

# Supporting affordable housing in the West Bank



## Workshop schedule

Timing	Agenda Item	Presenter
10:00-10:30	Welcome & Introduction	Mayor of Hebron, Dr. Daoud Zatari
10:30-10:45	Effective demand survey	OQR (Mr. Nick Gardner)
10:45-11:00	Strategic investment and development plans & urban planning in Hebron	Global Communities (Mr. Iyad Innab)
11:00-11:10	Regulatory Reform	OQR (Mr. Rami Dajani)
11:10-11:40	Q&A Panel discussion	Nick Gardner, Iyad Innab, Rami Dajani
<b>11:40-12:00</b>	<b>Coffee Break</b>	
12:00-12:10	Household incomes and affordability in Hebron	Arab Bank (Mr. Khalid Al-Rujoob)
12:10-12:25	How can affordable housing in Hebron be facilitated	OQR (Mr. Johan Berggren)
12:25-12:40	Hebron municipality: comments, strategic vision, and next steps	Hebron Municipality (Engineer Amjad Ebedo)
12:40-12:50	Next steps and coming interventions	World Bank (Mr. Bjorn Phillip)
12:50-13:10	Q&A panel discussion	Khalid Al-Rujoob, Johan Berggren, Bjorn Phillip, and Amjad Ebedo
<b>13:10-14:00</b>	<b>Lunch</b>	
14:00 – 16:00	Opportunity for B2B sessions with developers and other stakeholders	

# Agenda

- **Context & Effective demand survey**
- **Regulatory improvements**
- **Supporting affordable housing:  
What can the OQR do?**
- **Next steps & questions**

## OQR's Priority Matrix: Roles & Areas

The OQR's mission is to support the Palestinian people on economic development, good governance and improved movement and access, as they build the institutions and economy of a viable and peaceful state in Gaza and the West Bank, including East Jerusalem.

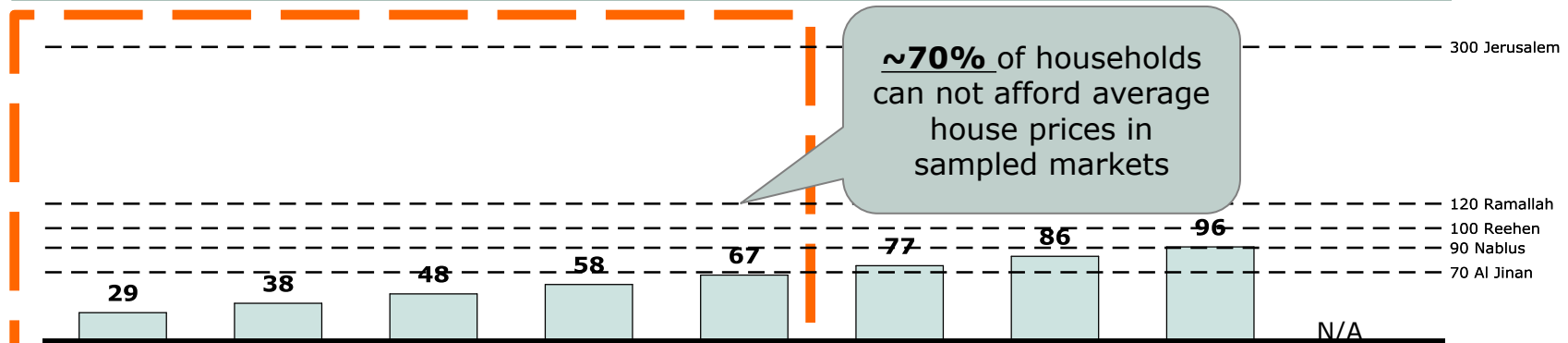
<i>Priority Areas</i>			
	1. Economic Development	2. Movement and Access	3. Rule of Law/ Governance
	The Initiative for the Palestinian Economy (IPE): Agriculture, Building Materials, Construction, Energy, ICT, Light Manufacturing, Tourism, Water	Increase movement and access of people and goods	Help the Palestinian Authority strengthen its governance and rule of law capacity.
<i>Priority Roles</i>			
1. Investor and funding outreach	<ul style="list-style-type: none"> <li>Engaging with international community</li> <li>Attracting financing and project participants</li> <li>Tracking &amp; reporting</li> </ul>		
2. Technical support	<ul style="list-style-type: none"> <li>Support Sector and Project planning</li> <li>Facilitate Implementation of enabling projects</li> <li>Capability building</li> </ul>		
3. Political enabling	<ul style="list-style-type: none"> <li>Shaping enabling environment</li> <li>Trouble-shooting</li> </ul>		

# Data shows major pent-up demand for affordable housing and significant opportunities

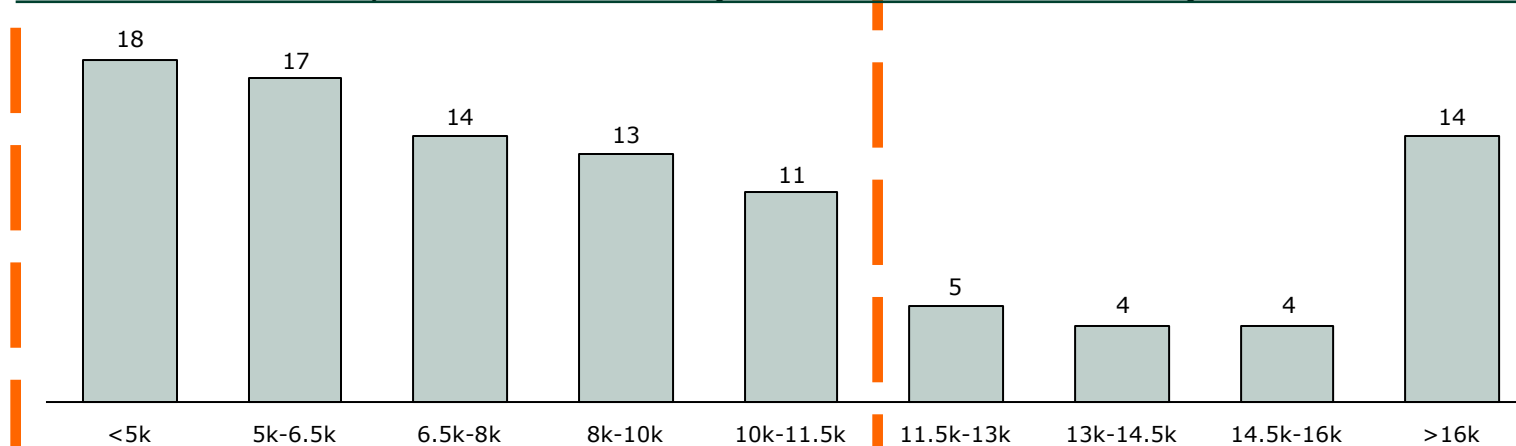
## Mortgage affordability by income group

### Maximum affordable mortgage<sup>1</sup>, USD '000

----- Average unit price









### Income distribution, % of households (annual household income)



<sup>1</sup> At 5% interest rate, 25 year mortgage, 40% DTI, no down payment

Reference: PCBS; interview with contractors; Effective Demand Survey

## Focus on immediate elements of value chain that can spark housing development in the near term

	Understand effective demand	Identify suitable land	Land registration	Permitting process & regulatory environment	Private sector housing development	Financing
Current Status	<ul style="list-style-type: none"> <li>Conducted detailed demand survey</li> </ul>	<ul style="list-style-type: none"> <li>~100K dunums of suitable land identified</li> <li>More thorough analysis (cost, ownership status, infrastructure) ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Only ~1/3 of WB registered (mainly in the north)</li> <li>Lack of registration drives up prices</li> <li>Ongoing WB/Finnish project to increase registration</li> </ul>	<ul style="list-style-type: none"> <li>Researching key bottlenecks to reduce permitting time and lower regulatory costs</li> <li>Recommendations to be proposed by April</li> </ul>	<ul style="list-style-type: none"> <li>Oversupply at high end, undersupply at low end</li> <li>Understand needs for developers to move forward with affordable projects</li> <li>Support on affordable techniques etc</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing discussions with banks regarding financing for developers and end users at affordable rates</li> </ul>
Progress						

# Survey conducted to understand effective housing demand in the West Bank

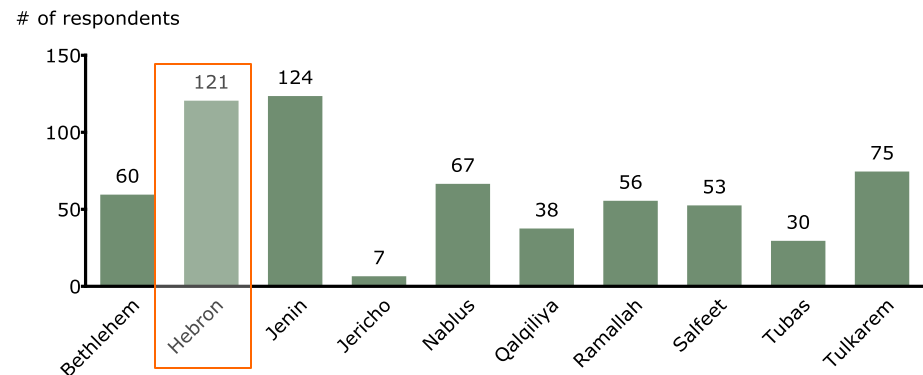
## Background

- 2013 Draft National Housing Policy, prepared by UN-Habitat with supporting data from the Palestinian Central Bureau of Statistics, noted lack of adequate data about housing demand and supply, and the **obvious gap between housing expectations and affordability**.
- The housing policy stresses the need to understand the **effective demand** for housing considering both cultural preferences and financial constraints.
- Effective demand survey was led by the Office of the Quartet Representative (OQR), in close coordination with the Palestinian Authority (PA)
- Interviews performed by Alpha International, a Palestinian consultancy

## Survey approach

- “Effective demand survey” forces respondents to make **financial tradeoffs**
- Survey creates dialogue with interviewer regarding options and preferences
- Effective demand survey answers the question: “**What can you afford to spend per month on housing?**”

## 631 respondents interviewed across the WB



Note: All charts in presentation based on effective demand survey unless noted otherwise.

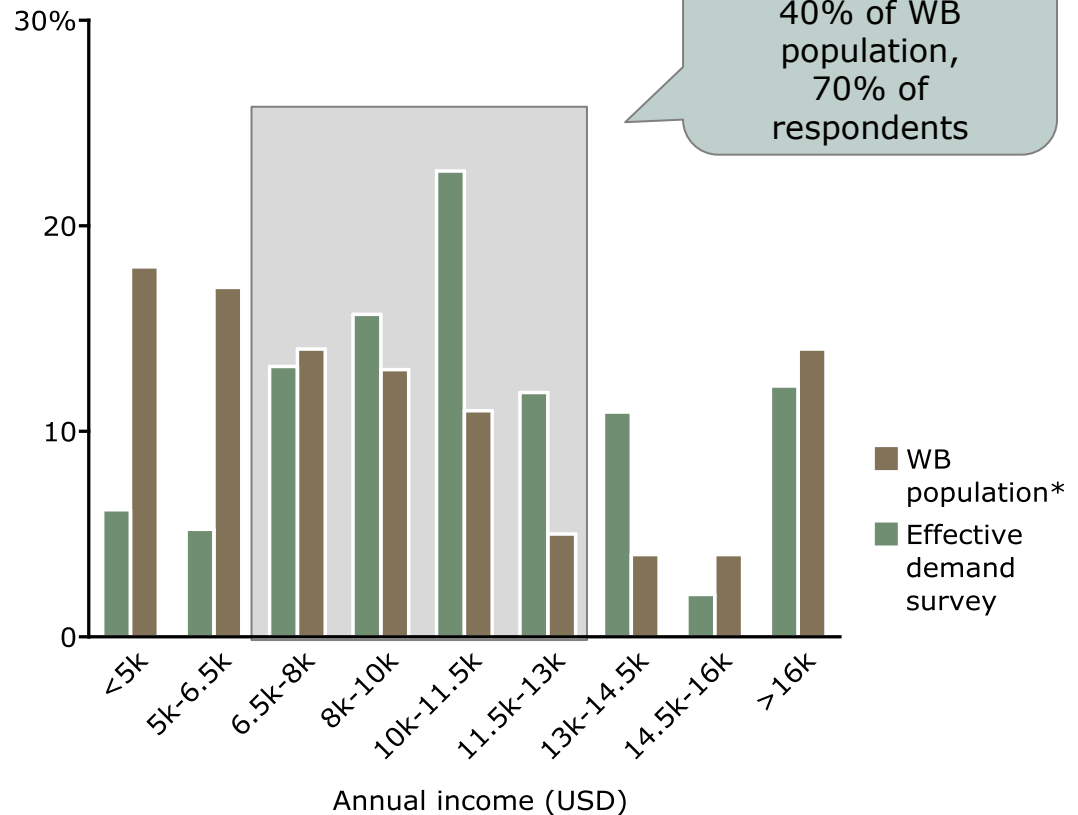
# Survey interviewed Palestinians from all income groups

## Income groups & demographics

- Focus of the survey was affordable housing, not social housing, requiring a **large sample of middle income families**
- Interviewed families from all income groups, with an **emphasis on middle income families earning between 6.5k-13K USD per year**
- Respondents provided **demographic data** on income, family status and housing conditions

## West bank population vs. survey sample

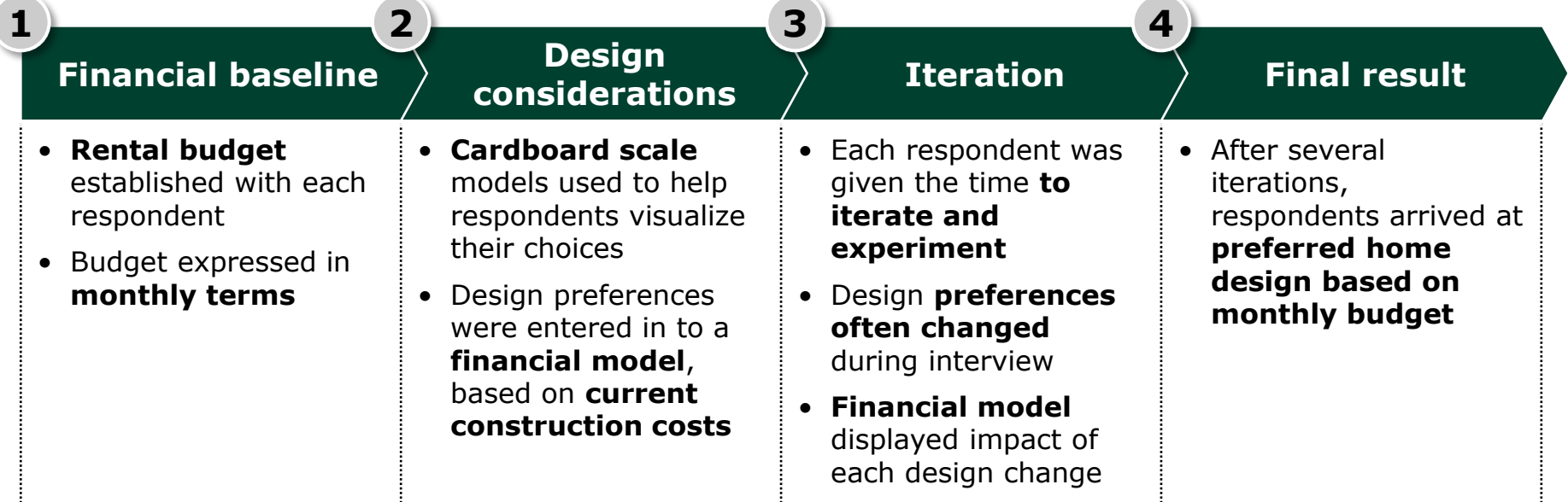
% of respondents / population



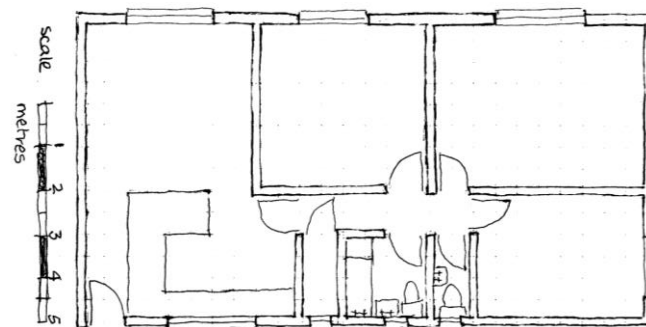
\*Al-Markaz (Affordable Housing Market Assessment in the West Bank, produced for AMAL), 2010, reproduced in HSP, p 24



## Financial and design considerations both presented to survey respondents to assess effective demand



*The cardboard scale models of rooms and plots used by respondents to visualize their design*



*Possible layout for a typical dwelling*

# Model factors multiple inputs and calculations to estimate housing costs

## Building elements

- Walls
- Floor
- Ceiling
- Window
- Door
- Finishes to the elements such as plaster, paint, floor tiles

## Service elements

- Hot and cold water taps for bath, shower and wash basin
- Hot and cold water pipes and valves, cold water pipes for the WC
- Drain from the bath and basin
- Drain from the WC
- Electric lights

## Combining elements

- Model corrects for shared walls between elements
- Calculates the % of internal vs. external walls
- Cost for houses includes boundary walls and access roads

## Circulation space

- Model factors in need for increased circulation space in large houses
- Houses >50 sq meters have added circulation space & second floor

## Apartment extras

- Cost of each apartment includes shared building costs
- Shared costs include: balcony access, vertical circulation (stairs/elevator), land, roof and foundation

## Savings

- Model assumes all elements selected are fully finished
- The model allows users to make savings by either:
  - (1) Omitting finishes
  - (2) Selecting a basic kitchen
  - (3) Reducing the size and number of rooms

## Financial variables

- Users can test the impact of financial arrangements by:
  - (1) Changing the term of the loan
  - (2) Changing the down payment
  - (3) Changing the interest rates (survey results calculated at 5.5%)

## Overhead

- Model includes necessary overhead
- Developer's profit = 8%
- Professional fees = 1.5%
- Interest during construction = 5%, over 1 year
- Marketing = 1.5%

**Model delivered custom cost estimate for each respondent**

Inputs provided by West Bank real estate developer (Feb 2014), costs may vary +/- 2.5% within the West Bank; Model validated by sharing outputs with selection of developers

### INCLUDED

- Profit
- Land
- Marketing
- Overhead
- Access road
- Finishes

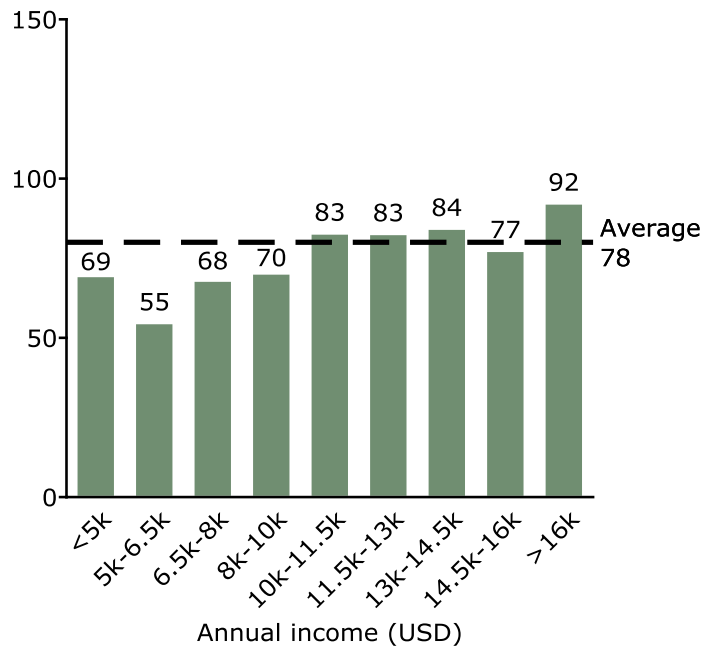
### NOT INCLUDED

- Off-site infrastructure
- Inflation

# Desired home size smaller than previous assumptions but larger than current conditions

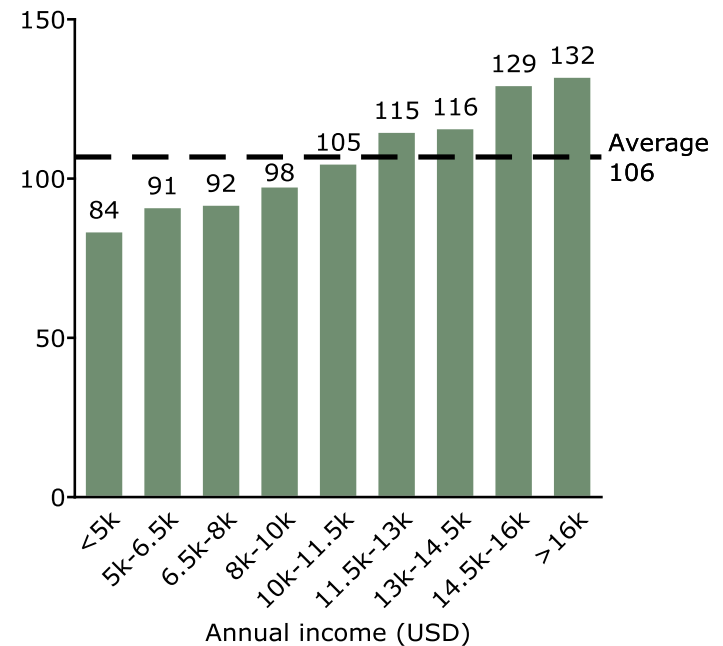
## Current housing by income group

Size of existing dwelling units (sq. M)



## Desired housing by income group

Size of desired dwelling units (sq. M)

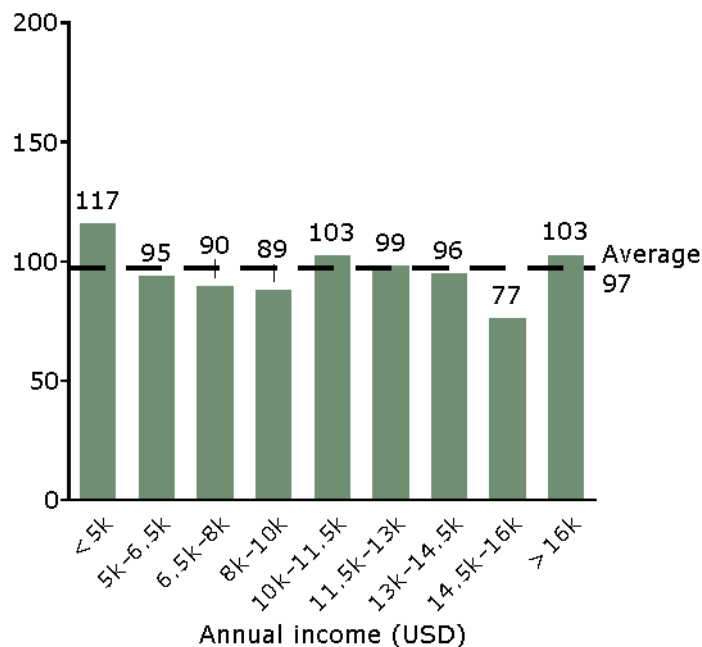


**Preferred housing size of 106 sq. M  
lower than previous assumptions**

# Desired home size in Hebron is similar to average across the West Bank

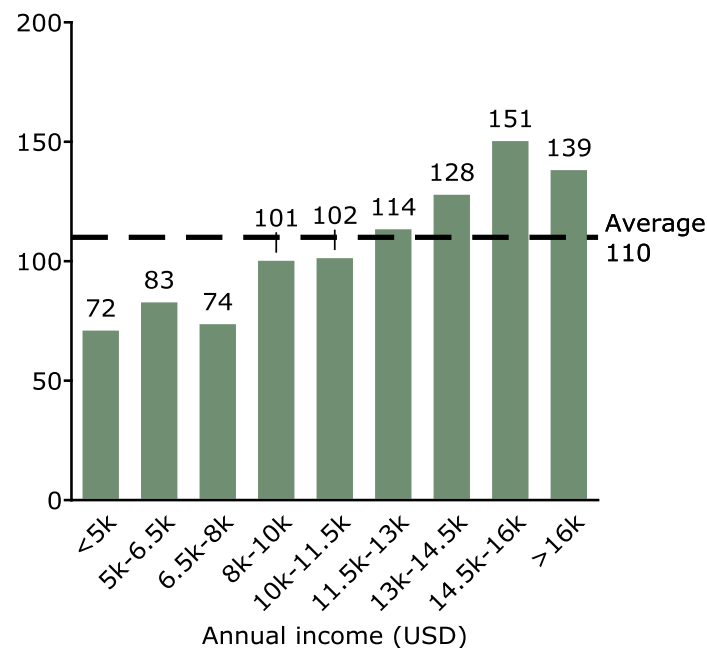
## Current housing by income group

Size of existing dwelling units (sq. M)



## Desired housing by income group

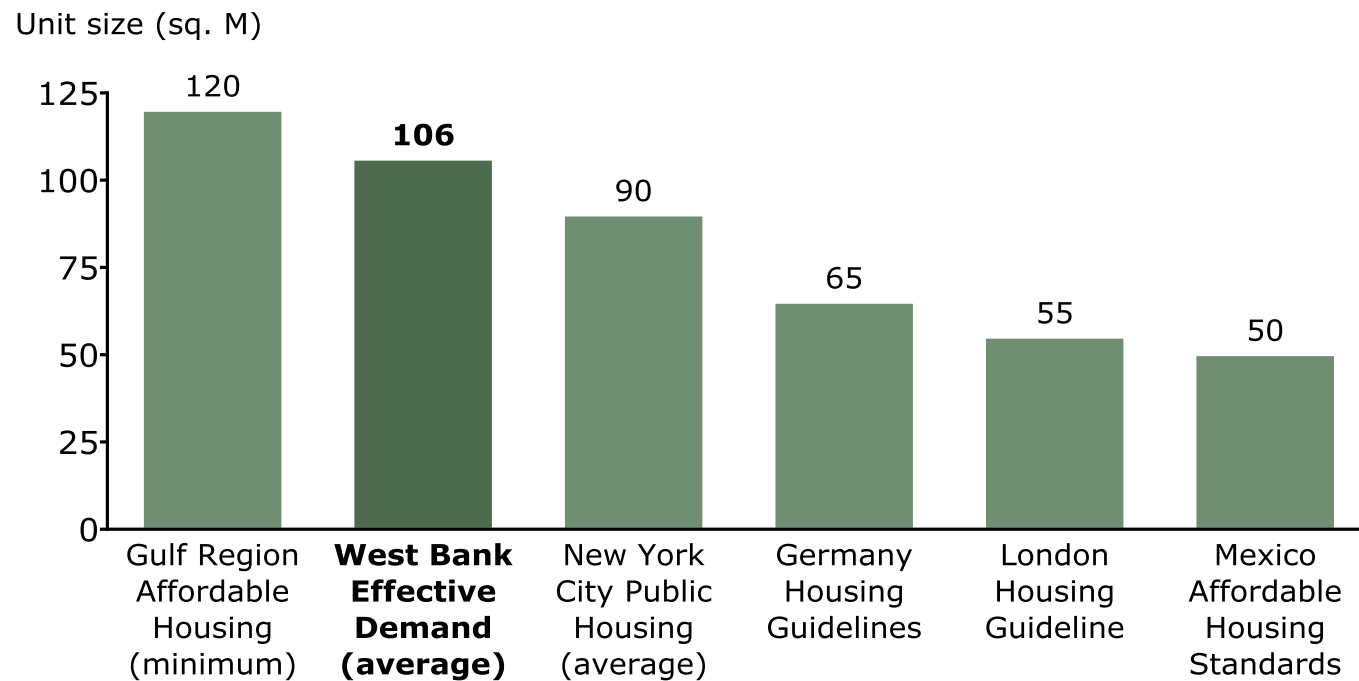
Size of desired dwelling units (sq. M)



**Preferred housing size of 110 sq. M  
in Hebron**

## Palestinian housing preferences on higher end of international housing standards

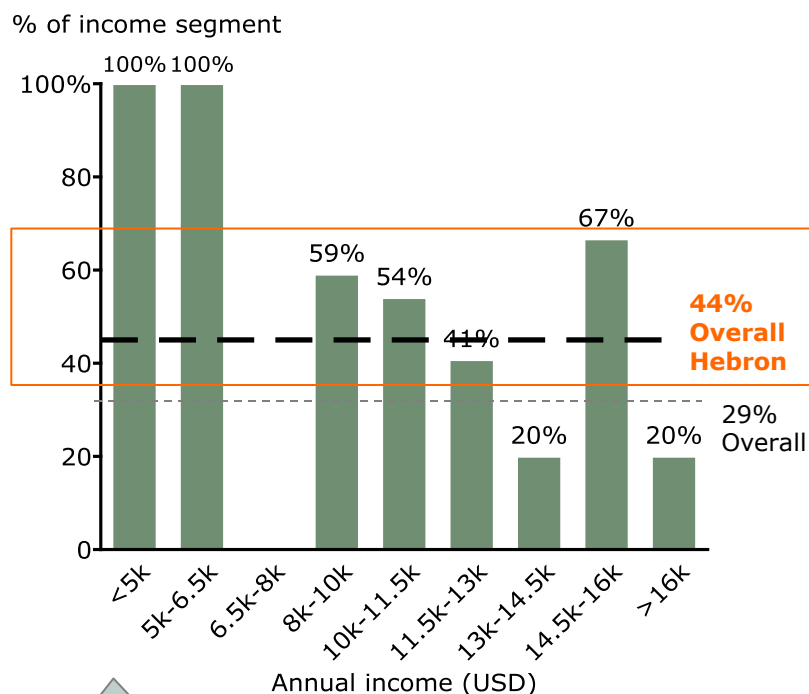
### Global housing standards



Source: McKinsey Global Institute

# Lower income families more likely to opt for savings, prefer basic finishes to basic kitchens

Respondents who selected "basic finishes"

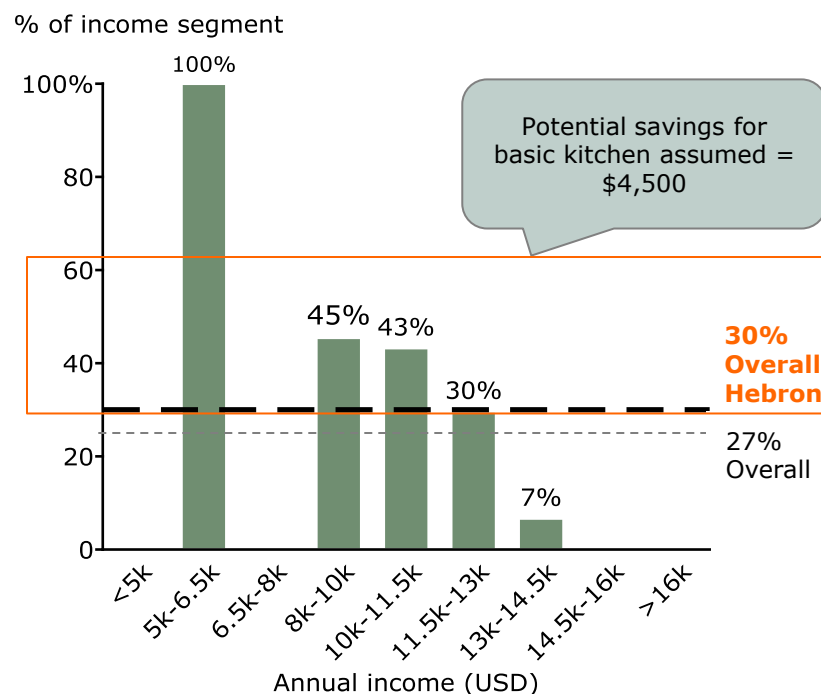


Potential savings ranged from to ~\$7k- \$18k, depending on home size and home vs. apartment

**43% of respondents (47% for Hebron) selected one or both saving options with a typical savings of \$8,500**

*(excludes option of buying smaller home with fewer rooms to drive savings)*

Respondents who selected "basic kitchen"

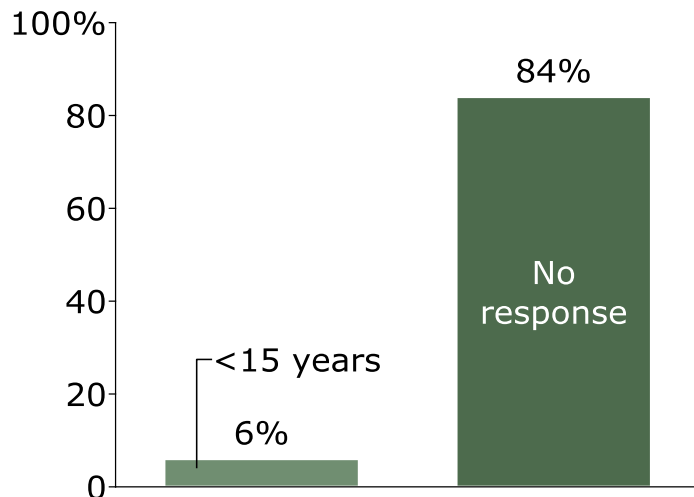


# Overwhelming portion of respondents intend to stay in homes forever

## Length of residence

***"How long do you intend to stay in your new home?"***

% of respondents



## Home ownership expectations

- Low response rate (84% "no response") indicates a that respondents **do not perceive homes as a commodity** which can be bought and sold
- Reflective of the majority view of Palestinians that see a new home as a **once in a lifetime investment**
- No culture of moving or "moving up" the housing ladder over time, as in Western countries
- **Prevalent expectation that the first home will likely be one's home for life** and should therefore include all desired amenities

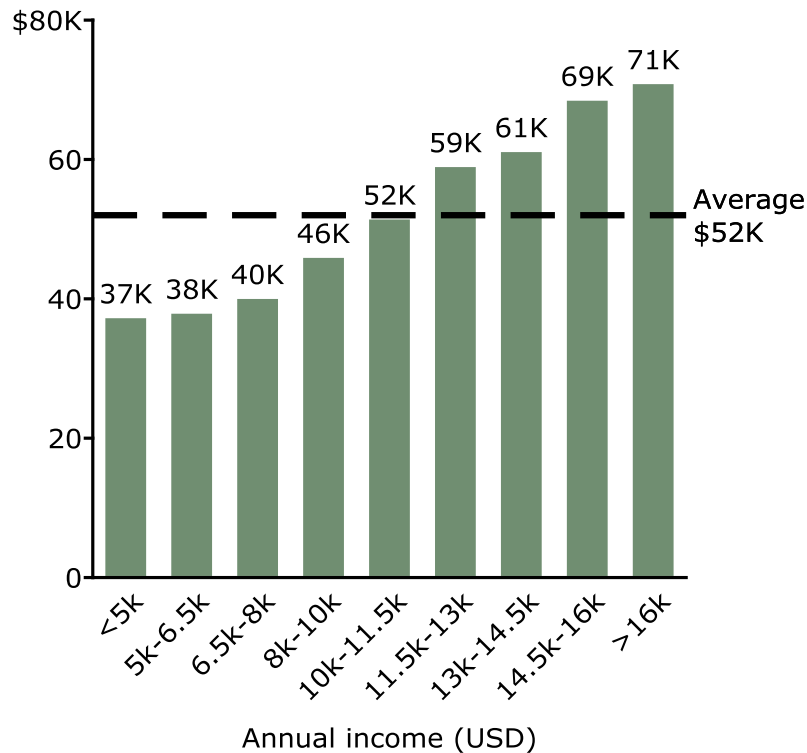


**Practice of owning multiple homes over a lifetime would be a major cultural shift for Palestinians**

# Significant opportunity exists for developers building homes at affordable price points

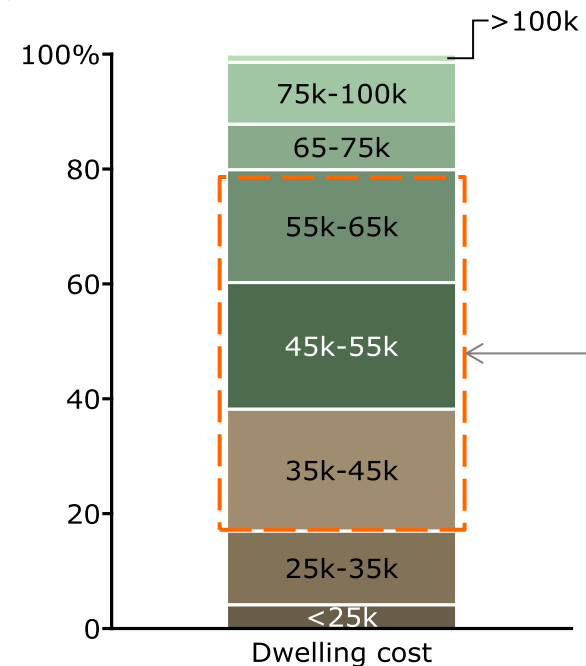
## Desired home cost by income group

Average desired home cost (USD)



## Overall desired home cost

% of respondents for given dwelling cost(USD)

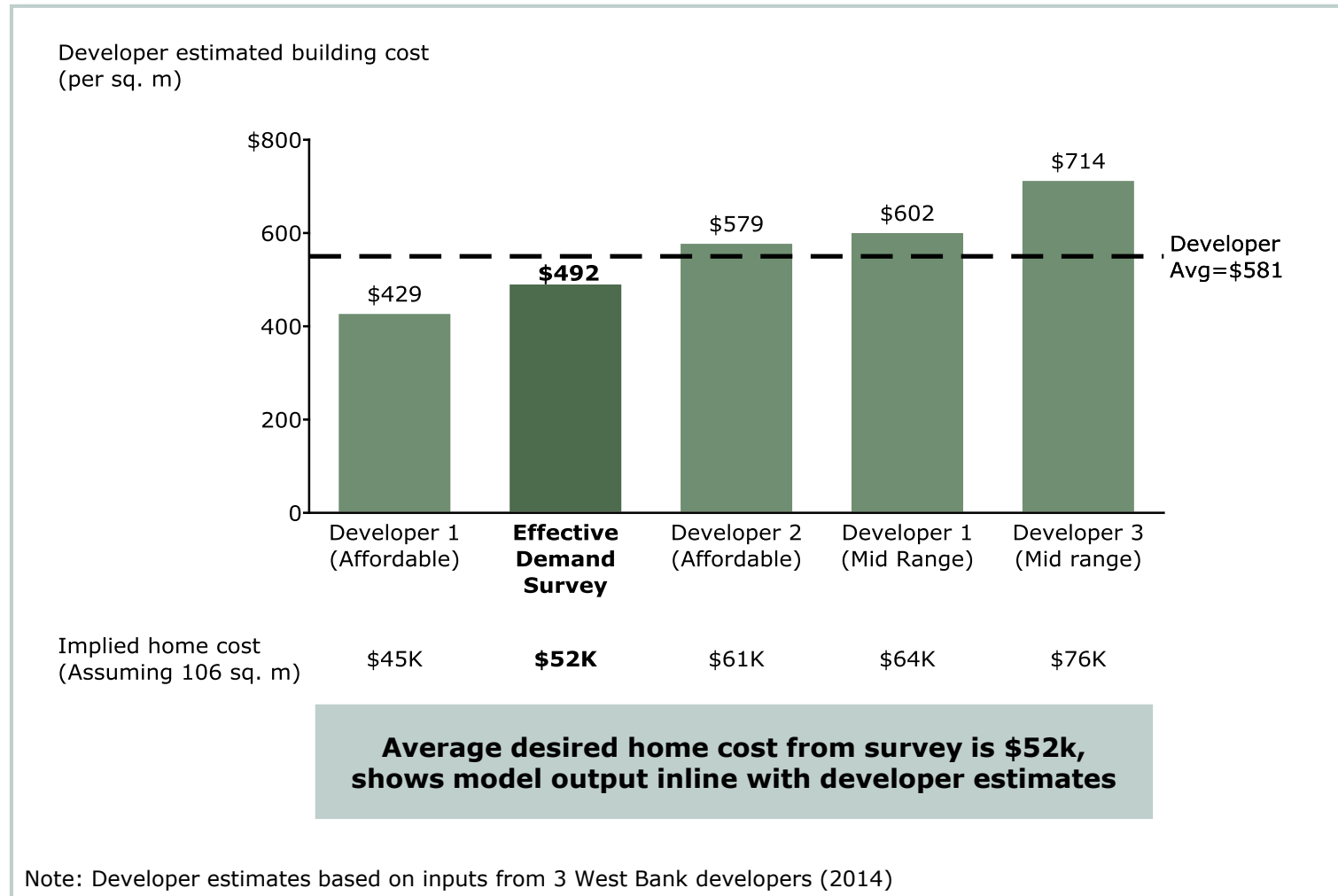


**~60% prefer to live in home between 35k-65k**  
Developers must work to address this significant market segment



# Local building costs used in model to arrive at estimates in line with WB developers

## Construction cost estimates from WB developers



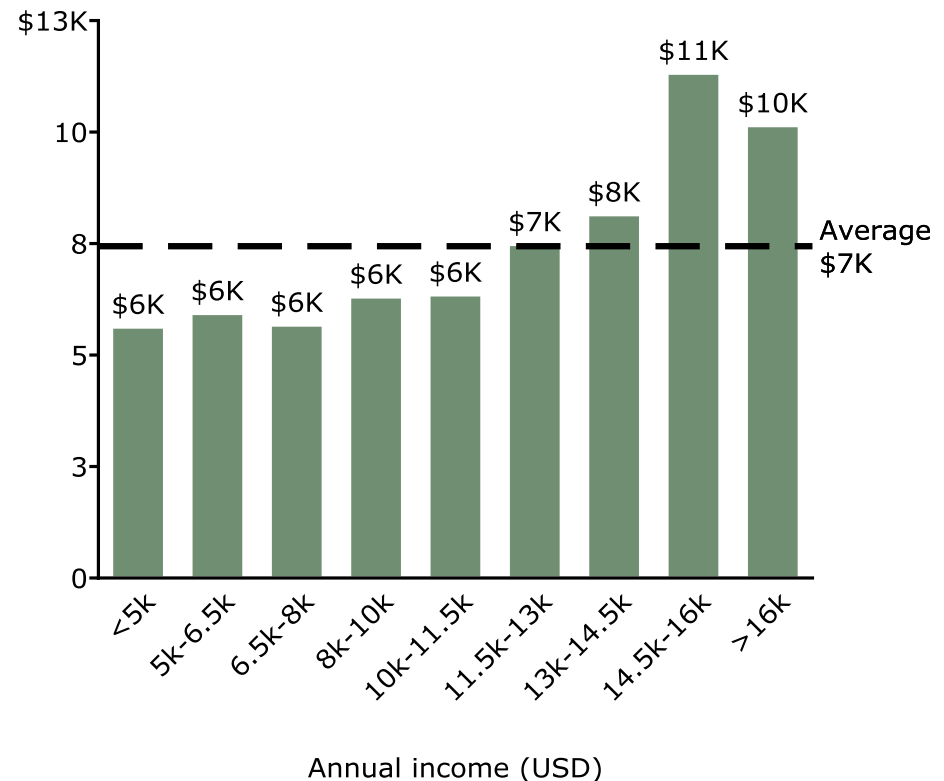
## Many WB families able to provide a down payment of 10-15% of desired new home

### Access to capital for WB families

- WB families say they can afford 17% of the cost of the unit for a down payment
- **~30% of families cannot afford a 20% down payment** based on cost of their desired home
- **50% of respondents could afford down payment above \$7,000**
- Assessing level of household savings is often difficult due to non-traditional savings practices

### Highest potential down payments, by income group

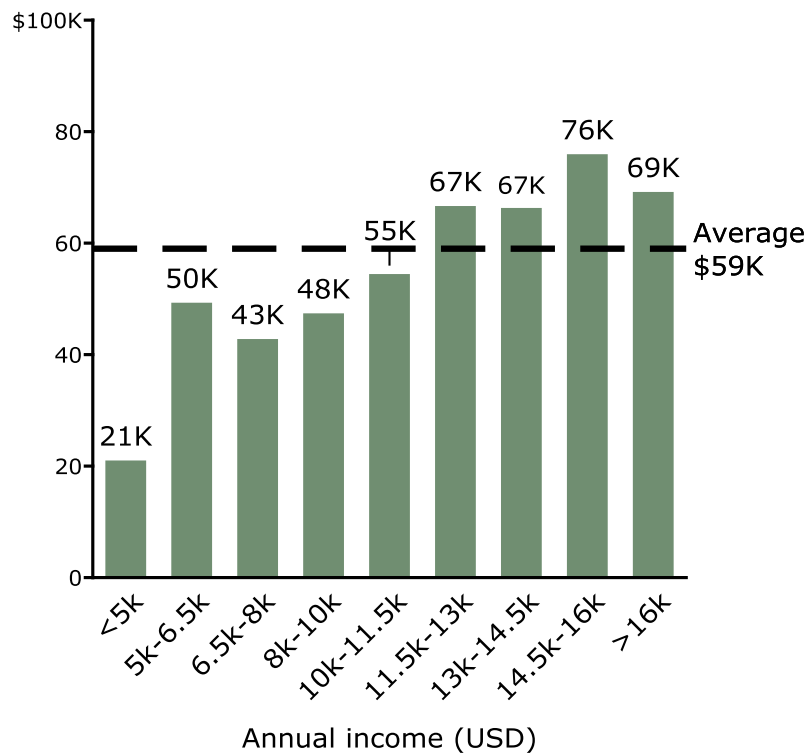
Average down payment (USD)



# In Hebron, desired home cost is \$59k and the average available down payment is \$6k

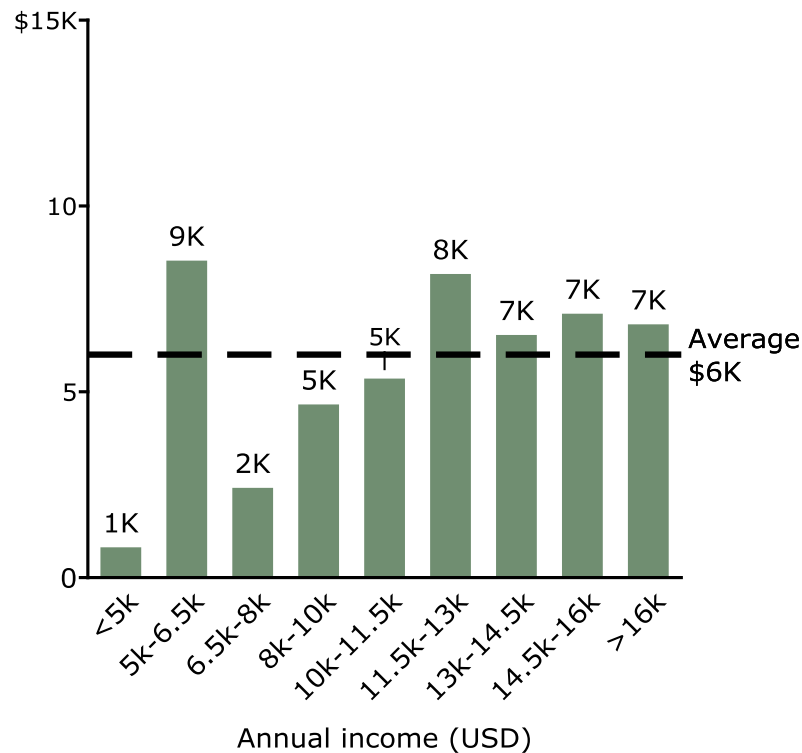
**Desired home cost by income group**

Average desired home cost  
(USD)



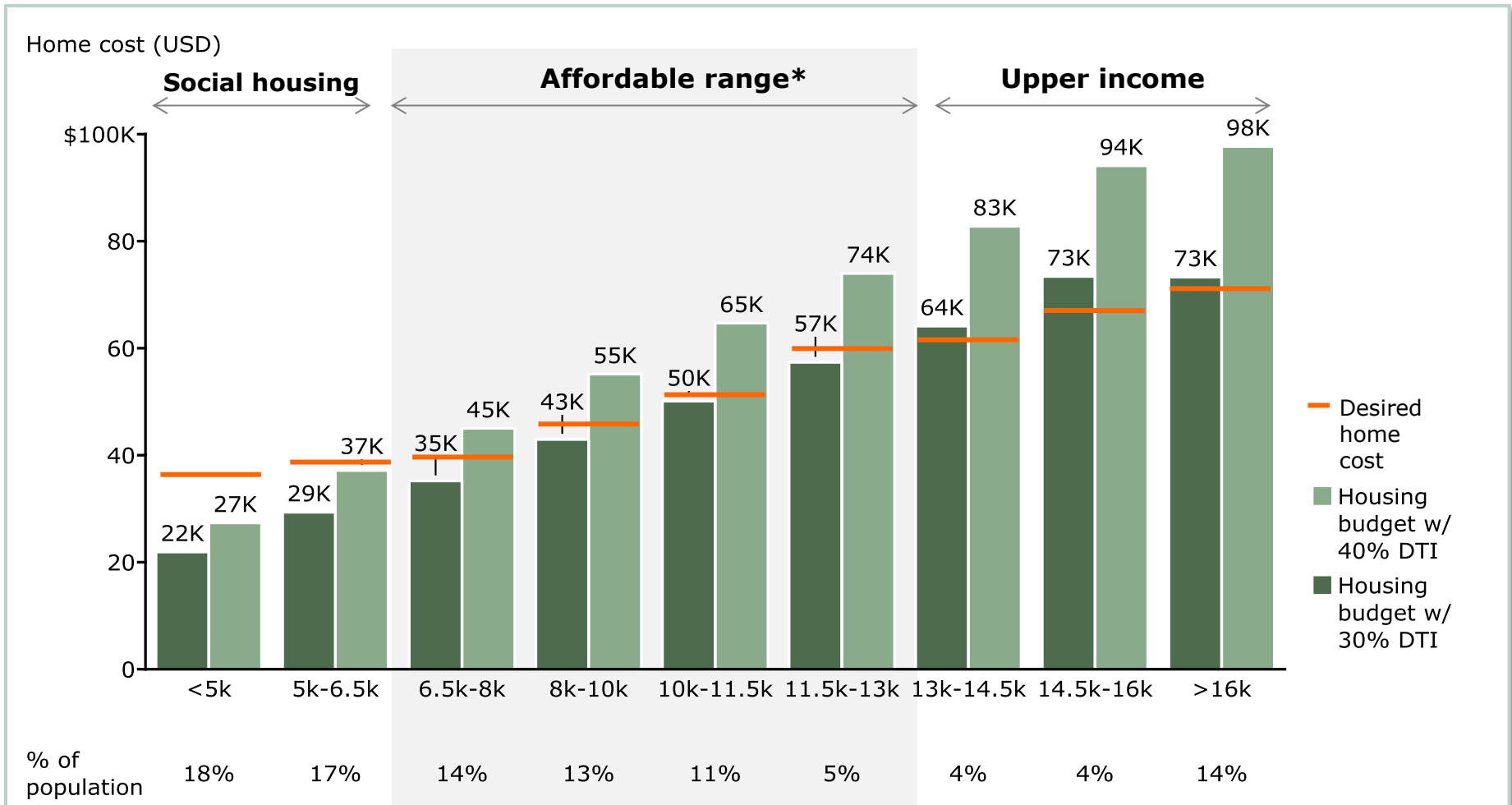
**Highest potential down payments**

Average down payment  
(USD)



# Households earning between \$6.5-13k per year are target segment for affordable housing

## Impact of Debt-to-Income (DTI) on home affordability



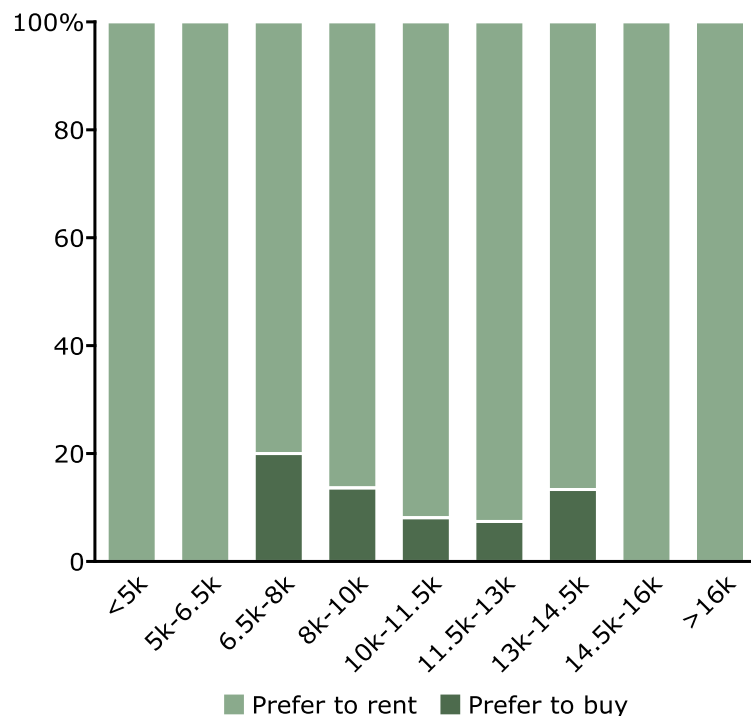
\*Household ability to service mortgage repayments at lower end of spectrum is variable

Note: Mortgages calculations assume 5.5% interest rate, 25 year mortgage, 15% down payment, based on data provided by bank operating in West Bank

# In Hebron, strong preference for renting and to live in homes instead of apartments

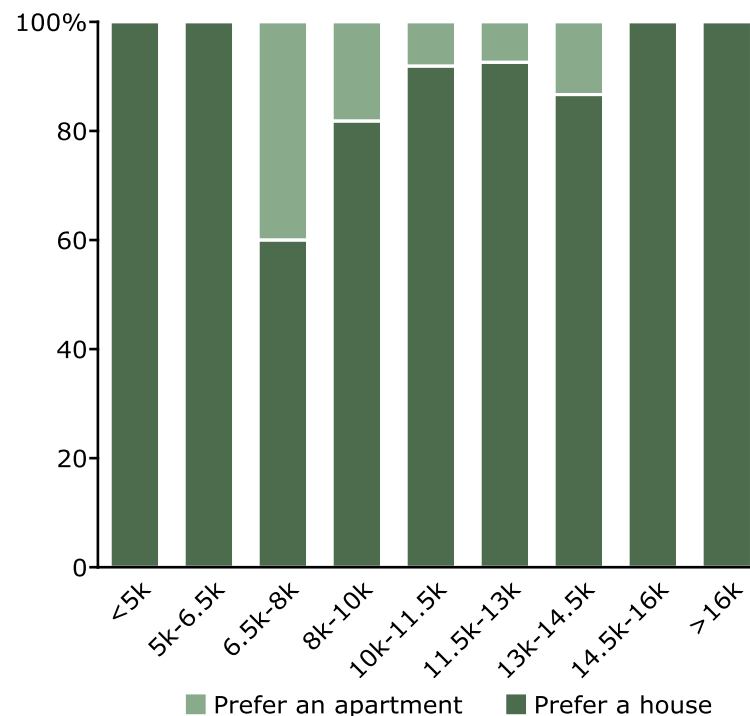
**Preference for buying vs. renting\***

% of respondents



**Preferences for houses vs. apartments\***

% of respondents



**91% of respondents prefer to rent  
and 89% prefer a house to an  
apartment**

\*Buying vs. renting preference took into account possible financial constraints; no financial constraints were taken into account for houses vs. apartments preference

# Important myths about Palestinian housing preferences and the real estate market disproved

	Myth	Conclusion from survey	New understanding
1	"Palestinians will only live in large homes"	X	Survey respondents willing to make financial trade-offs and to live in smaller homes (Preference of ~100 sq. m.)
2	"Palestinians can't afford housing"	X	Respondents showed willingness to spend large portion of monthly income (~40%) on housing and an ability to make significant down payments
3	"Houses cannot be built at affordable prices"	X	Data provided by West Bank developers, which factors in a profit margin for developers, shows that housing can be built between \$400-\$700 per sq. m
4	"Palestinians will only buy homes with premium finishing and fixtures"	X	Many survey respondents chose basic finishes and simple kitchens to lower the price of their home
5	"Palestinians lack understanding of traditional mortgage structures"	✓	Interviews with prospective home owners showed lack of familiarity with mortgage structures, proving that most families do not see home as a financial asset
6	"Palestinians do not see homes as assets that can be improved upon & sold over a lifetime"	✓	Survey suggests respondents intend to live in their first home for their entire lives, and have no intention of moving up the "housing ladder" over time

**Survey suggests significant opportunity for developers to target affordable housing segment**

**Legend:**

✓	Strong evidence to support claim	✓	Some evidence to support claim
X	Strong evidence to disprove claim	X	Some evidence to disprove claim

# Agenda

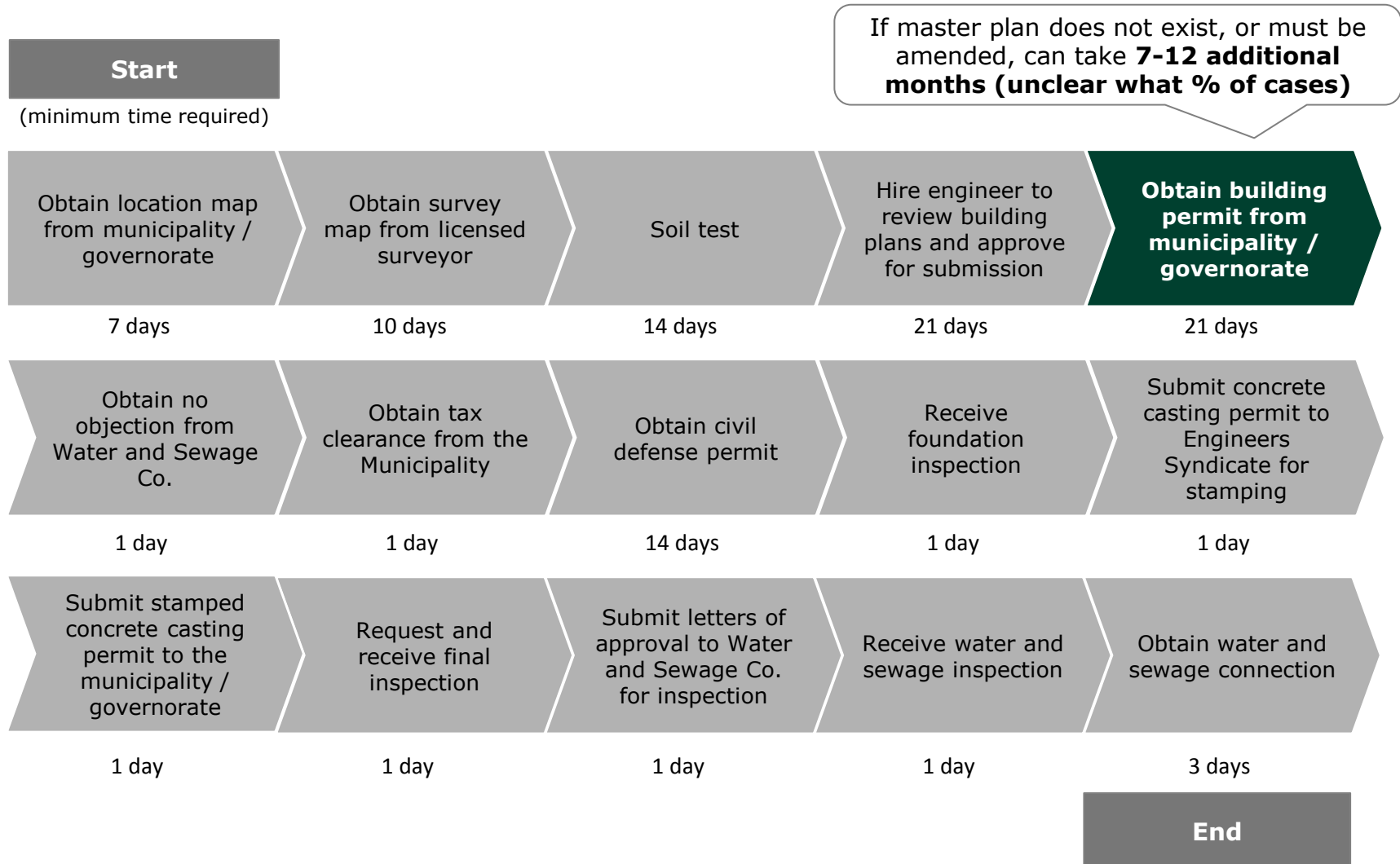
- **Context & Effective demand survey**

- **Regulatory improvements**

- **Supporting affordable housing:  
What can the OQR do?**

- **Next steps & questions**

## Permit process requires at least ~100 days, likely 3-6 months if building plans do not conflicts with master plan



Source: World Bank "Doing Business 2015: West Bank and Gaza"



# Permitting and regulatory environment

## Part I: Legal and Regulatory Framework

- What are the existing applicable rules and regulations relating to construction permits in the West Bank?
- What are the existing applicable building codes/bylaws in the West Bank?
- Which government agencies have authority over which aspects of the building code, permit approvals, and the zoning process (e.g. municipality, governorate, Ministry of Planning, Ministry of Local Government, etc.).

## Part II: Current practice

- Given the applicable legal/regulatory framework, how do the relevant authorities actually apply the rules relating to permitting, building codes and zoning?
- Are these rules enforced consistently across municipalities and governorates? If not, identify key policies or practices where there is uncertainty and/or variation in application in different areas.
- Which aspects of the laws and regulations, as currently enforced, prove to be the biggest barriers to residential construction?

## Part III: Case studies

- Process by which a developer acquires a permit from start to finish,
- Estimated/average time required for each step and in total, and
- Major obstacles encountered by developers in the course of the process.

## Part IV: Recommendations

- Which agencies could effectively oversee new interventions,
- which rules may need to change, and whether the interventions would require new legislation or merely a change in practice.

# Agenda

- **Context & Effective demand survey**

- **Regulatory improvements**

- **Supporting affordable housing:  
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# OQR can support affordable housing construction in many ways

## Knowledge & expertise

- Understanding housing demand (survey data, data analysis, survey design)
- Land identification and mapping (high-level, detailed, satellite)
- Improving affordability (Design, techniques, planning, building materials)

## Relationships with government agencies

- GoI (area C land and infrastructure access, cement mill approvals)
- PA – lobbying and advocacy with key actors, to advance permitting, regulatory changes, and land registration sites and programmes

## Investments and financing

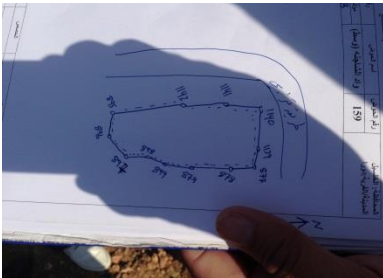
- Strong relationships with Banks and IFIs (World Bank, OPIC, IFC etc) can help gain access to construction and mortgage financing
- Ability to raise financing for offsite infrastructure from donor community
- “Committed capital” from Gulf and elsewhere

## Cross-cutting

- Improving access to rule of law across Palestine
- Improving movement and access, including trade across Allenby
- Supporting development of cement mill in West Bank, to provide cheaper and more stable supply of cement

# Land registration is key strategic issue for Palestinian economic development and affordable housing

## Multiple field trips to land registration project in Dura



## Activities/achievements

- Succeeded in raising land registration as priority area for Palestinian economic development, by consistent and focused messaging
- Supported World Bank and Finnish land registration and capacity building projects in Dura and Ramallah
- Contributed to successful donor outreach
  - Lobbied DFID to prioritize land registration, which led to UK Land Registry visit and analysis in June/July, and potential follow-on work
  - Discussions with Sweden about becoming involved in land sector
  - Norway became a donor to land sector
- OQR to continue lobbying for increased speed and efficiency of registration, in prioritized areas, including Hebron

# To achieve affordable housing, various elements have to be addressed

## Elements of affordable housing

### Housing design



### Situation today

- Palestinians prefer large houses, spacious halls, and thick walls – all drive costs
- Suboptimal processes and techniques

### Options to consider

- Reduce unit size
- Simplify interior finishings
- Standardization of design
- Thinner walls
- Common space design (lobbies, stairs, elevators)

### Building materials



- Expensive today in Palestinian Territories due to imports and inefficient domestic production

- Produce more domestically
- Use cheaper materials
- Reduce, re-use and recycle materials
- Alternative techniques

### Industrial construction



- Primarily custom designs built on site
- In-situ RC construction

- Modular designs - increased efficiency
- Pre-cast production – better quality/reduced construction time
- Industrialized construction - allows companies to capture economies of scale

### Scale and lean execution



- Insufficient scale of building in Palestinian Territories, 5-10K/year

- Build large quantity
- Onsite lean execution
- Improve performance and subcontractors' management

### Regulations



- Municipality led
- Requirements on building heights, off-road parking etc.

- Flexibility for affordable housing projects?
- Relaxing height restrictions?
- Integrated urban/spatial/transport planning

## Improved physical infrastructure and processes at Allenby will improve construction sector opportunities

- Current physical and procedural restrictions at Allenby hinder trade
- Movement of goods and people increasing
  - Goods movement: +15% p.a. in last 6 yrs
  - People movement: 1.7 m crossings p.a., increasing +6% p.a.
- Conveyor belt proposed for bulk goods, sand, clinker. 1000 tons per hour
  - 3620 truck loads of sand imported in 2014, up from zero in 2010
  - Reduce congestion on bridge
  - Faster handling



# Agenda

- **Context & Effective demand survey**
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## Concept Note - Criteria for selecting projects

Criteria	Information to be provided in Concept Note
Project Type	<i>Ex: Developer Led, Municipal Led</i>
Project Status	<i>Ex: Preliminary, planning</i>
Location	<i>Ex: Halhul, Hebron City, Qilqis</i>
Zoning Status	<i>Ex: No zoning, zoned for residential, master planning, detailed planning</i>
Ownership Status	<i>Ex: Land fully owned by one owner, partial/fragmented ownership</i>
Registration status	<i>Ex: Fully registered (tabo), registration under way, no registration</i>
Size (dunums)	<i>Ex: 10, 50, 100...</i>
Number of housing units	<i>Ex: 50, 100, 500</i>
Type of units (size, design etc)	<i>Ex: Smaller, affordable units, with simpler finishing and kitchens; 80-120 m2</i>
Selling price of units	<i>Ex: \$40,000-50,000</i>
Availability/proximity to transportation and social services	<i>Ex: Yes, bus line within 500 metres, social services available 2 km away</i>
Physical conditions & constraints (topography and environmental factors)	<i>Ex: Flat, with some hilly parts</i>
Any current access to infrastructure? <ul style="list-style-type: none"> <li>• Water</li> <li>• Roads</li> <li>• Electricity</li> <li>• Sewage</li> </ul>	<i>Ex: Water: Yes, Roads: 200 m away, Electricity: no, Sewage: no</i>
Key Obstacles	<i>Ex: Limited off-site infrastructure, no land registration, lack of financing</i>
Key Stakeholders	<i>Ex: Municipality, Developer X and Y, Bank A and B</i>
What else you might need	<i>Ex: Help with affordable design, eg., how to maximise use of small surface area</i>



# Questions?



## Thank you