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***Beyond
affordability***

**Public housing
and community
development in
the GCC**

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Executive summary



Home ownership is a basic desire everywhere, including in the countries of the Gulf Cooperation Council (GCC).¹ However, the GCC is facing a large housing gap, despite its relative affluence. Although several GCC governments are currently building developments aimed primarily at low- to middle-income households, these programs are unlikely to yield the socioeconomic gains the region needs. Experience shows that short-term policies to provide low-cost homes en masse are not sustainable and result in a large stock of low-quality housing that replicates the environmental problems of past decades. In addition, these programs are often driven by government agencies with minimal involvement by the private sector, leading to slower construction and a less sustainable and lower quality housing sector overall.

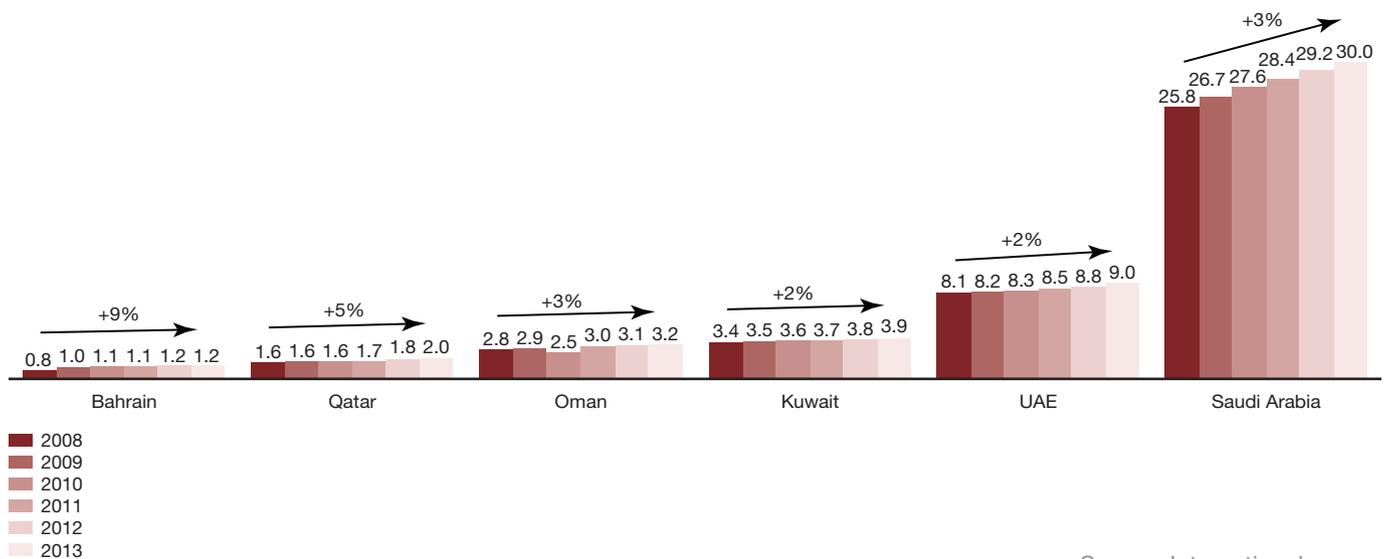
Instead, policymakers should pursue a strategy in which housing and socioeconomic policies come together in a holistic approach that builds communities instead of just housing. To implement such a strategy, government housing policies should aim for sustainable development through environmentally friendly building standards and they should improve urban communities by adopting new planning practices. Governments should also engage private-sector developers through public–private partnerships (PPPs), which can allocate resources more effectively and transfer knowledge from private developers to government agencies. Moreover, prudent real estate laws (such as properly protecting the property rights of owners and residents) and access to capital will be important if GCC housing policies are to achieve higher ownership rates and socioeconomic gains such as greater income equality.

The GCC housing gap

The countries of the GCC are currently experiencing a shortage of housing, particularly for their proportionately large and growing population of low-income residents. Several factors are contributing to the problem. First, the local population is growing rapidly. From 2000 to 2013, the total population of the GCC rose by over 67 percent, from 29.4 million to more than 49 million, and it continues to grow 2 to 3 percent each year (see Exhibit 1).² The recent high birth rate of GCC citizens

Exhibit 1 The GCC population is rising rapidly

GCC Population by Country (in Millions; 2008–2013 Compound Annual Growth Rate)

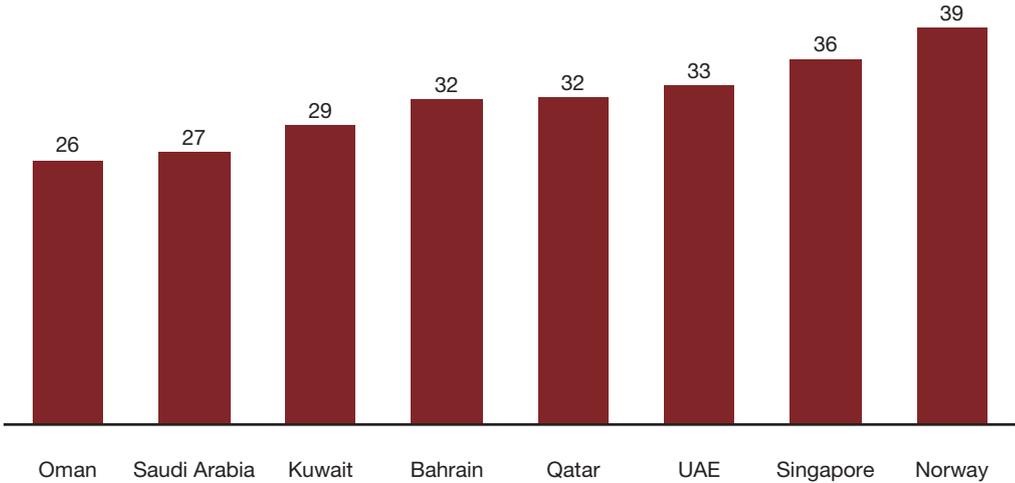


Source: International Monetary Fund, "World Economic Outlook" database; Strategy& analysis

means that the demographic structure of the region is relatively young. Currently, the median age across the GCC is almost 29, compared with 36 in Singapore and 39 in Norway (see Exhibit 2).³ The younger population affects housing demand as more and more young people are getting married and seeking to leave their parents' homes to live on their own. These demographic changes will lead to a housing shortage in 2018 that could exceed one million units (see Exhibit 3, page 6).

Exhibit 2
The GCC's median age is low compared with similar countries

GCC Median Age (2013)

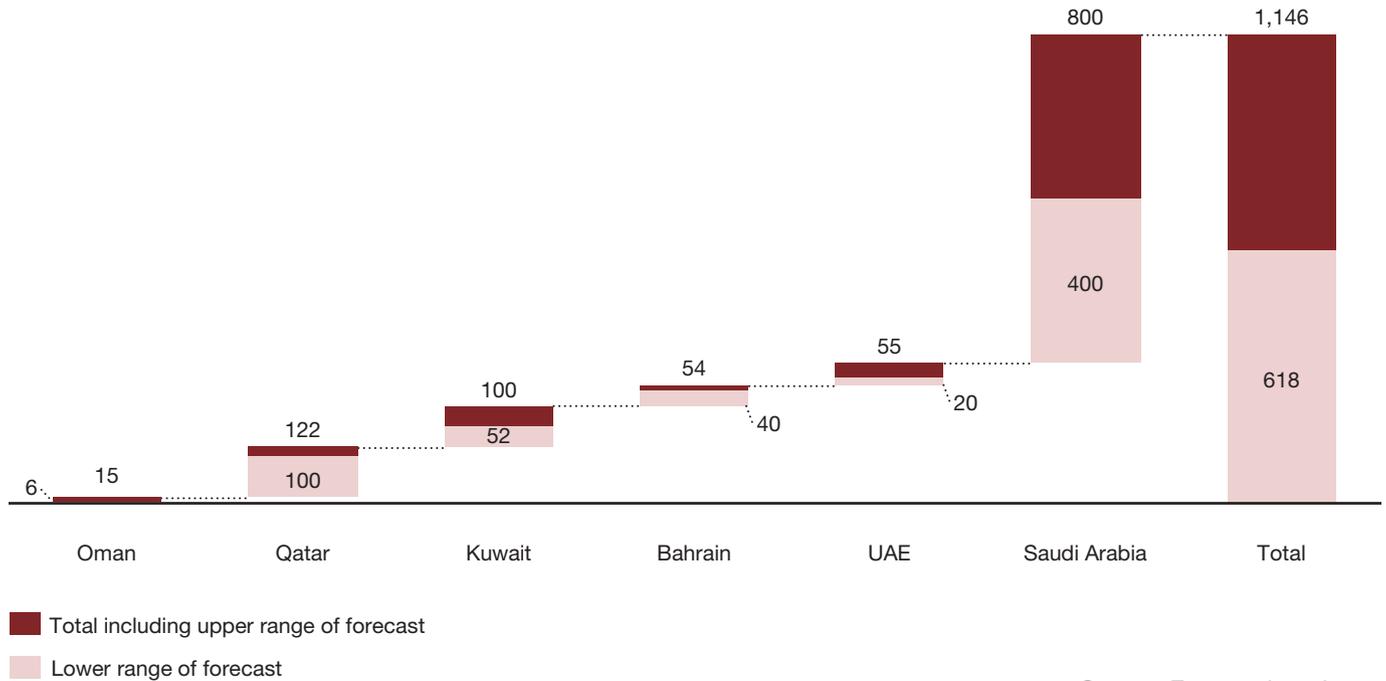


Source: International Monetary Fund, "World Economic Outlook" database; Strategy& analysis

Exhibit 3

GCC demographic trends will lead to a substantial housing shortage

Housing Units, Actual and Range of Forecast, 2011–2018 (in Thousands)



Source: Euromonitor; Jones Lang LaSalle; Strategy& analysis

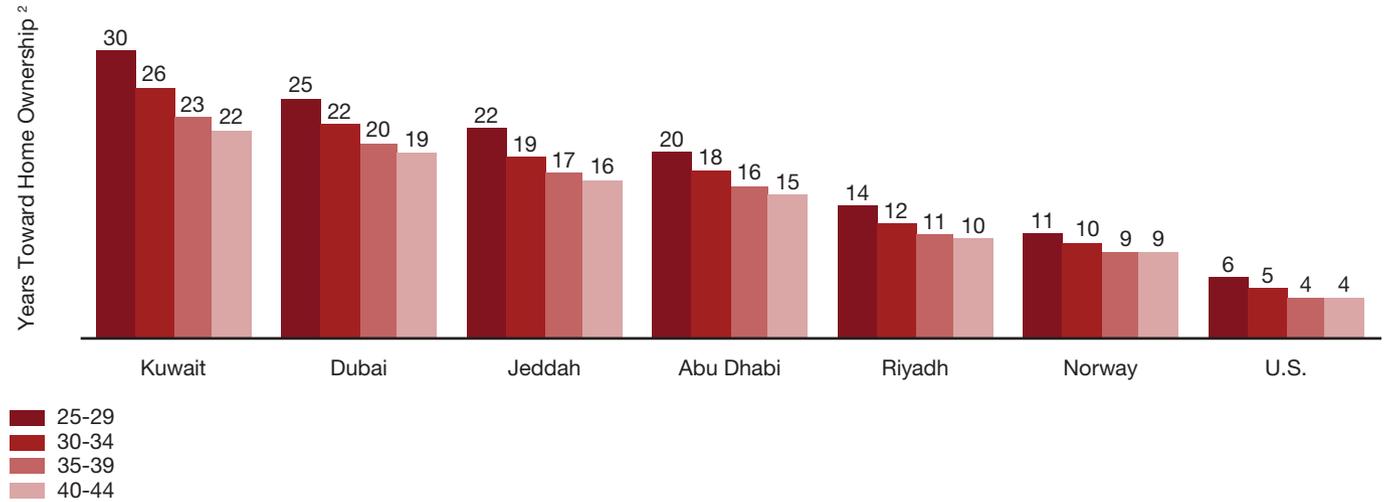
Economic factors mean that home ownership is not an option for many people. High unemployment means that an increasingly larger portion of the regional population is unable to purchase or even rent homes. For example, in 2012, the average house in Kuwait was priced at 30 times the average gross income for a person between the ages of 25 and 29. This compares to just 11 times the average younger person’s salary in Norway, and six times in the U.S. (see Exhibit 4, page 7). The same pattern holds true for older age groups — homes are expensive in the GCC, and salaries are low.

Despite the growing demand for housing, residential real estate development in the GCC region is slow. Buildable land is scarce and expensive, particularly in urban environments. Too often, land ownership is concentrated within large family businesses or with high-net-worth individuals. In some cases, these owners can recognize significant gains

Exhibit 4

Home affordability in GCC countries and cities is low by international standards

Current Home Affordability (by Age Group, 2012–2013)¹



¹ UAE, Norway, and U.S. data are from 2013.

² New house price to income ratio determines the average number of years it takes for the average annual gross income of a given age group to buy an apartment at current average prices. Assumptions are as follows: average apartment sales price per m² was considered; average apartment size = 250 m² for Riyadh and Jeddah, 180 m² for Dubai and Abu Dhabi, and 200 m² for Kuwait.

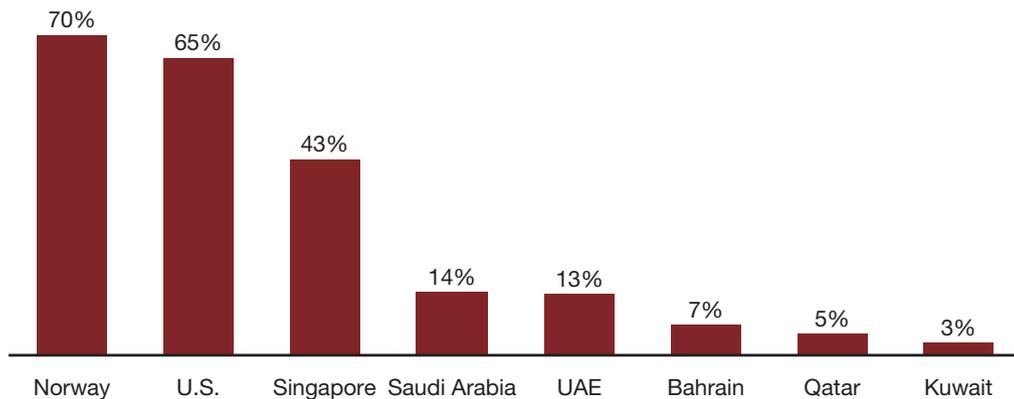
Source: Euromonitor; JLL; Asteco; NBK; literature search; Strategy& analysis

from escalating land prices alone without the risks of construction or development. There are no regulatory incentives to build or sell (for example, through property taxes).

Furthermore, potential home buyers also face difficulties securing mortgage financing. This can be because of the lack of a legal framework for banks to offer such financing or because of strict requirements that render many potential buyers ineligible for such lending (*see Exhibit 5*).

Exhibit 5
GCC residential borrowers have little access to mortgage finance

Percentage of Homes Financed by Mortgages, 2013



Source: Euromonitor;
Strategy& analysis

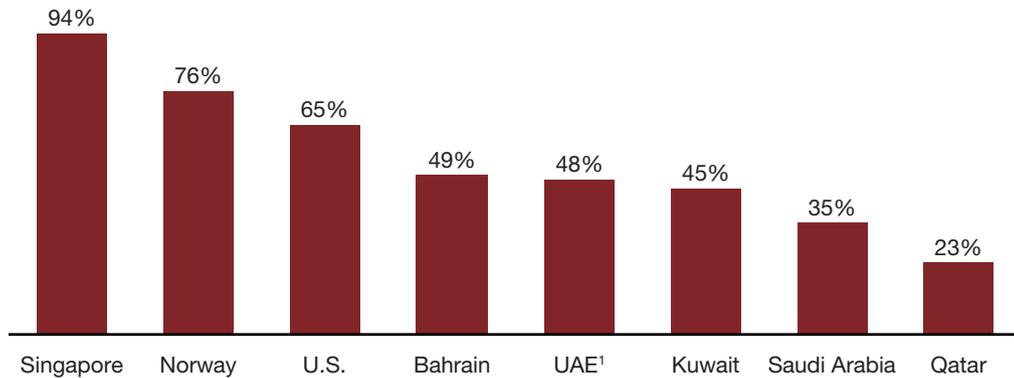
The result is that the GCC has home ownership rates far lower than those of comparable countries. Estimates are that only 35 percent of Saudi households own their homes. Among the UAE population, home ownership rates are roughly 48 percent (*see Exhibit 6, page 9*).

The last factor that government policies must address is the evolution in housing preferences in the region. People now want apartments rather than houses, in part because of affordability. For example, in a 2012 Strategy& survey of 300 male Saudi heads of household between 20 and 60 years of age, 44 percent preferred larger apartments to smaller villas.⁴ This represents a major shift in preferences, one that may reflect the economic realities of many Saudi citizens (who simply cannot afford a house or villa) and a current trend toward smaller families (meaning people do not need as much space).

Exhibit 6

GCC home ownership rates are below those of comparable countries

Percentage of Home Ownership, 2013



¹ UAE citizens, does not include expatriates.

Source: Euromonitor; Strategy& analysis

The attitude of the aspiring younger generation is also having an effect on housing demand. Many young citizens of GCC countries are interested in a higher standard of living, with more services and less pollution. Their goal is no longer to simply own a home. Instead, they are looking for a “total lifestyle package”: homes that provide them with a sense of identity, a place where they enjoy spending time, and a long-term investment to increase their wealth.

Several GCC governments are trying to address the housing shortage by spending billions of dollars on mega-housing programs, often aimed at low-income residents. These measures, while well-intended, will not be enough to meet escalating and evolving housing needs. Lessons from past mega-housing projects show that these initiatives address the short-term goal of providing physical housing through large quantities of low-income units. However, without sustainability and community factors embedded in the design and construction of these units, they often do not retain their value over the long term. More broadly, such projects miss an opportunity to address the region’s broader socioeconomic and environmental challenges and foster stronger communities for residents.

Five measures to make public housing policy more effective

Given the severity of the housing shortage — and the current efforts of GCC governments to achieve other socioeconomic goals, such as reducing unemployment and weaning residents from their dependence on the state — a better approach to the provision of housing is needed. Rather than focusing simply on bricks and mortar, GCC housing policies should aim to build vibrant communities, create jobs, enhance social welfare, and ensure a healthy environment. The right housing development strategy can lead to gains in each of these areas.

Governments need not invent this strategy from scratch. There are success stories elsewhere from which GCC governments can derive lessons, such as PPPs in Morocco, Singapore’s Housing and Development Board, and Hong Kong’s use of environmental building practices. These programs have resulted in successful housing projects, such as shared-use complexes that combine housing, retail space, and office space, along with recreational and educational facilities, green space, and access to public transportation — all built with environmentally sound designs.

Five factors will be critical to making public housing policy more effective.

1. Apply sustainable urban planning and design principles

Fundamentally, the right approach includes principles of sustainable urban planning and design, including mixed-use developments that feature a combination of residential, commercial, educational, and civic space. Such developments foster a sense of physical and social community. They provide open space that displays the community’s natural beauty, along with easy access to transportation and social infrastructure. They have amenities such as retail and work spaces within a reasonable distance, to minimize the use of cars. Financially, the right design can retain or increase the value of the properties being developed. It also creates a range of employment opportunities both within and near the community, which helps advance the socioeconomic status of residents (see “Singapore’s ‘vibrant towns,’” page 11).

GCC housing policies should aim to build vibrant communities, create jobs, enhance social welfare, and ensure a healthy environment.

Singapore’s “vibrant towns”

Over the past 50 years, Singapore’s Housing and Development Board (HDB), a specialized branch of the Ministry of National Development, has focused its efforts on developing healthy and sustainable residential environments. To this end, the HDB created modern, self-contained towns — known as “vibrant towns” — where residents can live, work, learn, and play. These communities integrate residential, retail, commercial, hospitality, and public areas within walking distance of each other (and close to public transportation). To ensure that the properties hold their value and to prevent social segregation, the HDB emphasizes maintenance and constantly upgrades older developments and units.

The HDB is implementing two broad and interlinked policy programs. First, it builds apartments of various sizes in each town, precinct, and block, in order to provide for a mix of residents from different income and social groups. Second, the HDB allocates flats to Singaporeans according to their age, household formation (such as multi-families, recently married couples, and singles), and income groups. Together, these policies have been able to resolve the housing shortage for a growing population and satisfy the needs of the vast majority of HDB residents. Of course, the situation is more straightforward in Singapore because housing is directly controlled by the government, which has a strong planning capability.

Studies suggest that sustainable housing can deliver a range of environmental benefits. Many buildings in the GCC region — and their occupants — are notoriously inefficient in their use of space and energy. Much of the high electricity consumption in these countries is residential. In Kuwait, for example, residential usage represents more than 65 percent of overall consumption. Yet solutions are available. For example, sustainable elements such as proper insulation for external walls and roofs, double-glazed windows, and fitted shade devices can reduce annual household electricity consumption by about one-third.⁵

Similarly, mixed-use zoning leads to numerous environmental advantages; the most significant is a decrease in car travel, which can greatly reduce air pollution and CO₂ emissions. Access to public transportation allows for greater mobility of residents, both within and outside the community, and reduces pollution. Including design components such as green spaces helps foster biodiversity and a vibrant ecosystem (see “*Hong Kong plans for a green city,*” page 12).

Hong Kong plans for a green city

Pollution is near the top of Hong Kong's agenda. With a high population density and significant air pollution, Hong Kong is looking to reduce pollution, energy usage, and waste — all of which inflict major ecological harm and considerable costs. A 2013 study shows that air pollution may have caused 3,000 premature deaths in Hong Kong and more than \$5 billion in monetary losses in 2012 alone.⁶

To address this, the Hong Kong Housing Authority has collaborated with the private sector to implement environmentally friendly practices in construction. These are focused on reducing energy consumption through the design, layout,

and materials used in homes. Replacing cement with pulverized fuel ash in concrete mixes resulted in savings of 21,000 tons of cement annually, and reduced the air pollution and carbon emissions from the construction process. Plumbing specifications stipulate the use of water-saving fixtures, and contractors used acoustically advanced windows that would insulate effectively while cutting down on noise pollution. Special waste-collection counters in each development resulted in the collection of 24,000 tons of waste paper, 1,600 tons of plastic bottles, and 1,000 tons of aluminum cans in just one year, all of which were recycled instead of ending up in landfills or incinerators.

Source: Hong Kong Housing Authority 2012; Strategy& analysis

2. Leverage public-private partnerships

Although, the public sector cannot solve the housing shortage on its own, handing it off to commercial developers is not a realistic alternative. Instead, PPPs are a potential solution that can lead to a faster and more sustainable response. PPPs have already been used to build necessary infrastructure and provide more effective public services in areas such as healthcare and education. Structured correctly, such partnerships can combine the investment funds and expertise needed to execute and manage housing projects. They allow government assets to be allocated across more projects. Also, they can build public-sector capabilities by transferring know-how and expertise to relevant government agencies, thus helping streamline the delivery process.

As with other areas where the public and private sectors intersect, this form of cooperation will require mechanisms to ensure transparency and efficiency. The Moroccan government, for example, has successfully partnered with the private sector to help address the shortages in affordable housing (see *"The PPP experience in Morocco,"* page 13).

3. Strengthen housing finance

Another structural limitation is the access to home financing in the region, often because of underdeveloped financial markets and regulations. In some cases, collateral requirements are extremely high. For example, a mortgage borrower in some GCC countries must sign a check for the total mortgage amount. Yet Shari'a (Islamic law) can

The PPP experience in Morocco

In many countries throughout the Middle East, land is relatively expensive for a variety of reasons. Often this results from rent-seeking activities, in which corporations, organizations, or individuals (typically within prominent families) use their influence to gain public lands at low prices — or for free — and hold it for subsequent development and high profits. To counter these activities, Morocco engaged with the private sector and created a long-term solution. The authorities offered private developers 3,800 hectares of land at reduced prices, in exchange for a commitment to build and sell low-cost apartments on two-thirds of the allocated space. The remaining third

was for private developers to build and sell more expensive housing types. The private sector was given sole responsibility for, and control over, project design, development, maintenance, and funding.

This approach generated social and economic benefits, through a better provisioning of customer-oriented services such as water and electricity. It also helped create jobs, in that the private developers hired local workers and maintenance specialists. Moreover, it improved the relationships among the community, private developers, and the relevant government agencies.

Source: Knowledge Corporation (KCORP) 2013; Strategy&

prohibit most banks from reclaiming a person's house, even if the owner defaults on a mortgage payment. As a result, many banks are hesitant to extend mortgages.

Governments often respond by providing soft loans through local banks or government agencies. Such practices, while well-intended, often erect new hurdles to the process of buying a home. Few governments in the region have rigorous data on housing and population characteristics (e.g., income, age, and social status). Similarly, few have any kind of equitable distribution mechanism (i.e., targeting households that are most in need). As a result, loans are unevenly distributed. In Saudi Arabia, for example, the waiting time for loans can reach 18 years.⁷ Yet implementing a new prioritization scheme — such as a points system — can be difficult to sell politically. Government bureaucracies also scare away commercial lenders.

Governments have an inherent interest in encouraging the private banking system to play a lead role in financing house purchases. A vibrant residential mortgage market would lead to higher home ownership and growth in the real estate sector, and most important, would reduce the burden on the government to increase access to housing.

Addressing this challenge requires a two-part solution. The first regards finance — governments must develop financing schemes that more effectively target low-income households, allowing them to purchase adequate and affordable housing. The second is the legal aspect — mortgage laws must be revamped to offer protection to low-income households, while still preserving the rights of lenders.

4. Diversify housing programs

Most GCC governments' housing programs offer limited types of assistance. The existing programs offer either land, direct financial support, or a housing unit.

This limitation has two drawbacks. First, there is a mismatch between assistance and need. The current programs assume that all applicants need a new housing unit. However, applicants may already have access to existing housing units, such as their parents' home, that require renovation to accommodate the growth in the family. This mismatch may lead to the waste of valuable resources, and missed opportunities to renovate existing units, some of which are historic. Second, there is limited access to existing programs. Most of these programs require the beneficiaries to repay over time the value of the benefit. In some circumstances, the applicant's income does not allow the person to be a homeowner, leading to a denial of assistance. Offering rental assistance programs would lead to better targeting of assistance and more efficient use of resources.

A large menu of programs can be used by governments to ensure proper targeting and efficient use of resources (*see Exhibit 7, page 15*).

5. Implement efficient management

Housing programs are ambitious and will not succeed without clear oversight in both the short and long term. A few countries with successful sustainable housing policies, such as France and Singapore (*see "The Housing and Development Board in Singapore," page 17*), have created specialized agencies to deal with the supply, maintenance, and management of public housing. For example, a specialized agency can evaluate housing applicants to ensure that those who best meet the eligibility requirements actually receive housing. In addition, these agencies can ensure the adequate maintenance of facilities, to establish a consistent and equal standard of housing over the years.

Exhibit 7

“Best-in-class” countries offer considerable housing assistance

Housing Assistance Programs Menu

	1 Home ownership assistance	2 Rental assistance	3 Maintenance assistance	4 Developer assistance
Benchmarks	Australia, Canada, Norway, Qatar, Singapore	Australia, Canada, Norway, Qatar, Singapore	Australia, Norway	Australia, Canada
<p>More common ↑</p> <p>↓ Less common</p>	Subsidized mortgages Provision of public mortgages at subsidized rates to qualifying families	Long-term rental assistance Provision of affordable public housing for rent to targeted beneficiaries	Home maintenance assistance Provision of financial assistance (loans or grants) for maintenance or direct provision of maintenance services	Housing association support Provision of financial support to not-for-profit associations
	Mortgage insurance Protection for lenders against customer default	Short-/Medium-term rental assistance Provision of public housing for free or at low rents for short to medium term, e.g., for the homeless or victims of domestic violence	Neighborhood renewal Coordinating the pooling of communities’ resources to afford facilities and large projects	Land disbursement Provision of land at below-market prices for the purpose of developing units
	Housing provision Provision of public housing units at a subsidized price	Private rental assistance Provision of financial assistance for tenants of private housing for payment of the initial rental deposits or rents	Home improvement Small scale preventive maintenance/home improvement programs jointly paid for by the government and tenants	
	Rent-to-own Option for tenants to transition from renting to owning residences	Special-needs assistance Provision of temporary residences, or rental assistance to citizens with special needs		
	Land grant Provision of plots of land for free, or the money to purchase suitable land			
	Self-build housing Provision of bridging loans by the government to enable beneficiaries to finance construction of a house			

Benefit type

- Land
- Housing unit
- Financial

Source: Strategy&

Furthermore, human capital is an important factor in housing management. The right expertise must be in place within the different departments and branches of the housing department. Experts with legal, technological, research, and statistical experience, for example, can help manage the mismatch between demand and supply. To succeed, however, housing programs need efficient and transparent institutional support that can implement, monitor, and assess them.

On the legal front, laws that guide the actions of both tenants and owners can be especially useful in ensuring the maintenance of housing units, as well as the overall real estate market mechanisms. As such, effective property management can act as a buffer between owners and tenants, ensuring that all parties involved are sufficiently engaged to guarantee best practices within the housing market.

In order to maintain the stability of the real estate sector and attract investments for its development and growth, governments must ensure the rights and responsibilities of landlords, tenants, investors, and property service providers. A real estate regulatory agency, similar to the Real Estate Regulatory Agency in Dubai, is one approach to efficiently carry out this task. Such a body is able to license, organize, and manage all real estate activities, real estate agents, and developers' trust accounts, along with rental and purchase agreements. For example, by monitoring the fees demanded by real estate companies, the agency can introduce more transparency and accountability into the market, and eliminate incentives for some people to pay or solicit extra for preferential treatment.

In addition, a regulatory body can regulate and supervise real estate associations and media-related activities as well as circulate real estate research, studies, and publications. It is also better able to maintain consumer and investor confidence in the real estate market — a key priority for GCC countries' growing real estate markets.

To succeed housing programs need efficient and transparent institutional support that can implement, monitor, and assess them.

The Housing and Development Board in Singapore

The Housing and Development Board (HDB) is Singapore's public housing authority and statutory board that sits under the Ministry of National Development. It plans and develops public housing that provides Singaporeans with quality homes, ensures vibrancy of the towns through continuous renewal and upgrading programs, and creates communities.

The HDB's control extends beyond building and selling apartments, to cover mortgage lending and operating as an arm of the police (e.g., it has the authority to evict residents for serious offenses). The HDB is organized into four divisions with clear functions, and a total of 5,567 staff members.

Research: The HDB Building Research Institute develops future housing policies.

Building: As the developer for the HDB, this division fulfills functions such as procurement, planning quality, and development.

Estate: The property manager for HDB-managed properties, it includes functions such as estate administration and property, housing management, and community relations.

Corporate: This division handles the internal administration of the HDB.

The HDB has also established a subsidiary, EM services, to offer real estate management, engineering, contracts administration, and project management services to town councils. It is the largest management agent for public housing in Singapore and manages more than half a million units on behalf of town councils.

Source: Singapore's Housing and Development Board; Strategy&

Conclusion

Each of the measures described in this report is insufficient alone. GCC governments need to bring them together in a holistic approach to develop sustainable policies that can relieve the current shortage of affordable units and increase the socioeconomic benefits of public housing. Instead of building mega-housing complexes using traditional approaches, governments can redirect capital toward more comprehensive solutions, and collaborate with private builders, banks, and other stakeholders. In particular, these housing policies will provide social inclusion, economic viability, and environmental sustainability.

The housing challenges in the region are profound. However, with the right approach governments can transform these challenges into opportunities to develop a vibrant and more affordable GCC housing market, and so better meet the needs of the current and future populations of the region.

Endnotes

¹ The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).

² United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects: The 2010 Revision*, CD-ROM edition, 2011.

³ Ibid.

⁴ Richard Shediac, Samer Bohsali, and Hatem Samman, “The bedrock of society: Understanding and growing the MENA region’s middle class,” Strategy&, 2012.

⁵ Hannan M. Taleb and Steve Sharples, “Developing Sustainable Residential Buildings in Saudi Arabia: A Case Study,” *Applied Energy*, vol. 88, issue 1, 2011, pp. 383–391.

⁶ Lai Ying Kit, “Hong Kong air pollution causes 3,000 deaths, costs billions annually,” *South China Morning Post*, April 14, 2013 (<http://www.scmp.com/news/hong-kong/article/1128685/air-pollution-causes-3000-deaths-costs-hk39b-annually>).

⁷ Banque Saudi Fransi, “Under construction: Saudi steps up efforts to meet home, loan demand,” *Saudi Arabia Economics*, March 20, 2011 (<http://www.alfransi.com.sa/en/general/download/file/1134>).

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