20%
 - Fixed interest rates of 6.5%, 7.5% and 8.0% on 25 year mortgage
 - DTI of 30% and 35%.
- NEC survey results indicate that a downpayment < 20% and DTI = 30% are the levels tolerated by the population.

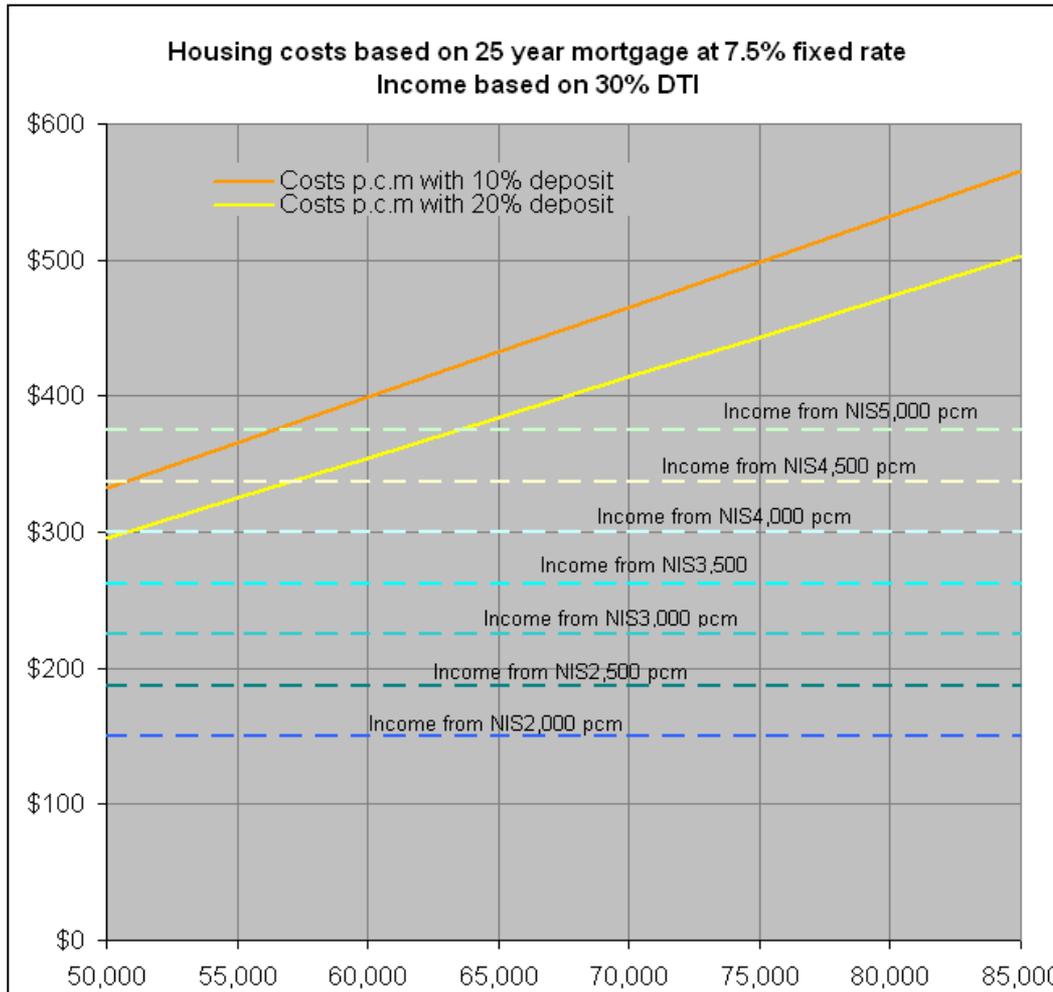
Monthly Housing Costs

Cost of Dwelling	Costs if Downpayment = 10%					Costs if Downpayment = 20%				
	10% Down Payment	90% Required Financing	Monthly Mortgage Payment for 25 yrs			20% Down Payment	80% Required Financing	Monthly Mortgage Payment for 25 yrs		
			@ 6.5%	@ 7.5%	@ 8.0%			@ 6.5%	@ 7.5%	@ 8.0%
\$50,000	\$5,000	\$45,000	\$304	\$333	\$347	\$10,000	\$40,000	\$270	\$296	\$309
\$55,000	\$5,500	\$49,500	\$334	\$366	\$382	\$11,000	\$44,000	\$297	\$325	\$340
\$60,000	\$6,000	\$54,000	\$365	\$399	\$417	\$12,000	\$48,000	\$324	\$355	\$370
\$65,000	\$6,500	\$58,500	\$395	\$432	\$452	\$13,000	\$52,000	\$351	\$384	\$401
\$70,000	\$7,000	\$63,000	\$425	\$466	\$486	\$14,000	\$56,000	\$378	\$414	\$432
\$75,000	\$7,500	\$67,500	\$456	\$499	\$521	\$15,000	\$60,000	\$405	\$443	\$463
\$80,000	\$8,000	\$72,000	\$486	\$532	\$556	\$16,000	\$64,000	\$432	\$473	\$494
\$85,000	\$8,500	\$76,500	\$517	\$565	\$590	\$17,000	\$68,000	\$459	\$503	\$525

Affordability at 8% interest

- If expected average price of new housing is \$60,000 (after infrastructure subsidy) then **affordability is an issue** for 25 year mortgages at 8%:
 - With DTI of 30% and downpayment of 10% (preferred levels according to NEC survey results) only those earning +NIS6,000 can afford \$60k.
 - If the downpayment is increased to 20% then just the top 13% of earners (+NIS5,000) can afford \$60k.
 - Alternatively pushing DTI to 35% means earners above NIS4,750 can afford \$60k if interest rate is 8% and downpayment is 10%.
 - With DTI of 35% and downpayment of 20% then earners above NIS4,250 can afford \$60k. This is still only approx 19% of total population and the highest earners.

Affordability at 7.5% interest



Still largely unaffordable.

Scenario: 30% DTI ratio, 7.5% interest.

With 10% downpayment.

Households with income:

= NIS 4,500 pcm can afford \$50k

= NIS 5,000 pcm can afford \$57k

With 20% downpayment,

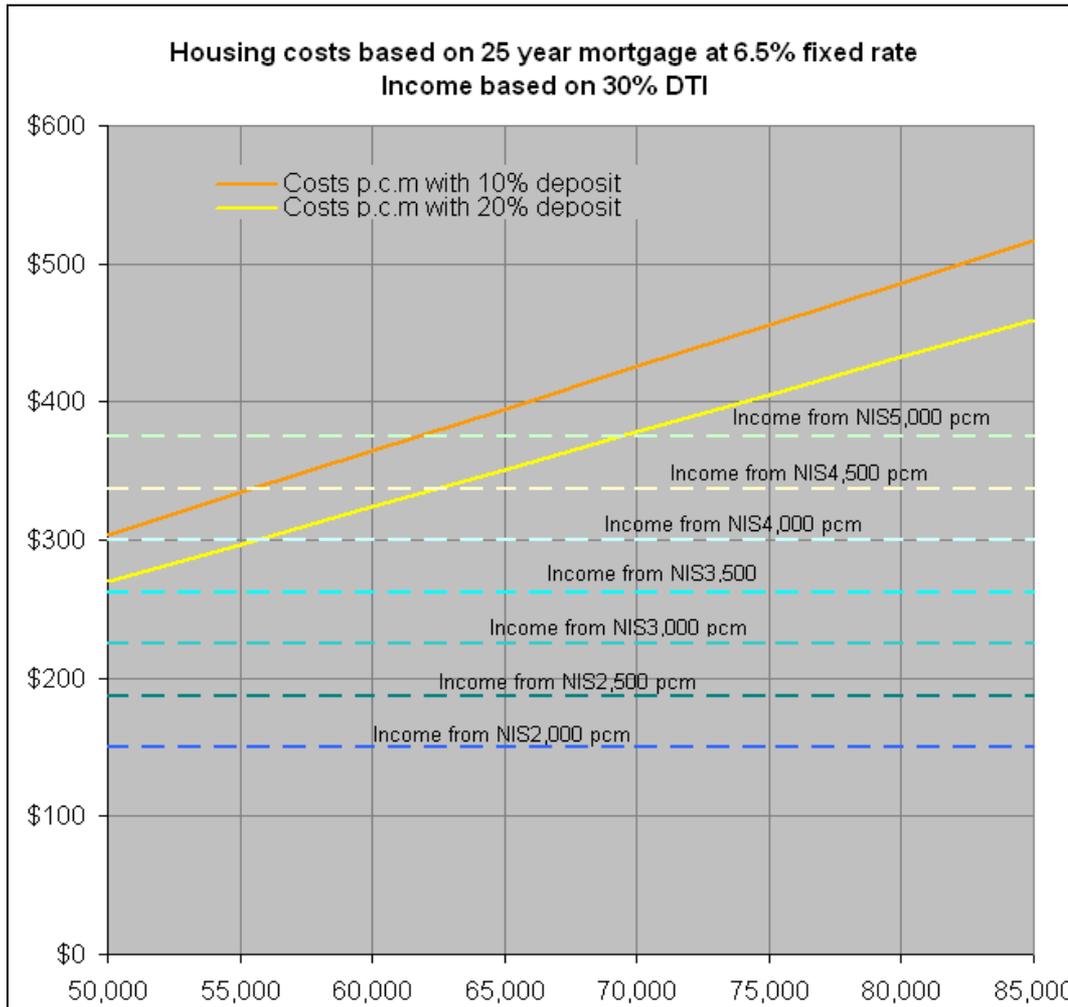
Households with income:

= NIS 4,000 pcm can afford \$50k

= NIS 4,750 pcm can afford \$60k.

= NIS 5,000 pcm can afford \$65k

Affordability at 6.5% interest



More affordable.

Scenario: 30% DTI ratio, 6.5% interest

With 10% downpayment.

Households with income:

= NIS 4,000 pcm can afford \$50k

= NIS 4,500 pcm can afford \$55k

= NIS 4,800 pcm can afford \$60k

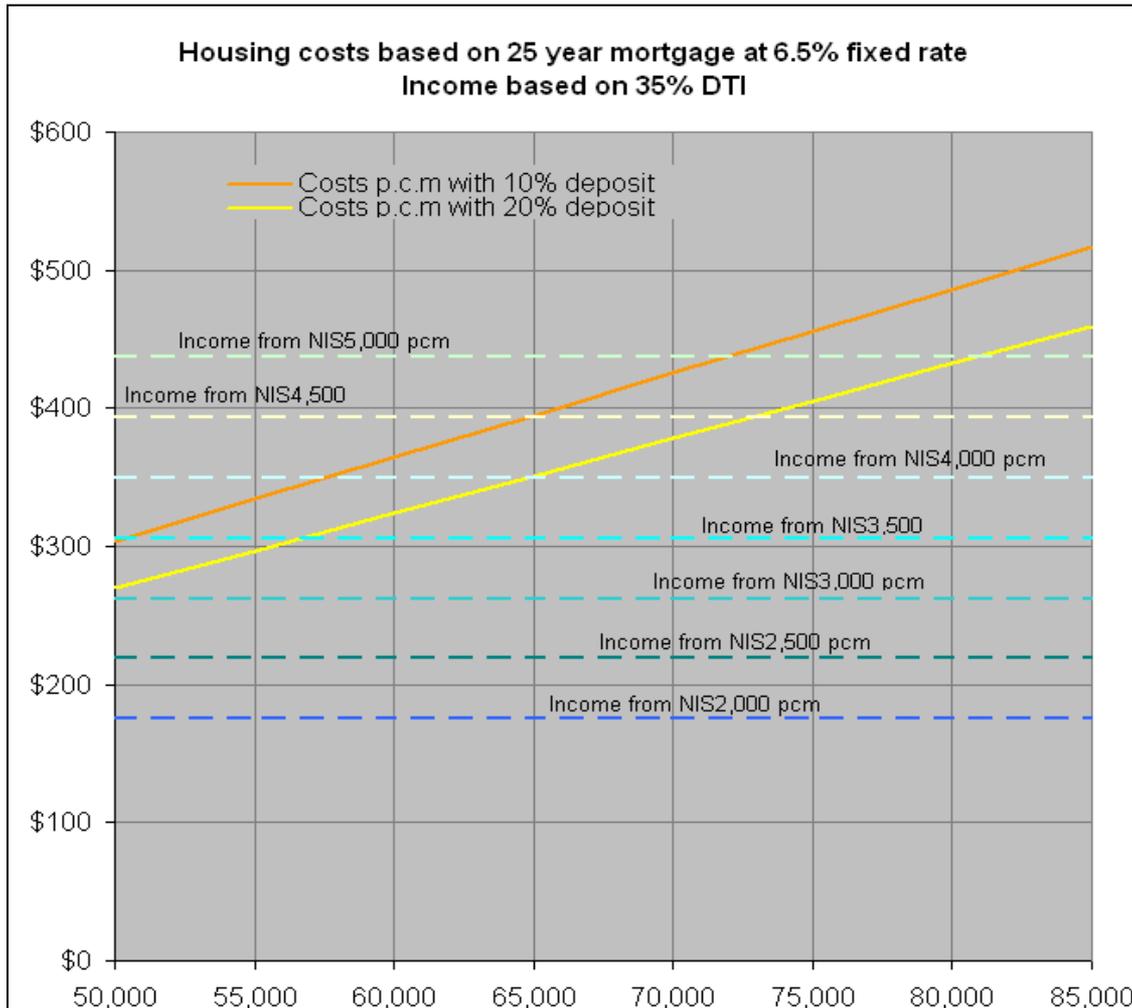
With 20% downpayment,

Households with income:

= NIS 3,500 pcm can afford \$50k

= NIS 4,300 pcm can afford \$60k.

Affordability with DTI of 35%



Monthly costs reduced by NIS 600.

Scenario: 35% debt to income ratio and 6.5% mortgage rate.

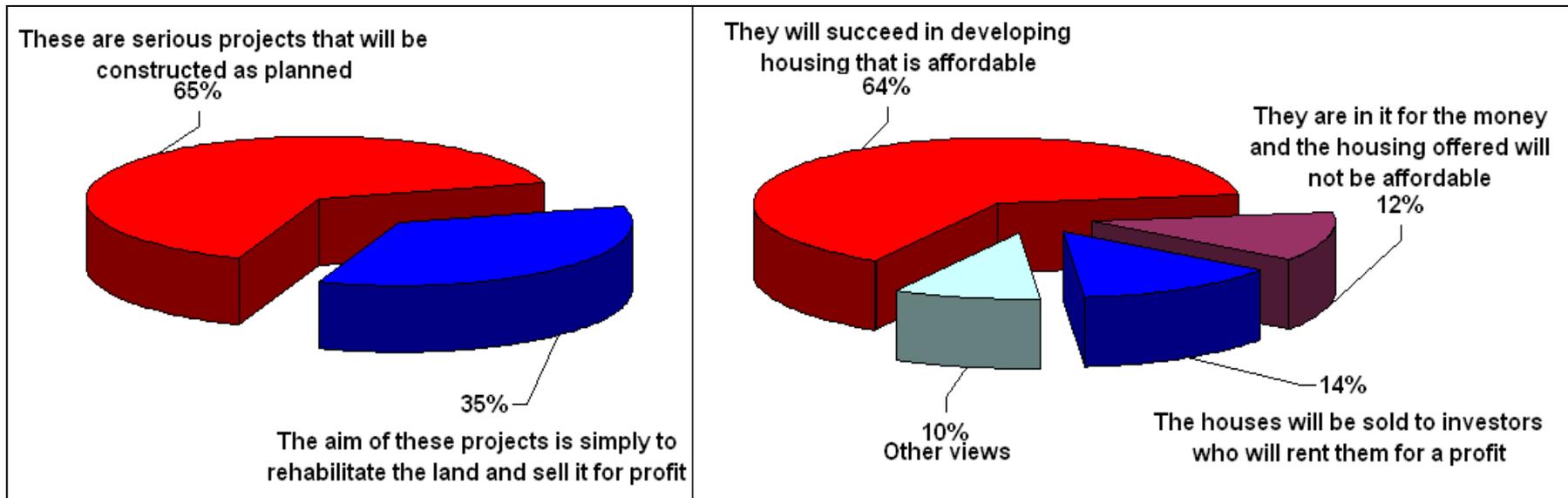
With 10% downpayment
Households with income:
= NIS 4,200 can afford \$60k
= NIS 4,500 can afford \$65k
= NIS 5,000 can afford \$72k

With 20% downpayment
Households with income:
= NIS 3,700 can afford \$60k
= NIS 4,000 can afford \$65k
= NIS 4,500 can afford \$73k
= NIS 5,000 can afford \$81k

Good News

Results from NEC survey:

- 29% of all respondents had heard about the new housing projects by Bayti, PIF, Byder etc.
- Very positive impression of the projects. 64% believe the projects are genuine and will succeed in developing more affordable housing.



Conclusion

- Perception of new housing projects is good. However must be affordable or else this will affect demand.
- Even after infrastructure subsidy there is still a gap between projected \$60,000 and affordability. This is largely due to the cost of finance.
- How to bridge the gap:
 - Number of options for reducing cost of finance:
 - Reduce interest rates further;
 - Subsidise downpayments or offer shared equity;
 - Offer government-backed preferential rates for part of mortgage;
 - Design specific schemes for first time buyers or public servants.
 - Options to reduce cost of house:
 - Exempt first time buyers from VAT (reduces cost of house by 14.5%)
 - Identify technical building codes which would reduce cost of construction
- Also need to increase awareness of mortgage finance. This could be done as part of sales and marketing for new housing projects with coordination between developers, mortgage providers and the Banking Association.

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