

Evaluating “Zero Land Policy”: Iran’s initiative to provide homes for those with lower incomes

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Abstract

“Zero Land Policy” is the main idea behind Iran’s nationwide “Mehr (Love) Housing Project”. ZLP was designed on the basis of the idea that the value of the land contributes to a great deal to the total costs and expenditure of the house built on that land. This share was estimated to be around 40% during the last 35 years and has reached 45 percent during the last decade. In capital Tehran, this share is even higher than 60%. Therefore, it was believed that by excluding or significantly reducing land value from the housing cost, overall housing expenditures could be significantly reduced.

The findings of this study show that although the land policy and the design of reduction of constructional costs of the Mehr housing project were justifiable, at least on paper, however, execution details during different phases of execution, along with methods of providing financial resources for the project created numerous complications. The main drawbacks were errors in site selection of lands in some areas, especially big cities and the wrong method of procuring financial resources from the central bank which had a major impact on inflation, and consequently, reduced the purchasing power of the populations in housing markets, including those with lower incomes.

Keywords

Zero Land Policy, ZLP, Mehr Project, Land Policy, Land Management, Land Pricing

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Introduction

A review of land and housing plans and policies over the past three decades in Iran shows that low-income housing has always been a key part of the land and housing policies of the country. These policies can be expressed in the form of two general approaches:

The first approach, *Land Supporting Policy*, was a common practice over the first decade starting from the 1979 Iranian Revolution to the end of the Second Development Plan of Iran (1979-1999) and the second approach, *Housing Supporting Policy*, was formed in the Third Development Plan (2000-2005) during which housing rent, construction, and transfer became a common practice through the hire purchase.

The overall performance of land supporting policy shows that although almost one million low-income applicants became homeowners, the policy eventually caused economic rent with the arrival of the homeowners to higher deciles to get inexpensive urban lands. As a result, the policy, aiming to provide houses for target groups, partially failed.

In terms of performance of housing supporting policy, statistics show that a total of 120 thousand houses were constructed, showing a significant difference between the implementation and anticipations, fewer than half of the target. In this condition, housing sector of Iran was in recession in 2004 and 2005 and land and housing supporting policies were not much of success. The government of Mahmoud Ahmadinejad, the president (2005–09) began to increase housing loans to help the housing sector leave the recession. The government tried to stimulate the housing market by implementing the policy. The policy caused inflation, increasing the house prices in 2006 and 2007 in Iran. This was considered the biggest rise in house prices. An annual increase of 100% was experienced in some places. Following this, the government shifted from demand stimulation policy, based on increase the loans, to supply stimulation policy through the support of housing supply and demand. As a result, providing adequate housing for all citizens, especially low-income classes was emphasized in 2007 Budget Act and multiple solutions were recommended to reach the goals including land allocation at zero cost for the exploitation of public lands in order to reduce the final price of housing and eliminate the land cost from the total housing price. Eventually, the government proposed an emergency bill to the Parliament of Iran in terms of housing supply and demand, called "Support and Organization Policy of Housing Supply and Demand". The bill was approved and communicated to run after a few months, known as "Mehr Housing Project".

Mehr Housing Project aimed at reducing the final price of housing and increasing the access to this social goods. Therefore, Mehr Housing Project was based on four policies as follows:

- Zero land allocation associated with the exploitation of public lands through 99-year land rent. This caused the deduction of land price from the total housing price.

- Providing construction facilities to applicants. This enabled the households for the construction costs.
- Converting the role of developers from the ownership role to a managerial one. This handed over the final housing price to households.
- Organizing housing demand. Mehr Housing Project was mainly dedicated to only married applicants without housing.

Accordingly, eligible applicants were enrolled to start the Mehr Housing Project. In the first step, more than 3 million applicants registered. Almost 2 million applicants were eligible for Mehr Housing Project and they were at agenda for providing housing.

Detailed Principles of Mehr Housing Project

A- Zero Land Allocation (99-Year Rent)

The high share of land price is one of the most important and contributing factors of the house price. Planning to reduce the cost would dramatically help provide decent housing for low-income people. In Mehr Housing Project, public lands were allocated for housing demand and supply through 99-Year rent. The government played a key role in reducing the house prices by implementing the policy of eliminating the land price. This increased the demand for the Mehr housing and made more applicants hopeful. The same policy had been tried in developed and less developed countries with different political-economic trends. Implementing the policy helped prevent the land trade.

B- Interest-Free Loans for Constructing instead of Purchase Loans

Despite previously 40-year inefficient policies in the housing sector which only emphasized the demand in the housing sector, Mehr Housing Project improved the sector by emphasizing the supply by changing the purchase loan to construction loan in order to prevent the inflation. Mehr Housing Project was a top priority in the agenda. Note that almost 70% of construction costs were provided by Maskan Bank through interest-free loans and only 30% was the responsibility of applicants. The policy directed applicants' funds towards production and investment.

C- Converting Ownership Intermediate to Managerial Intermediate in the Process of Housing Supply and Demand

Despite previous periods, land ownership was given to the constructors in Mehr Housing Project. The constructor or contractor is the managerial intermediate of housing production. Therefore, the profit

caused by land investment and inflation is not transferred to the constructors. In Mehr Housing Project, the real housing need was met by providing land and construction facilities in the form of 99-year rent. In this project, the applicants became the owners since the beginning and eligible constructors were managerial intermediates in addition to directing them towards the mass production and use of modern technologies. The change caused the applicant become the one to finalize the housing cost and speed up the construction. In this process, the added value of housing was due to the final consumers.

Executive details

Governmental and national lands in control of Ministry of Roads and City Planning, National Resources Agency, Ministry of Interior, and other ministries were allocated under the “99 years ownership/leasehold” plan, which is basically a design for a 99-year leasing of lands with very low pricing (near zero) to housing cooperatives for the purpose of building houses for those with lower incomes. Individuals who receive “99 years lands” can convert these lands to freehold and reverse the 99-year condition in return for a specified premium later.

In addition to governmental and national lands, in some cities, lands were bought from their private owners by the government and added to the ZLP lands.

Leasing prices of lands in the ZLP or Love Housing project were between 10 percent of original value in smaller cities, to 20 percent in larger ones.

The project was initially carried out and implemented in cities with a population smaller than 25 thousand, but quickly expanded to other cities and even the capital, such that so far more than 2 million residential units with a total capacity of 8 million individuals (10 percent of the country’s population) have been allocated as part of the project.

Certain filters and criteria’s designed for assessing applicants’ qualifications for receiving lands and houses as part of this new project, these were as follows:

1. Applicants must be without housing and/or residential lands,
2. Applicants must not be a previous user of governmental facilities for housing such as lands, housing unit, or subsidized facilities for purchasing and/or building residential units,
3. Applicants must be married or female heads of households,
4. Applicants must have a minimum 5-year background of living in their city of requisition

In addition to providing land for applicants, other proceedings have been considered in the general agenda such as granting banking facilities for land preparation procedures and/or for building houses on the allocated lands. Measures were also taken for reducing costs of land and building license fees and construction permits.

The government also engaged in providing necessary infrastructures such as roads, water, electricity, and city services including educational, hospital, green space, and some other services required at these residential units.

The project initially progressed very quickly, but soon was met with financial complications during the establishment and construction of buildings at the allocated lands. This ultimately resulted in the government reliance on financial resources of the central bank of Iran.

Positive Results of Mehr Housing Project from the Perspective of Proponents

Those who are in favor of the project believed and claimed that the project is associated with numerous positive results:

- Constructing almost 2 million houses.

The project has physically progressed by 93%. Since the outset of Mehr Housing Project in 2007, 2300 thousand houses were planned to be constructed. After eliminating 80 thousand houses, the total number of houses decreased to 2220 thousand. Since then, 1900 thousand houses have been built and delivered to applicants. Almost 300 thousand houses need to be built. Out of 300 thousand houses, 117 thousand have major location problems. There is no applicant for these houses. The remaining 200 thousand houses are in the last stage of construction, which will be completed in 2017.

- Direct and indirect employment for over 2 million individuals annually

The housing sector, the fourth important for the direct employment and the second important for indirect employment, plays a key role in the unemployment rate. At the moment, it creates one direct employment and accordingly 0.24 indirect employment per 57 m² residential building. According to the area for Mehr Housing Project, 2170 thousand direct and indirect jobs were created.

- Reducing the share of house in household basket

Housing share index in the household basket is almost 20% in advanced countries. On average, it is 30% in Iran. The index is 50-70% in metropolises for low-income groups. Implementing Mehr Housing Project concurrently decreased household expenses by over 50% and increased income.

- Increasing the industrial production of house from 3 to 20%
- Raising Hope for Homeownership and Access to housing for lower income deciles

Reducing the waiting housing period from multiple decades to some years for the first four income deciles was another positive effect of the project.

- Entry of foreign investors to the construction technology transfer, mass production, and productivity improvement in the sector

- Stimulating demand in other housing-related sectors including steel, cement, appliances, furniture, etc.

Criticisms of Mehr Housing Project

The criticisms are divided into 4 groups:

- Poor allocation of land

There is no demand for some constructed houses in the project.

- Poor construction engineering and lack of observing housing construction due to poor supervision or pressure to reduce costs.
- Slow construction of urban facilities and installation such as hospitals, schools, children's playground, etc.
- Financing by Maskan Bank from credit line of Central Bank of Iran that caused inflation.

Detailed Description of Some Criticisms

1. Lack of attention to the needs of spatial planning and population locating in some new towns;
2. Poor design and lack of health, cultural, scientific, economic, administrative, educational, hospital, manufacturing, and business per capita; Lack of these elements mean lack of attracting immigrants. In other words, housing demand cannot be responded in population centers specially metropolises and Tehran by constructing new towns due to lack of essential infrastructures and attraction factors.

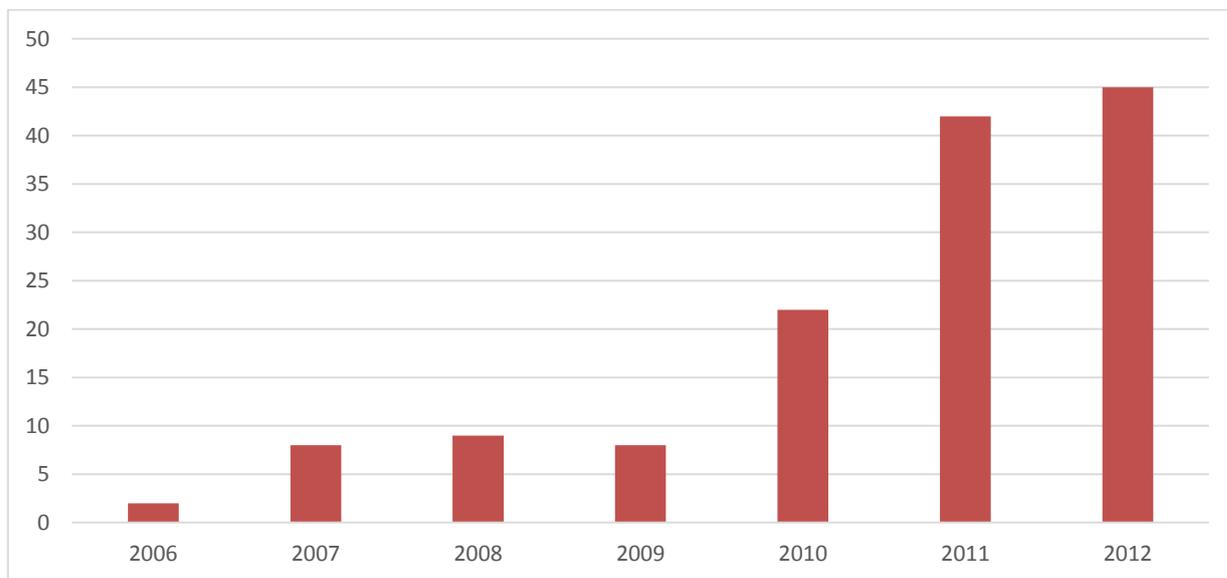
The houses are mainly considered for the immigrants to new towns. In other words, the current demand is increasingly accumulated in the same location with no response to the needs. In such conditions, development of cities is limited or impossible due to the poor horizon of long-term Urban Detailed Plans. Accordingly, the value of property ownership increasingly expands and valuation maneuverability of owners rises towards the national and local governance approaches towards dealing with problems. On the other hand, the location of new towns causes development, enhancement, and expansion of national and local government obligations and future governments would face a number of non-responded and related problems. Note that, in this stage, it is essential to analyze the causes of immigration to cities, province capitals, and metropolises especially

Tehran in order to involve the factors and backgrounds of immigrant attraction and population growth in the design and construction of new towns, made to attract the population overflow.

3. Regardless of selecting and signing contracts with contractors or even hiring second or third important contractors, observing criteria and design and construction standards and quality are faced with major ambiguities. Some of these complexes have destroyed during the process of construction. In other words, numerous efforts, enormous resources and relevant opportunities without full observation of approved criteria and standards cannot guarantee the long-term trust of applicants. Profits sought by second and third-hand contractors during the operation declined the quality and lack of observing approved standards. In other words, the capacity and competence of consultants and contractors require more attention and accurate and continuous supervision.
4. Poor supervision of governing bodies for the preparation operation and construction caused numerous legal problems. Some projects are faced with court cases.
5. Improper coordination and incoherence of approach of service bodies for infrastructural services. This caused lengthened completion and population settlement. Delays in granting housing loans have also caused expected a lack of progress.
6. Numerous problems of Mehr Housing Project including lack of clear information on the total price, preparation operation, and construction based on financial ability and low-income capitals caused many applicants to withdraw the plan, especially in the first to third income deciles.
7. Supervision was made by engineers working in Housing and Urban Development organizations in some provinces. The engineers were both the project supervisors of Mehr Housing Project at the same time. As a result, ignorance was expected.
8. According to the investigations by General Inspection Office of Iran, Memorandum of Understanding and contracts were prepared without observing the fourfold limits and accurate and careful detailed specifications, In some cases, the land use changed in favor of Mehr Housing Project.
9. One of the important points along with above mentioned per capita and spatial requirements in new towns, the timely realization of plans and actual assessment according to the number of applicants need to be reviewed and met.
10. Lack of above-mentioned facilities and road infrastructure caused these towns not to be welcomed: The towns are similar to settlements without urban and social factors.
11. Creating inflation reduces the real value of money saved by people. Such monetary reduction is similar to the tax imposed on money keepers in societies, known as an inflation tax. In this

condition, the governments tend to obtain their income through the individuals with fixed income. This is very unfair. In banking literature, the central bank is considered that last source of loan and it is essential to avoid its resources. This principle was violated in Mehr Housing Project. One of the clear violations was the use of Central Bank resources for funding the project. This caused the growth of the monetary base and liquidity. Fig. 1 shows that the debt share of Maskan Bank from the monetary base, caused by increased debt of banks to the central bank after the outset of Mehr Housing Project in 2006, has always experienced a sharp increase. In 2012, it formed 45% of monetary base. Since a major share of the monetary base increase was associated with Mehr Housing Project funding through the use of Central Bank resources, it is considered the main reason for liquidity and inflation in recent years. The inflation reached above 30%. Considering the rising trend of debt share of Maskan (Housing) Bank to the Central Bank, tax inflation, imposed on people, experienced a rising trend.

Fig. 1: Debt Share of Maskan Bank to Central Bank from the Monetary Base (%)



12. *Politicizing the land and housing policy* has been a damaging factor for the project. Mehr Housing Project was one of the main promises of the government. Therefore, criticism was not heard. Also, it has no political gain for the new administration, therefore, paying less attention to the project has delayed the remaining phases.

Conclusion and Recommendations

Housing by reducing the share of the land cost from the final price, providing interest-free housing loans, and changing ownership intermediates to managerial ones are one of the most inexpensive ways of housing. This benefits the low-income class and reduces the housing costs in the household basket. The projects provided houses for almost 2 million families (around 8 million households). Yet, other measures are required for sustainable funds, not through the pressure on the monetary base and money creation by the central bank and, accordingly, inflation. Locating and constructing urban installations and facilities need to be carefully taken into account. The quality must not be the victim of quantity. Avoiding the politicization of the plan by governments and parliaments can help prevent the delays and observe the essential standards.

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