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ARAB REPUBLIC OF EGYPT

**A FRAMEWORK FOR HOUSING POLICY REFORM IN URBAN
AREAS IN EGYPT:**

**Developing a Well Functioning Housing System and Strengthening the
National Housing Program**

June 30, 2008



The World Bank



USAID
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TAPRII
TECHNICAL ASSISTANCE
FOR POLICY REFORM

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ABBREVIATIONS AND ACRONYMS

AHS	American Housing Survey
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
EFS	Egypt Financial Services
EMRC	Egyptian Mortgage Refinance Company
ESA	Egyptian Survey Authority
FAR	Floor Area Ratio
FHFB	Federal Housing Finance Board
FOGARIM	Fonds de Garantie pour les Revenus Irréguliers et Modestes
GOE	Government of Egypt
GOPP	General Organization for Physical Planning
GPM	Gradual Payment Mortgage
GSF	Guarantee and Subsidy Fund
HDB	Housing Development Bank
HIECS	Household Income, Expenditures, and Consumption Survey
HIS	Housing Information System
HUD	U.S. Department of Housing and Urban Development
ID	Identification
IFC	International Finance Corporation
KFW	German Bank for Reconstruction
LE	Livre Egyptienne, Egyptian Pound
M&E	Monitoring and Evaluation
MBA	Mortgage Bankers Association
MENA	Middle East and North Africa
MFA	Mortgage Finance Authority
MFC	Mortgage Finance Company
MFH	Microfinance for Housing
MFI	Microfinance Institutions
MHUUD	Ministry of Housing, Utilities, and Urban Development
MOF	Ministry of Finance
MOI	Ministry of Investment
MOJ	Ministry of Justice
MOLD	Ministry of Local Development
MOSS	Ministry of Social Solidarity
MSAD	Ministry of State for Administrative Development
NAHB	National Association of Home Builders
NAR	National Association of Realtors

NBE	National Bank of Egypt
NHP	National Housing Program
NGO	Non-governmental Organization
NUCA	New Urban Communities Authority
PD&R	Policy Development and Research office, HUD
PPP	Public-Private Partnership
REPD	Real Estate Publicity Department
SOMA	Survey of Market Absorption
SHF	Sociedad Hipotecaria Federal
TAPRII	Technical Assistance for Policy Reform
UNDP	United Nations Development Program
USAID	United States Agency for International Development

ARABIC TERMS

<i>Awqaf</i>	Religious endowments, plural of <i>Waqf</i>
<i>Beit Al-Ailaa</i>	Literally family house, a core house option under the National Housing Program (NHP)
<i>Feddan</i>	Unit of measurement of agricultural land, equals approximately 4,200 square meters
<i>Gam'iyah</i>	Revolving savings and credit groups
<i>Hiyaza</i>	Literally possession, refers to adverse possession
<i>Ibni Beita</i>	Literally build your own house, a sites-and-services option under the NHP
<i>Istimarat</i>	Applications
<i>Massaken eiwaa'</i>	Emergency housing
<i>Mutakhallelat</i>	Agricultural land pockets
<i>Rossoum Tanazol</i>	Transfer fee
<i>Saha wa nafaz</i>	Procedure undertaken in court as a proxy to registration, in which the claimant upon purchasing land/property uses the transfer deed to dispute the right of the seller to the property in question, and which leads the court to examine the chain of ownership (lasts several years)
<i>Sejel ainee</i>	Parcel-based deed registration system
<i>Sejel shakhsee</i>	Person-based deed registration system
<i>Takhssiss</i>	Literally allocation of land; refers to conditional transfer of land ownership subject to certain conditions (retaining the land use unchanged, paying price installments)
<i>Waqf</i>	Form of land tenure, refers to land which has been earmarked as religious endowment and is administered by the Awqaf Ministry for the purpose for which it was endowed

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I. EXECUTIVE SUMMARY

1.0 Objectives

The two key objectives of this policy note are to provide recommendations for a policy-based approach to housing sector reform in Egypt and to improve the delivery of housing subsidies under the National Housing Program (NHP). The paper builds on the key findings of recent research and analysis related to affordable housing in Egypt, and presents a framework for moving forward with housing policy and subsidy reform focusing on two priority areas:

- **Comprehensive housing sector reforms** designed to put in place over the medium and long-term the foundations of an efficient and well-functioning urban housing market, with the aim of making access to housing in urban areas more affordable to all, by making more effective use of Egypt's existing housing stock, maximizing the role of the private sector in housing production and financing, and targeting government assistance in an efficient and segmented way to low, moderate and middle-income groups to access affordable housing solutions; and
- **Improvements to the NHP**, particularly regarding cost-efficiency, affordability and distributional impacts of housing subsidies, private sector participation, and effectiveness of the institutional framework, all of which can be initiated immediately with the aim of strengthening its ability to reach a larger number of beneficiaries and can also be used to leverage recommended longer-term reforms in the housing delivery system.

This framework is not a substitute for a complete housing policy, but rather a framework that focuses on key building blocks and specific policy issues that need to be addressed in Egypt.

2.0 Challenge: A Constrained Housing Market

Egypt has made significant progress in launching a mortgage finance system, initiating the reform of the land and property registration system, formulating an improved property tax law and a Unified Building Code, implementing a new Rental Law, and expanding the variety of affordable housing typologies offered under social housing programs. The most evident sign of the Government's commitment to improving housing conditions in the country was the launch of the National Housing Program (NHP) in 2005 with the goal of providing 500,000 affordable housing solutions by 2011.

Despite these advances, however, a large share of Egypt's urban housing stock is constrained by high vacancy rates, rent control, and informality. Indeed, almost 3.7 million urban housing units are either vacant or closed, an estimated 42% of the housing stock in Greater Cairo is frozen under rent control, and some 45% of new urban housing over the past decade was produced by the informal sector. While these three distortions are not entirely additive (e.g. an informally built unit may be held vacant and/or under rent control), it could be conservatively estimated that 50% - 70% of the urban housing stock in Egypt suffers from such market constraints. These combined *market weaknesses directly affect the affordability of housing* (which is further compounded by the rapid rise in construction costs and property values), the success of the newly initiated mortgage system, the mobility of labor, and the government's ability to address the shelter needs of limited income groups.

3.0 Goal: A Well-Functioning Housing System

The 500,000 units to be provided under the NHP are a temporary palliation for Egypt's chronic housing problem. However, the GOE has the timely opportunity to leverage the NHP subsidies and the political momentum created by the program to initiate the reforms needed to build a well-functioning housing system over the medium and long term. Indeed, the GOE has the proverbial chance to 'hit two birds with one stone.'

The most important benefit of a well-functioning housing system is that it will improve affordability and housing choice for all. Broadly speaking, a well-functioning housing system is a system in which the supply response is elastic and the market produces products people want at a price range that is affordable. Enhanced affordability is achieved because housing production takes place in an efficient manner so that the value of the output is as high as possible for any set of given inputs. For this to occur, the key input markets – land, finance, infrastructure delivery, construction and regulation – must function efficiently as well. As such, a well-functioning housing system can greatly improve a country's economic efficiency, especially in the rational use of investments, in labor mobility, and geographic choice.

Why should the GOE improve the functioning of the housing system? There are significant fiscal and macroeconomic consequences of a poorly functioning housing system. For example, a well-functioning housing market produces a wide range of house types with a broad range of prices and tenure options, which reduces the demand for government subsidies. Over the past 25 years, the public sector in Egypt built as much as 36% (1.26 million units) of all formal housing units supplied in urban areas. This came at a significant fiscal cost of LE 26.4 billion, not including additional off budget subsidies related to the cost of land and off-site infrastructure. Moreover, while the Ministry of Finance has allocated over LE 1 billion per year towards the NHP, it is estimated that the true off- and on-budget NHP subsidies will reach LE 6.6 billion per year, or around 0.8% of GDP for this program alone. Clearly, housing subsidies represent a sizeable fiscal burden for the Government of Egypt.

A poorly functioning housing system has negative macroeconomic consequences as well. Of foremost concern is that the current investment model of purchasing housing and holding it vacant is based on capital appreciation without cash-flow. This investment model is highly vulnerable to an economic downturn, it pushes housing prices upward, and it is an unproductive use of capital. High levels of vacancy and rent controlled housing stock, moreover, produce an inefficient urban system which has a negative effect on economic growth and limit labor mobility and participation.

The framework for a well-functioning housing system in Egypt presented in this Note consists of the five action channels listed below (see Figure 1). The framework provides recommendations for addressing existing distortions to the current *stock* of housing (vacant and rent controlled units), improving the *flow* or production of housing (decreasing the cost of formal housing supply by addressing the regulatory constraints that force many households to seek informal housing solutions) and enabling better access to housing (improving affordability to all through expanded access to housing finance, better targeting of subsidies to qualifying households, and reforming Government role as an enabler of housing markets) as a way for moving forward.

Addressing distortions to the stock of urban housing includes:

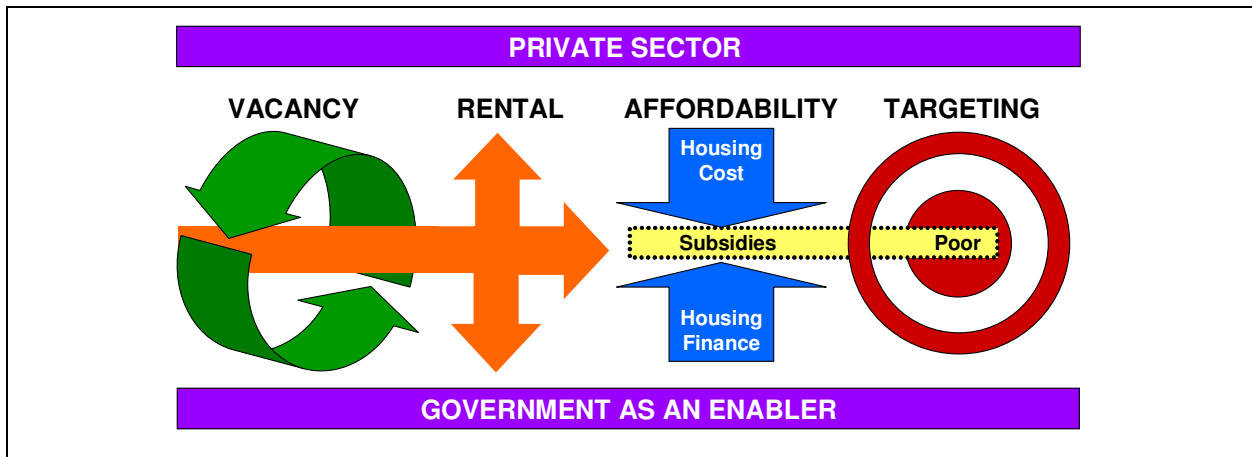
- **Vacant Units.** Unlock the stock of vacant urban housing through (1) reforms and innovative subsidy instruments that provide incentives to owners of vacant units to release them to the market and (2) developing a liquid rental market.
- **Rental Market.** Create a fluid rental market by (1) strengthening rental market regulations and (2) putting in place an action plan to gradually address the distortions to the overall housing

market resulting from the rent control regime, while implementing a safety net system to mitigate any socio-economic impact affecting vulnerable households.

Improving the flow of urban housing production includes:

- **Affordability.** Enhance affordability of new housing options by (1) increasing access to housing finance through incentives for lenders to further expand down-market to be able to reach more limited-income groups and (2) decreasing the supply cost of formal urban housing and transaction costs of accessing it to make access to housing more affordable to all and thus address the constraints that force the poor into informality. This dual approach to improving affordability will minimize the size of public subsidy needed per household (and the need to use subsidies to compensate for market inefficiencies) and thus expand the Government’s ability to reach a much larger number of beneficiary households with the same budgetary envelope.
- **Targeting.** Improve the targeting of public subsidies to ensure that they are provided to the lowest income households who require them to obtain adequate shelter solutions in line with affordability through the introduction of market segmentation to assist in clearing well-defined market blockages. Successful targeting along those lines and in a segmented way to address the different needs and issues facing different household groups will significantly improve the impact of the subsidies used and will enable the Government to reach a much larger number of qualifying beneficiaries, while reducing the leakage effect to non-deserving households.
- **Government.** Transform the government into an enabler of the housing market that can (1) better understand housing markets and react to changes, (2) effectively engage the private sector in the delivery of housing, (3) provide an effective regulatory framework, and (4) formulate policies to have in place a well-functioning housing system and assist low-income households to afford housing solutions.


Figure 1: Framework for a Well Functioning Housing System in Egypt

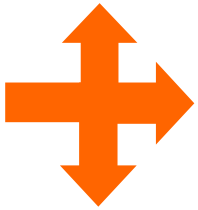


4.0 Recommendations


The recommendations detailed in this Note are divided into (a) reforms needed to develop a well-functioning housing system and that require a medium/long-term outlook, and (b) reforms that are immediately actionable under NHP and that will simultaneously work towards the goal of developing a well-functioning housing system and help MHUUD to efficiently enable the development of 500,000 affordable housing solutions by 2011 (see Table 1).

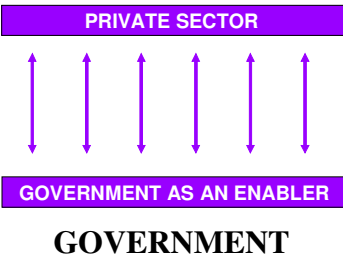
Table 1: Summary of Key Recommendations

Housing System Channel	Towards a Well-Functioning Housing Market (Medium/Long-Term)	Towards Improvements to the NHP (Short-Term)
 VACANT UNITS	<p>Goal: Unlock the stock of vacant housing through (1) reforms and incentives to owners of vacant units to mobilize them on the market, and (2) developing a fluid rental market.</p> <ul style="list-style-type: none"> • Conduct a survey of vacant and unfinished units • Consider tax incentives linked to releasing vacant units for rental, which may combine with measures to disincentivize holding units vacant, as may be appropriate (the rationale being the resulting negative externalities on property values) • Measures to further activate and promote awareness of the New Rental Law provision for streamlined tenant eviction procedures to promote rental utilization 	<ul style="list-style-type: none"> • Use NHP subsidy (with link to mortgage loans) to enable qualified beneficiaries to buy second-hand or unfinished units • Use NHP subsidy for qualified owners to complete units provided they are willing to rent them to qualifying NHP beneficiaries • Use NHP subsidy for escrowed grants as an incentive for NHP beneficiaries to swiftly release rental units and/or as guarantee to the landlord against eviction-related delays • Use NHP subsidy to assist down-payment for rental units as prevails in long-term contracts (5-10 years)
	<p>Goal: Create a fluid rental market by (1) strengthening rental market regulations and (2) putting in place an action plan to gradually address the distortions to the overall housing market resulting from the rent control regime.</p>	

Housing System Channel	Towards a Well-Functioning Housing Market (Medium/Long-Term)	Towards Improvements to the NHP (Short-Term)
 <p>RENTAL MARKET</p>	<ul style="list-style-type: none"> • Provide consumer education/ publicity on rent reforms • Define model rental contractual agreements governing the rights and responsibilities of tenants and landlords • Develop an ombudsman or other out-of-court mediation to expedite and lower the costs of dispute resolution • Establish low or no-cost windows for registration of rental contracts • Offer education of judges related to streamlined eviction process • Put in place an action plan to gradually address the distortions to the overall housing market resulting from the rent control regime (including review of international experience) while implementing a safety net system to mitigate impact on vulnerable households 	<p><i>Improvements to Existing Rental Program:</i></p> <ul style="list-style-type: none"> • Relax unit size constraints (to address local demand, cost differentiation) while keeping overall cost limits through cap on unit value or rental value <p><i>New Rental Programs:</i></p> <ul style="list-style-type: none"> • Subsidies to landlords to provide housing to a low-income qualifying tenant • Use NHP subsidy for escrowed grants as an incentive for NHP beneficiaries to swiftly release rental units and/or as guarantee to the landlord against eviction-related delays • Use NHP subsidy to assist down-payment (key money) for rental units
	<p>Goal: Enhance affordability of new housing options by (1) increasing access to housing finance through incentives for lenders to further expand down-market and (2) decreasing the supply cost of formally developed urban housing and incentives to developers to further go “down-market” to make access to housing more affordable to all. This dual approach to improving affordability will minimize the size of public subsidies needed.</p>	

Housing System Channel	Towards a Well-Functioning Housing Market (Medium/Long-Term)	Towards Improvements to the NHP (Short-Term)
	<p><i>Mortgage System:</i></p> <ul style="list-style-type: none"> • Continue efforts to improve legal framework through revisions of Law 148-2001 • Enable the development of credit and housing market information systems • Develop new credit risk sharing programs, including mortgage default guarantee/insurance, to encourage expanded and down-market lending • Separate guarantee from subsidy functions within the Guarantee and Subsidy Fund (GSF) <p><i>Microfinance for Housing:</i></p> <ul style="list-style-type: none"> • Provide support for development of low income housing micro-loan products for home improvement and progressive housing construction • Explore credit enhancement systems for microfinance under the guarantee function (of GSF) <p><i>Land Use Planning and Building Standards:</i></p> <ul style="list-style-type: none"> • Modify regulations on building heights, floor-area-ratios, and land for services to increase density and introduce measures to increase flexibility (block-based versus parcel-based zoning) • Streamline land subdivision and permit process • Make use of well located public land for affordable and authorize/ incentivize mixed-income housing and mixed-use developments • Authorize relaxed standards in specified “popular” neighborhoods • Inventory public lands in new in towns including subsidized public land still unused beyond contract term and investigate use of <i>Awqaf</i> land • Enhance ongoing efforts in improving land registration • Conduct major public awareness campaign 	<p><i>Mortgage System:</i></p> <ul style="list-style-type: none"> • End below-market interest rates for NHP-linked loans • Explore using interest rate buy-downs within mortgage-linked subsidy system to enhance affordability • Consider provisional registration or post-construction permits for qualifying informal structures that meet reasonable planning, health and safety criteria to allow eligibility for mortgage loan • Register properties built on State land <p><i>Microfinance for Housing:</i></p> <ul style="list-style-type: none"> • Develop an affordable sites-and-services or core housing scheme that includes access to microfinance loan options • Build on current lending in microfinance for housing • Use savings (within the postal system) as rationing device and underwriting tool for housing microfinance <p><i>Land Use Planning and Building Standards:</i></p> <ul style="list-style-type: none"> • Make land for NHP projects available to match employment, transport, and education needs of low income households • Allow NHP subsidies for housing on non-State land • Relax land and building standards for the <i>Beit Al-Ailaa</i> (family house) and <i>Ibni Beitak</i> (build your own house) programs • Introduce mixed-use residential/commercial development and mixed-income development to allow cross subsidies to operate at the project level

Housing System Channel	Towards a Well-Functioning Housing Market (Medium/Long-Term)	Towards Improvements to the NHP (Short-Term)
 <p data-bbox="205 521 401 548">TARGETING</p>	<p data-bbox="512 261 1978 394">Goal: Improve the targeting of public subsidies to ensure that they are provided to (1) the lowest income households who require them to obtain adequate shelter and (2) specific market segments to assist in clearing well-defined market blockages. Successful targeting along those lines will significantly reduce the need for future subsidies and enable coverage of a larger number of beneficiaries.</p>	
	<ul data-bbox="512 410 1262 732" style="list-style-type: none"> • Better monitoring and enforcement of existing criteria to help limit vacancies and speculation • Streamline targeting methods for all government subsidized housing programs including reliance on lenders in mortgage-linked subsidy programs, governorates, Mortgage Finance Institutions (MFIs), etc • Consider additional targeting criteria to improve accuracy 	<ul data-bbox="1299 410 1969 621" style="list-style-type: none"> • Pilot new targeting methods using existing mechanisms (“piggy-back” approach) • Consider additional targeting criteria to improve accuracy such as overcrowding and residents of slums • Facilitate prioritize group applications
	<p data-bbox="512 777 1965 870">Goal: Transform the government into an enabler of the housing market that can (1) effectively engage the private sector in the delivery of housing, (2) provide an equitable regulatory framework, and (3) formulate policies to keep the housing system on track.</p>	

Housing System Channel	Towards a Well-Functioning Housing Market (Medium/Long-Term)	Towards Improvements to the NHP (Short-Term)
 <p>PRIVATE SECTOR</p> <p>↑ ↓ ↑ ↓ ↑ ↓ ↑ ↓</p> <p>GOVERNMENT AS AN ENABLER</p> <p>GOVERNMENT</p>	<ul style="list-style-type: none"> • Establish high-level inter-agency “policy” council with a strong technical secretariat • Provide proposed National Housing Authority with greater policy-making and evaluation/monitoring resources • Merge/streamline public housing supply institutions to reduce duplication • Develop regulatory capacity for rental sector • Help strengthen the capacity of Governorates and their economic housing funds • Establish a Housing Information System (HIS) 	<p><i>Private Sector Engagement:</i></p> <ul style="list-style-type: none"> • Incentives to engage more private lenders via market-based lending (monthly payment/interest rate buy downs) and credit enhancements • Incentives to developers to go “down-market” into affordable housing and for timely delivery • Develop PPP policies in NHP projects that include private sector risk sharing <p><i>Institutional Framework:</i></p> <ul style="list-style-type: none"> • Initiate a high-level inter-agency working group • Increase outreach/public awareness of NHP options • Improve budgeting by accounting for land and infrastructure costs • Monitor post delivery of NHP units for vacancies, resale and rent to third parties

II. INTRODUCTION

1.0 Objectives

The two key objectives of this policy note are to provide recommendations for a policy-based approach to housing sector reform in urban areas of Egypt and to improve the efficiency of delivery of housing subsidies under the National Housing Program (NHP). The paper builds on the key findings of recent research and analysis related to affordable housing in Egypt, presents a framework for moving forward with housing policy and subsidy reform, and provides detailed short and medium/long-term recommendations for the achievement of this objective. The current effort to assist the Government of Egypt (GOE) in the formulation of effective housing policies and improved subsidy mechanisms involves close collaboration between the GOE's Ministry of Housing, Utilities and Urban Development (MHUUD) and Ministry of Investment (MOI), the World Bank, and two USAID-financed projects: Technical Assistance for Policy Reform II (TAPRII) and Egypt Financial Services (EFS). This policy note is the outcome of the collaboration of the USAID TAPRII project, the World Bank, and the GOE through the MHUUD and MOI ministerial working sessions conducted in April, May and September 2007, as well as technical meetings with ministerial representatives.

*This document builds upon several recent studies and reports carried out in the 2006-2007 period. The first note, entitled **Analysis of Housing Supply Mechanisms** (World Bank), analyzes the situation of housing supply in urban areas in Egypt, including the study of existing formal and informal mechanisms for the delivery of urban housing, the institutions responsible for supply and regulation, the characteristics of the formal and informal stock, and the institutional and regulatory framework governing land use planning and development. The second is a **Housing Demand Study in Greater Cairo** (USAID TAPRII), which uses household data surveyed in December 2006 and yields results on the housing demand and household characteristics in the Greater Cairo Region. The third is an **Analysis of Subsidized Housing Programs** (USAID TAPRII), which assesses past, existing and pipeline subsidy programs in Egypt. **International Best Practices** were presented at a high-level workshop held in April 2007 with the intent of assessing different schemes of housing subsidies and reforms used in other emerging markets, in order draw lessons pertinent for Egypt. Finally, a note (World Bank) summarized the framework for moving from a program-based to a policy-based approach to housing sector reform, which was jointly developed by the World Bank and USAID TAPRII teams and discussed with GOE policymakers in the high-level workshops of April and May 2007, and endorsed in September 2007. These studies and reports are briefly summarized in the Annex (section VII) to this report.*

2.0 Background

Until recently, GOE housing initiatives have largely focused on housing supply programs rather than the formulation of housing policies. Government-produced, subsidized housing in Egypt has been significant in scale, cost, and impact on the urban landscape. During the past 25 years, the government built as much as 36% of all formal housing units supplied in urban areas at a cost of some LE26.4 billion. Almost without exception, the land upon which the housing was built was State land in remote peripheral locations. During this era, private sector production of formal housing was small and catered mostly to the upper end of the housing market. Rampant informal housing development at the fringe of existing cities, catering to middle- and low-income households, was unsuccessfully proscribed by the authorities. Rent control was in full effect and quelled the rental market and new investment in the sector. Finally, housing mortgage systems were legally unfeasible.

Egypt has made significant progress in introducing reforms to create a more efficient housing market. Formation of the Mortgage Finance Authority (MFA) to regulate real estate activities, enactment of the

Real Estate Finance Law, establishment of Mortgage Finance Companies (MFC), amendments to the Capital Markets Law to strengthen the legal and institutional framework governing mortgages, and establishment of the Egyptian Mortgage Refinance Company (EMRC) to provide liquidity to the market have all been completed. The Guarantee and Subsidy Fund (GSF) was also established with the objectives of delivering upfront housing subsidies to low-income households to enable them to access mortgage finance, providing a temporary social safety net to borrowers who experience adverse life events that lead to payment defaults as well as developing incentive products for the private housing finance market to grow and expand down-market to the low/middle-income segments. The launch of the NHP, the reform of the land and property registration system, and the ongoing formulation of an improved property tax law and a Unified Building Code are important steps towards a comprehensive reform of the housing delivery system.

Since the inception of the National Housing Program in 2005, the GOE has introduced numerous improvements and continues to seek innovations to help meet demand. In the course of the three years since its launch, the NHP has gradually shifted away from its initial target of the government building 500,000 new homeownership units. Instead, the NHP redefined its target to a more attainable goal of creating 500,000 housing “solutions,” introduced rental and self-build housing options in response to demand, and reached agreement with the Ministry of Religious Endowments to utilize subsidies for rental housing to be developed on the much-better located *Awqaf* land. The GOE has also explicitly budgeted for housing subsidies under the NHP, relied on transparent upfront subsidies, and actively promoted private sector production of housing. As of May 2008, the spectrum of housing types and tenures offered under the NHP has greatly expanded, and the pipeline exceeds the initial goal of 500,000 units.¹ Mortgage lending under NHP has also been initiated. Within the GSF program, there are currently 4,100 qualifying households that have benefited from upfront subsidies administered by the GSF, which also facilitated beneficiary access to mortgage loans through Banks and MFCs (for a total volume of approximately LE 100 million).²

Despite these promising advances, however, much of Egypt’s housing stock still remains constrained by very high vacancies, rent control, and informality. The main consequence of these distortions is a lack of formally produced housing that is affordable to the vast majority of Egyptians. A summary of main issues is as follows:

- (i) **Almost 3.7 million housing units are unused, either vacant or closed.** According to the 2006 census, the total number of unused units in urban areas in Egypt reached 4.58 million units, of which 1.18 million were closed and 3.40 million were vacant. Due to the lack of detailed breakdown by unit use in the preliminary census results made available by CAPMAS, it was estimated that 81.3% of these 4.58 million unused units are for housing use, while the remaining 18.7% are for work use.³ The scale of vacant urban housing

¹ Plans for affordable rental housing now exceed 211,500 units and about 91,000 self-build units are also planned. Thus, together these options far exceed the more traditional public ownership programs, at 170,000 units. Ownership units to be provided by the private sector now reach above 288,000.

² Banks accounted for 83% of the number of loans and 81% of the total volume of mortgage finance processed by June 2007 (average loan amount of LE 22,425), while MFCs accounted for 17% of the number of loans and 19% of the total volume of mortgage finance (average loan amount of LE 26,735). All but 10 cases were new units, mostly controlled by the GSF in new urban communities including 1,200 units in New Damietta and the remainder near Cairo and Giza (6th October, Al-Shorouk). By June 2007, as many as 18,000 applications were received. As for the subsidies administered by the NHP agency, it is unclear how many mortgage loans have currently been extended, but the number is still quite small.

³ This estimate is based on the fact that of the 9.74 million occupied units in buildings in urban areas (excluding work and official establishments), 81.3% or 7.91 million units were used for housing and 18.7% or 1.82 million

units, much more serious than in other emerging markets, is a specific and puzzling phenomenon of the Egyptian housing market.

- (ii) **An estimated 42% of the housing stock in Greater Cairo is frozen under rent control.** Since the passage of Law No. 4 of 1996 that freed the rental market for newly built and the then-vacant units, the rental market is showing signs of much dynamism. The TAPRII Greater Cairo Housing Demand Survey found that 81% of all the new units accessed in the 2001-2006 period were through rental contracts signed under the new law and only 19% were for ownership. Yet, the TAPRII survey also indicates that 42% of the total urban housing units in Greater Cairo are still locked under the old rent control regime, and that this is not necessarily benefiting the poor. This greatly constrains residential mobility, locks a large proportion of units out of the market, causes lack of stock maintenance, and distorts the overall housing market.
- (iii) **Some 45% of new urban housing is produced by the informal sector.** During the inter-census period (1996-2006), the urban housing stock is conservatively thought to have grown by an annual average of 2.8% or 263,838 units.⁴ Of these, 55.6% were formal and 45.4% informal. Constrained by high building and zoning standards, as well as a bureaucratic, time consuming and costly permitting process, many families and small developers operate within the informal sector to meet the growing needs of lower income households.
- (iv) **Much housing is poorly located, especially for moderate and low income families.** Government low-cost housing program are sited in the distant New Towns or on remote desert land, making the livelihood struggle for inhabitants much more difficult, if not impossible due to high transportation cost, distance from employment centers and limited availability of amenities. The formal private sector, aiming mostly at the upper-income, car-owning market, also tends to prefer desert locations. Thus, housing in informal areas, which are located within or on the immediate fringe of existing cities, is in high demand.

The main challenge today is to devise affordable housing policies and strategies that address the distortions that to date constrain the housing market from functioning efficiently. The first critical steps in this regard were the abolition of the rent control legislation in 1996, after five decades during which it severely distorted the housing market, and the creation of the regulatory and institutional frameworks governing housing mortgage finance. Remaining challenges that the new affordable housing policy will need to address are to: (i) put in place the institutional frameworks and incentive structures needed to enable an expanded private sector role in the financing and delivery of affordable housing; (ii) rationalize the subsidies provided to limited-income groups by eliminating off-budget subsidies and developing efficient targeting instruments; and (iii) ensure the continued development of a viable rental market to serve the needs of the lowest income groups in conjunction with some homeownership opportunities.

units were used for work. The assumption therefore is the breakdown of unused (both vacant and closed) units would follow the same distribution between housing and work uses.

⁴ This is 9% higher than the annual average for the previous inter-census period 1986-1996 where the average was 241,916 units. The preliminary results of the 2006 census made available by CAPMAS do not allow for a precise calculation of the number of housing units. As such, the total number of housing units in urban areas was inferred as the sum of “apartment units” (in Arabic *shakka*) and “one/more independent rooms” (in Arabic *hogra mostakela*). This figure is counter-balanced by the exclusion of single family housing and the failure to account for housing units converted into offices.

A well-functioning housing system has multiple benefits including improved affordability, reduced fiscal burden, and enhanced macroeconomic stability. In a well-functioning housing system, the supply of housing is elastic and responsive to consumer demand, and the key input markets of land, finance, construction and regulation themselves function efficiently. In addition, a well-functioning housing market produces a broad range of housing products of varying prices. This, in turn, reduces demand for government subsidies and/or enables reaching a much larger number of beneficiaries. In Egypt, the poorly functioning housing system had a significant fiscal cost of LE 26.4 billion in subsidies over the last 25 years, not including additional off budget subsidies related to the cost of land and off-site infrastructure. A concern related to the prevailing macroeconomic conditions is that the wide-spread practice in Egypt of purchasing housing as an investment and holding it vacant is based on capital appreciation without cash-flow. This investment model has several negative features. First, it is highly vulnerable to an economic downturn. Second, it pushes housing prices upward because the investor must fetch an inflated price in order to make a return. Next, it is an unproductive use of capital. Finally, at a broad scale, high vacancy levels contribute to an inefficient urban system that has a negative effect on economic growth and limits labor mobility.

An often heralded example of housing reform, the Chilean experience highlights how a well-functioning housing system can make housing more affordable. Beginning in 1974, the government of Chile began changing its role from a housing producer to an enabler of the private housing market. To address low-income households, the government started providing explicit, one-time demand subsidies which allowed households to purchase housing on the private market. The housing problem, measured by both incidences of un-affordability and income gap indicators, has fallen over time. In 1990 un-affordability incidence was 84%, and the households' average income gap was 54% below the affordability line. By 2003, incidence had fallen to 61% with an income gap reduced to 29%.⁵ The improvement in affordability reflects the country's success in obtaining an increasingly better enabling environment for housing solutions, including a dynamic mortgage market.

Improvements to the NHP can be used to catalyze improvements to the overall housing market. First, it is of paramount importance that the millions of vacant units in urban areas be activated. By allowing NHP-eligible households to use their subsidy entitlement for the purpose of renting privately-owned units, either by using the grant for down payment on a long-term lease to reduce the rent level or as a guarantee to reduce landlords' perceived risk of eviction costs, it may be possible to unlock a portion of the vacant units. A pilot program such as this may also serve as a catalyst for building confidence in the new rental law and its streamlined procedures for landlords' unit repossession, and thereby indirectly unlock many more vacant units and strengthen the overall rental market. Next, pilot projects within the auspices of the NHP that aim to lower planning, land development and buildings standards as a means of reducing total housing development costs could serve to demonstrate the financial feasibility of constructing housing for limited income households within the formal system that can compete with the informal sector in terms of affordability.

The NHP can help to address the constraints facing the vast private housing market, including informal development, in order to have wider coverage and lead to more affordable housing solutions. Allowing NHP beneficiaries to use their subsidies as a down-payment to purchase existing privately-held units and enabling them to access private mortgage finance would greatly expand the demand for used housing, in addition to enhancing households' affordability and increasing their choice of where to live. Since informal settlements are the de facto housing choice of poor people, settlement upgrading offers an opportunity for much better targeting through location selection and, most likely, a smaller subsidy per unit of newly availed housing. The Government should consider incorporating informal settlement

⁵ Ruprah, Inder J. and Luis T. Marciano. "A Meta-Impact Evaluation of Social Housing Programs: The Chilean Case." The Inter-American Development Bank, 2007.

upgrading into the range of subsidy products for low-income households. The upgrading of informal settlements is a key complement to the current Framework, and is addressed at length in the Egypt Urban Sector Update, a parallel policy note. The note recommends improving access to infrastructure and services to areas where a large number of the poor live, and proposes the formulation of a National Urban Upgrading Strategy.

Finally, the current political momentum behind the NHP to deliver the 500,000 affordable housing units as promised by the President provides an opportune moment to improve and streamline the institutional context with the aim of creating a more efficient housing production system.

III. THE LONG-TERM VIEW: COMPREHENSIVE HOUSING MARKET REFORMS

The majority of Egypt's housing stock is constrained by rent control, informality, and vacancy. The urban housing crisis in Egypt results from a distorted housing market caused by policies that failed to reconcile supply and demand, and have curtailed the private sector. Although Law No. 4 of 1996 liberated new rental units from rent level caps, rent controlled housing that was grandfathered under the new law is still the dominant form of tenure in Greater Cairo, with 41.7% of the housing stock under its regulation. Rental under the new law is 8.7% of the stock. Homeownership represents 36.8% of housing. Households in search of low cost accommodations have turned to the informal sector, which is estimated to have built about 45% of housing stock in recent years. Moreover, fears of unenforceable tenant eviction laws and escalating housing prices have motivated many owners to keep vacant units locked up and off the market. Indeed, estimates of housing unit vacancy range between 20% and 30% in urban areas. While these three distortions are not wholly additive (e.g. an informally built unit may be held vacant), it could be conservatively estimated that 50% - 70% of the urban housing market in Egypt suffers from such market distortions. These distortions continue to push up housing prices, severely limit household mobility, and place a huge housing subsidy burden on the GOE.

The annual housing need of limited income groups (low, moderate and lower-middle income groups, 70-80% of the distribution) in urban areas is conservatively estimated between 165,000 and 197,000 units.⁶ The National Housing Program, with its pledge of 85,000 units per year, would thus cover almost 50% of the estimated need. Short of the informal sector catering to the remaining 50%, this means that policy reforms need to be put in place to remove the distortions in the housing market that have kept a large number of units vacant and have stifled investment in the rental sector.

There are significant gaps in the Egyptian housing market, especially for households in the first and second income quintiles. In Figure 2, income quintiles that are fully served by a housing type category are shaded solid, quintiles that are partially served are shaded in hatch, and income groups not served by a housing type are not shaded. The informal sector is serving the bulk of the housing demand from very low-income households, while subsidized housing programs are not reaching the lowest income quintiles sufficiently. As will be explained later in this note, the social safety net that rent control provides benefits a large number of upper income households, arguably not the policymakers' intended target group for such support. Expanding housing affordability includes strengthening the mortgage market for upper income households, permitting low cost housing solutions for the poorest households, and applying the correct mix and type of housing finance and subsidy to each income segment in between.

Figure 2: Product Gaps in the Egyptian Housing Market

Quintile	1	2	3	4	5
Median household income (LE/month)*	400	600	750	1,000	1,750
Income Category	Low	Low	Moderate	Moderate/Middle	Middle/Upper
Market Ownership					
Subsidized Ownership					
Rental Market					

⁶ World Bank (2007). Analysis of housing supply mechanisms.

Rent Control					
Informal					
	= Fully Served		= Partially Served		
	= Not Served				

* Median monthly income by quintile based on the 2006 TAPRII Greater Cairo Housing Demand Survey.

The Ministerial working sessions conducted in April and May 2007 resulted in the development of a framework for moving from a program-based to a policy-based approach to housing subsidies that was endorsed in a September 2007 workshop. Stakeholders agree that the following are the main sector issues in Egypt and that addressing these issues through a coherent and comprehensive approach is key to the transition, and specifically to the role of government and subsidies in enabling more access to affordable housing. Emphasis is placed on using the NHP's platform and subsidies to support needed reforms and decrease the need for continued deep subsidies for much of the housing production in future, while at the same time utilizing resulting housing market improvements to strengthen the NHP.

- (i) **Expand affordable housing options and access to finance by addressing multiple income segments.** A large gap exists between incomes and the NHP housing supply costs. The expansion of affordable housing options should be addressed using a two-pronged approach of (1) removing regulatory impediments that increase the cost of housing supply, and (2) expanding access to housing finance, with a focus on mortgage finance for middle-income households and micro-finance and other innovative approaches to address the needs of the lowest income deciles.

Past housing assistance programs in Egypt focused on delivering a few housing products of relative high standard in remote locations, requiring high subsidies, and offering little choice or adaptability of products to beneficiaries' needs. Instead, Government should identify multiple income segments, and target subsidy programs and necessary regulatory reforms at each. As an illustration of this concept, strengthening the mortgage market addresses the needs of households with middle and high incomes. Providing incentives for mortgage lenders to expand lending down-market would address the needs of lower-middle and moderate income households. Implementing regulatory reforms (i.e. adapted planning, land use and building standards) to allow lower cost housing alternatives to be produced would benefit lower-middle income families. Finally, the Government could reserve important subsidy resources (as a share of unit cost) for the lowest income families who would not be able to purchase housing without such assistance (e.g. through core housing and sites-and-services schemes) and to promote rental solutions, which would play an important role for this target group.

- (ii) **Stimulate the rental market.** A second key challenge is the need to further stimulate the rental sector. The passage of Law No. 4 of 1996 freed the rental market for newly built and vacant units but allowed rent control on existing units to continue (and with provision for first-generation contracts to be passed on once to family members). Since then, and especially since 2001, the rental market is showing signs of dynamism. The TAPRII Greater Cairo Housing Demand Survey found that over 80% of all units (homeownership and rental combined) accessed in the 2001-2006 period were governed by rental contracts signed under the new law. Yet, the TAPRII Survey also found that 42% of the surveyed housing units are still locked under the rent control regime, and that these units were found to provide important benefits to high income groups. Rent-controlled units were also found to benefit a large number of elderly families, which makes for an important issue from the social dimension. This constrains residential mobility, locks a large proportion of units out of the market, and causes lack of stock maintenance.

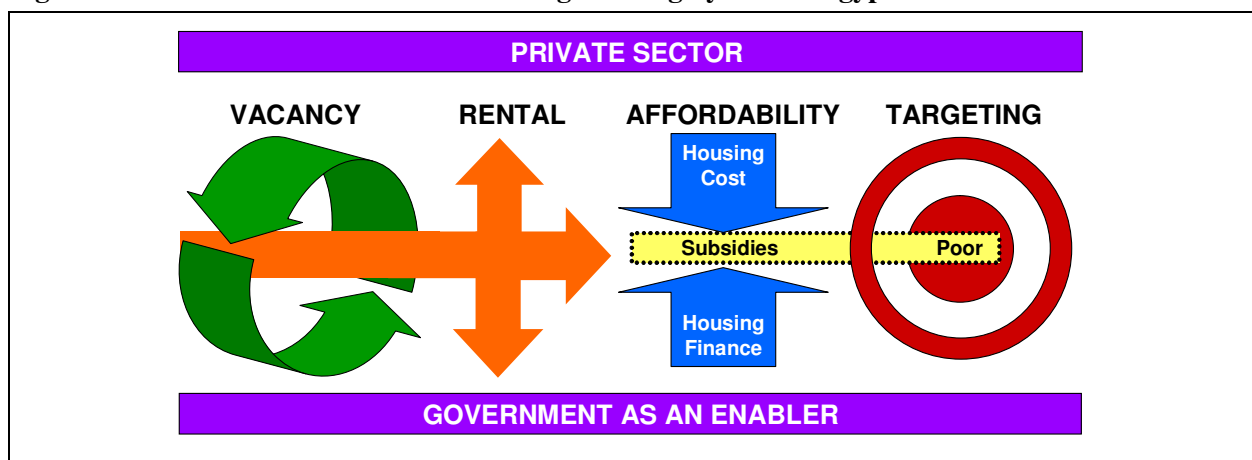
- (iii) **Unlock vacant units.** The prevalence of vacant units is a specific and puzzling phenomenon of the Egyptian housing market, which is due to several reasons: (a) lack of incentives to rent and residual fear of rental contract complications as a result of the former rent control system; (b) housing as savings and investment mechanism, with rapid appreciation in value coupled with perceived problems associated with renting renders the annual rental yield unattractive; and (c) no disincentive for holding units vacant, especially since property tax payments are negligible. Reasons possibly explaining the high share of new vacant units could possibly include lack of financing for owners of semi/un-finished buildings and unattractive locations in the new towns, where the decision of moving in or selling the unit (and cashing on windfall profits if acquired at below-market levels) is contingent on the new towns gaining a critical population mass.
- (iv) **Improve the government support system for housing production.** A large number of government agencies at the central and local levels have been active in the production and/or financing of affordable housing, often working with overlapping mandates, unclear jurisdiction and conflicting objectives and uneven terms and level of subsidies. The NHP provides a critical framework to rationalize subsidy objectives, harmonize the level of subsidies and the different institutions. The following key principles could guide the NHP: (a) separating housing production from housing finance mandates, with implications to such entities as the Housing and Development Bank (HDB, which has already stopped its development role), the GSF, as well as developers offering installment sales; (b) using the private sector as much as feasible, both for finance and development, (c) restructuring existing entities to minimize overlap and maximize operational efficiency (collection efficiency, production cost, etc); (d) harmonizing subsidies across agencies and establishing clear subsidy principles, effective targeting and eligibility criteria, costs, etc; (e) creating sustainable long-term financing for subsidies; and (f) improving the information base for housing markets.

In sum, the framework for a well-functioning housing system in Egypt consists of five action channels (See Figure 3). It is not a substitute for a complete housing policy, but rather a framework that focuses on specific policy issues that need to be addressed. The framework provides recommendations for addressing existing distortions to the current *stock* of housing (vacant and rent controlled units), improving the *flow* or production of housing (decreasing the cost of housing supply) and enabling better household access to housing (improving affordability and targeting, and reforming Government role) as a way for moving forward. The five action channels are as follows:

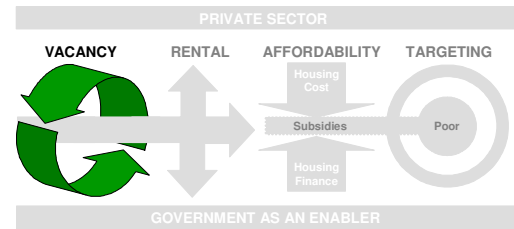
- **Vacant Units.** Unlock the stock of vacant housing through (1) reforms and innovative subsidy instruments that provide incentives to owners of vacant units to release them to the market and (2) developing a liquid rental market.
- **Rental Market.** Create a fluid rental market by (1) strengthening rental market regulations and (2) putting in place an action plan to gradually address the distortions to the overall housing market resulting from the rent control regime, while implementing a safety net system to mitigate any socio-economic implications affecting vulnerable households.
- **Affordability.** Enhance affordability of new housing options by (1) increasing access to housing finance through incentives for lenders to further expand down-market to be able to reach more limited-income groups and (2) decreasing the supply cost of formal housing and transaction costs of accessing it to make access to housing more affordable to all and thus address the constraints that force the poor into informality. This dual approach to improving affordability will minimize the size of public subsidy needed per household (and the need to use subsidies to compensate for market inefficiencies) and thus expand the Government's ability to reach a much larger number of beneficiary households with the same budgetary envelope.

- **Targeting.** Improve the targeting of public subsidies to ensure that they are provided to the lowest income households who require them to obtain adequate shelter through the introduction of market segmentation to assist in clearing well-defined market blockages. Successful targeting along those lines and in a segmented way to address the different needs and issues facing different household groups will significantly improve the impact of the subsidies used and will enable the Government to reach a much larger number of qualifying beneficiaries, while reducing the leakage effect to non-deserving households.
- **Government.** Transform the government into an enabler of the housing market that can (1) better understand housing markets and react to changes, (2) effectively engage the private sector in the delivery of housing, (3) provide an effective regulatory framework, and (4) formulate policies to have in place a well-functioning housing system and assist low-income households to afford housing solutions.

Figure 3: Framework for a Well Functioning Housing System in Egypt



The improvements described in the following sections are divided into (a) reforms needed to develop a well-functioning housing system that require a medium/long-term outlook and (b) reforms that are immediately actionable under NHP that will simultaneously work towards the goal of developing a well-functioning housing system and help MHUUD efficiently create 500,000 housing solutions by 2011.



1.0 Unlocking the Vacant Housing Stock

Why are there so many vacant units and why does it present a problem? There are two, interrelated reasons for the high level of vacant units in Egypt. First, real estate has proven to be a low risk investment vehicle. Because there have been few investment alternatives for Egyptians, families put their savings into housing units either for anticipated capital gains or to secure the unit for future use. Second, decades of rent control and stringent tenant protection laws deter owners from renting housing units they may not be using. When these two factors are combined, the result is an extremely volatile investment model. An investment in housing that does not produce a cash flow return means that capital appreciation is the sole source of profitability. This situation puts significant pressure on housing prices and thereby broadens the housing affordability gap in the overall market. Relieving this pressure, by inducing owners to rent the unused units via incentives and/or disincentives, is likely to have an effect of relieving the pressure on rising housing prices.

Since the mid-1980s, the urban housing stock's annual production rate was almost double that of the urban population growth, with the result that the total urban housing stock far exceeds the number of urban households. The average annual growth rate of the urban housing stock in Egypt (3.6%) far surpassed that of the urban population (1.9%) during the inter-census period (1986-1996). By mid-2005, the total number of housing units in urban areas in Egypt reached close to 9.49 million units. By contrast, in January 2005, the total number of urban households was estimated at 6.84 million. During the inter-census period (1996-2006), the urban housing stock is conservatively thought to have grown by an annual average of 2.8% or 263,838 units. The result is that in 1996 there were 1.4 housing units per urban household and 2.64 million housing units that were vacant or unused. Taking into account multiple unit ownership (10% of urban households owned/controlled 20% of the total housing stock according to a survey based study by the Ministry of Planning in 2003), there still was in 2005 about 20% of the total urban housing stock that could be considered to be potentially available on the market if the right incentives were in place, whether units ready for occupancy or those that are still under construction or which have remained unfinished for a long time.

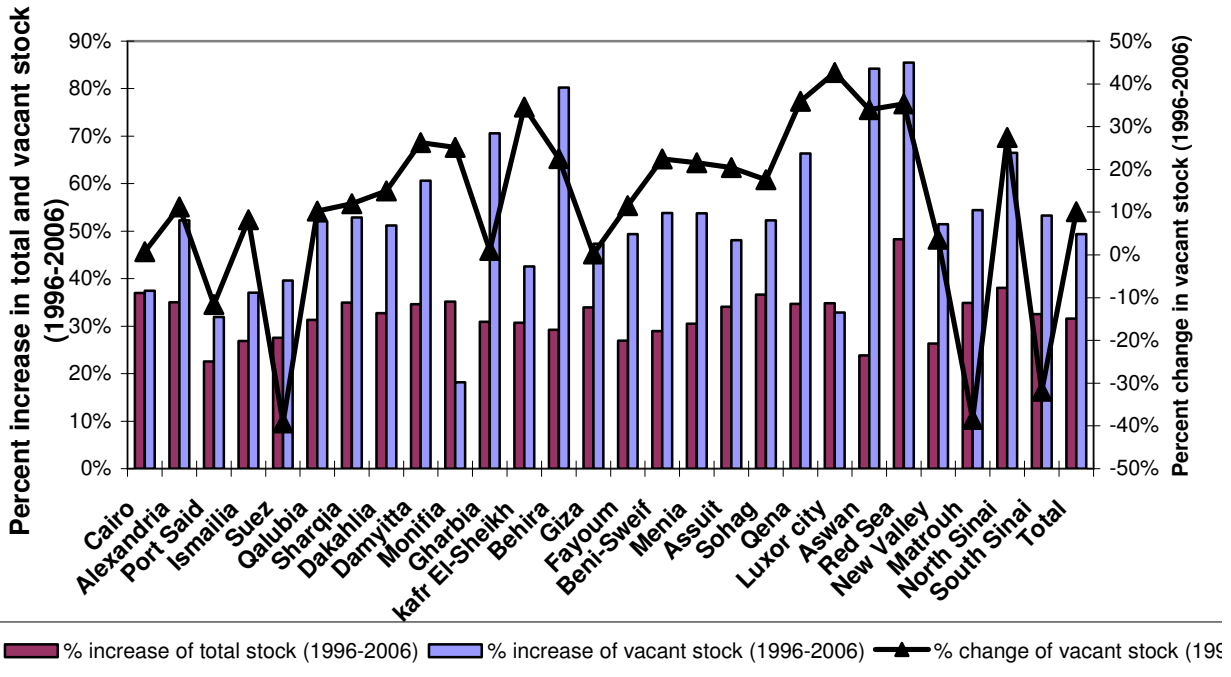
Vacancies at this level are tying up a considerable portion of Egypt's housing capital. Indeed, the vacancy rate rose from 12.8% in 1986, to 19.1% in 1996, and currently represents nearly one-third of the stock. The problem is largely an urban phenomenon, with vacancy rates of 28% in Cairo, 34% in Giza, and 35% in Alexandria. Both formal and informal areas are impacted. Another major issue is the severe concentration of vacancies in some of the New Towns where vacancy rates of 50% or more are not uncommon. By international comparison, vacancy rates in developed markets are roughly 4% to 6%, which is sufficient to allow for turnover and mobility without affecting rent levels. Rates are higher in some emerging markets.⁷ In addition, the impact of Egyptians working abroad must be considered. However, vacancy rates, especially for countries in the region (which may also have considerable numbers of persons working abroad) generally appear lower than in Egypt.

Vacancy rates increased in the last decade in nearly all Governorates. Census data provides the key source of data for an overview of the housing stock and vacant units. Figure 4 illustrates the percent change in the total housing stock from 1996 to 2006 and the percent change in the vacant and unused

⁷ The World Development Indicators shows vacancy rates of 15% in Tunisia (1994), 11% in Kuwait (1995), but only 6% in India (2001) and 4% in the Philippines (1990). During Brazil's rent decontrol efforts, a housing survey in Sao Paulo indicated a vacancy rate of 9%, with 0.2% of units closed.

stock. Cairo was alone among the major urban areas for which the total stock and the vacant stock increased by about the same rate (37%). Thus, Cairo's vacancy rate stayed constant at about 28% over the decade. In Alexandria, Giza, Qalubia, and Dakahlia, however, the vacancy rates all increased, and now total one-third or more of their housing stock.⁸

Figure 4: Change in Vacant Housing Stock (1996-2006) by Governorate



Source: World Bank, based on 2006 Census.

Egypt's high vacancy rate has numerous causes – one of these is the residual effect of rent control. The most important explanation of unused housing stock is the rent control legislation that froze rents at significantly below-market levels and which remained in force for five decades from 1944 to 1996. Coupled with stringent tenant protection laws and with courts' unwillingness to evict tenants irrespective of unit vacancy or non-compliance with contractual terms, such legislation acted as a disincentive to: (i) real estate developers, who stopped investing in the rental sector; (ii) owners of vacant units, who became

⁸ Studies conducted by MHUUD indicate that in many New Towns the vacancy rates exceed 40%, higher than the nation-wide vacancy rate of 31.6% and the 28% rate in Cairo. Because many New Towns face serious underutilization of the housing stock, a qualitative survey focusing on the 6th of October as a case study was carried out under TAPRII. Research was conducted on private formal housing in Hay El Ashgar, an area within 6th of October New Town, and government subsidized housing constructed through the Mubarak National Youth Housing Project and the 6th of October City Authority. NUCA has constructed 27,704 units (as of December 2006), 42.5% of which is low cost housing. The Mubarak Youth Housing project constructed 14,769 units in sizes ranging from 53m2 to 135m2. In these areas, the vacant housing represents purchased but locked units, as well as unsold units. The overall vacancy rate for government housing is 35.4%. This "average," however, conceals exceptional variation in rates ranging from none in the large 6th district, to over 53% in the 10th district, 51.4% in the larger Mubarak Youth Housing units, and nearly 94% in El Amal housing. The percent of total vacancies concentrated in four districts (El Motamayez, and the 10th, 11th, and 12th districts) account for 54.5% of the total of vacant units. The vacancy rate in the Hay El Ashgar project is 84%. Of the 2,982 units sold, 80% have been delivered. Of these, 80% are closed. If such vacancies exist in the well-located 6th of October, the scale of the vacancy problem in poorly located New Towns is likely to be higher. It is also interesting to note that the other well-located New Town, New Cairo, has no new affordable housing.

reluctant to release these to renters for fear of not being able to repossess them; (iii) building owners, who stopped maintaining units whose rental yield represented a negligible fraction of needed maintenance and capital investments; and (iii) households occupying rent-controlled units, who would not release such units even if they stopped occupying them, except upon receiving a significant key money payment. It is therefore not surprising to find that owners of vacant units, whether purchased as an investment or for children's future use, would rather keep these vacant instead of renting them. This attitude is thought to have persisted to a large extent even after the reversal of the rent control law, as many owners of vacant units appear to opt for a wait-and-see approach, especially until a pattern of swift enforcement of administrative eviction of tenants upon end of contract or breach of contractual obligations, as called for by Law for registered contracts, starts taking place and until the scope of court intervention in landlord-tenant disputes becomes clearer.

A second important explanation is that until very recently investing in land or real estate was the only available or viable channel for investment and perceived as a safe, inflation proof way of storing wealth. Several households would thus place all their savings to acquire housing units (and where they occupied rent-controlled units, such unit would constitute their first owned unit), whether for investment or for future use, including their children's. Additionally, since real estate taxes are not likely to be a burden on account of the many exemptions that were in place until very recently, there is little additional penalty for holding vacant units that could be rented out under the new law.

Generally, there are five categories of vacant units. First, rent-controlled units whose tenants or their heirs no longer need or use them, but which they keep until they receive what they perceive as an adequate amount of key money to be shared with the landlord. Second, there are units which households purchase for the future use of their children. Third, units or even entire buildings which remain for a long time under construction, unfinished yet or lacking access to infrastructure, as households gradually invest their savings in real estate as a way to store wealth. Next, there are units which have still not been sold by developers, a problem which was exacerbated in recent years (the early 2000's) as a result of oversupply of real estate in the middle and upper segments of the market that was coupled with a decline in purchase power due to a major devaluation of the Egyptian Pound. Finally, there are the units purchased as an investment.

Egypt's housing subsidy programs have also contributed to the vacancy problem. Poorly targeted subsidies as well as the extreme difficulty of ensuring that recipients have not benefited from earlier government assistance may result in multiple ownerships. There is anecdotal evidence that households enter the subsidized unit lottery in order to secure a unit for their child or relative, rather than immediate use. These units, purchased at a discounted price, then remain vacant until the child marries. Moreover, the location of most public housing schemes in several New Towns does not reflect the locational preferences of many of the poor. It comes at a large cost in terms of loss of social networks. Demand is also limited for subsidized units located in many of the New Towns because of the lack of employment opportunities, lack of amenities, high transport costs, or simply lack of transportation. Low income recipients of the subsidized units in New Towns, however, may choose to continue living in their current housing, even in overcrowded conditions, because of access to employment and social networks.

While the TAPRII Demand Survey was based on a sample of households rather than housing units, and therefore does not fully capture the magnitude of the vacancy problem, it does provide some insight as to the reasons that households claim for keeping units vacant. Of the surveyed households, 5.8% reported owning one or more units in addition to their residence. As shown in Table 2, about one-half of this (admittedly small) group had control over one additional unit, while 18% had two additional units, and 31.5% reported owning 3 or more units in addition to their residence. The majority owned the units (68.5%) and most of the units are finished, but as much as 46.5% are not rented and remain closed.

Table 2: Status of Units for Households Having Multiple Units

# of extra units		Tenure Type		Finished or Closed?		Rented?	
1 extra unit	50.5%	Old rent law	14.5%	Finished	84.8%	Old rent law	34.0%
2 extra unit	18.0%	New rent law	8.5%	Not finished	15.5%	New rent law	19.5%
3+ extra units	31.5%	Owned	68.3 %	Closed	22.3%	Not rented	46.5%

Source: TAPRII Greater Cairo Household Demand Survey

Interviews with the landlords of surveyed buildings (see Table 3) highlighted their desire to keep units vacant for children so as to secure a home for them to move to when they marry as the main reason for holding extra units. Nearly 78% of households and 60% of landlords cited this as the reason for the vacancy. Respondents also cited avoiding problems related to renting – the fear that they will not be able to evict the tenant when they wish to use the unit for an alternative use. Other reasons included that the unit was purchased as a long-term investment or is located in an undesirable location. The majority of vacant units were closed by either their owners or tenants who had previously occupied them. Those retained by tenants could not, by law, be rented without the landlord’s agreement.

Table 3: Reasons Cited for Holding Units Vacant and Closed Units in Surveyed Buildings⁹

Reason for Vacancy	Closed Units for owners of multiple units*	Vacant Units owned by landlord not offered for sale or rent**	% Buildings in the Survey**	% of closed units in these Buildings
Holding for children	77.9%	59.7%	2.9% had....	1% - 5% closed
Long-term Investment	8.6%	9.2%	13.1% had...	6% - 10% closed
Problems with Renting	4.9%	10.0%	48.8% had...	11% - 24% closed
Poor marketability	3.4%	18.9%	27.9% had...	26% - 50% closed
No financial need	15.0%	(not asked)	7.4% had...	51%+ closed

Source: * TAPRII Greater Cairo Housing Demand Survey; **TAPRII Building Survey

In the TAPRII Survey, only 10.5% of vacant units were offered for either sale or rent, and they were mainly in low-income districts like El Basateen, El Marg and El Salam. Indeed, it appears that in low income and informal areas, there is greater willingness among landlords to rent their excess units. Intrinsically, it is interesting that even in the informal sector there is an oversupply of housing (estimated in Greater Cairo at 500,000 units and at 15-20% of the total stock).¹⁰ The intersection of informality, vacancy, income and willingness to rent unoccupied units is a topic that requires additional exploration.

A survey of vacant and unfinished units, to distinguish the various causes so that appropriate programs can be put in place, is strongly recommended as a high priority action. While there are indications of multiple reasons for the high vacancy rate, there does not appear to be enough information upon which to base concrete policies, especially since the TAPRII Survey was based on a sample of households rather than housing units, and therefore did not fully capture the magnitude of the vacancy problem. Therefore, it is recommended that Egypt conduct a survey of vacant units in order to devise solutions pertinent to the various causes. In fact, it may be desirable to conduct two types of surveys: a random sample of vacant units and an in-depth examination of a smaller selection of vacant units representing the different typologies. The Census provides a good overview of vacancy rates by governorate, but not enough

⁹ The TAPRII Demand Study was based on a CAPMAS sample of households, and therefore cannot be used to estimate overall vacancy rates. Entirely vacant buildings, for example, were not included in the survey.

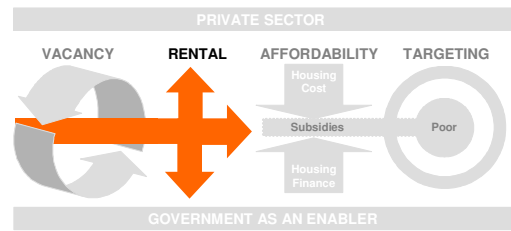
¹⁰ The aggregate is based on the results of an unpublished study by the Cairo-based French center for economic and legal studies (CEDEJ) and a sample of three informal settlements studied in detail in the Housing Supply Analysis Note (World Bank, 2007).

systematic information is known about the vacant units – their location, size, quality, ownership status, completion status, costs to complete, formal or informal sector, whether they are subsidized, and so forth. An in-depth assessment of a few selected units should be carried out by an expert team who would undertake an appraisal and an engineering examination, as well as an interview of the owner. For example, unfinished units, even in the informal sector, could be assessed for costs to complete and land registration issues. In the informal sector, the units would also be examined to determine structural or infrastructure deficiencies and the extent of compliance with reasonable health and safety standards. These in-depth assessments, combined with the vacant unit market survey, would provide information on which to project total costs for addressing various deficiencies.

The current GOE effort to revamp the property tax system should include a close review of taxation tools that could provide incentives for owners to make productive use of their vacant units and disincentives to leave them vacant. The implicit subsidies which housing enjoys in many other countries through tax breaks, credits and exemptions are few in Egypt because housing is little exposed to tax regimes. The property tax system that was implemented until the enactment of the new revised law in 2008 applied to all residential properties, even squatters, but excluded all development in the New Towns (where the large majority of construction has taken place in the last two decades) and did not apply to vacant land. Yet, the annual property tax yield was extremely low due to very low assessments that were only updated once per decade, a long list of exemptions (namely new town developments but also several other cases such as owner-occupied buildings constructed after 1977), and lax collection. The Ministry of Finance has recently engaged in a major overhaul of Egypt's real estate taxation system, and a new Law was recently enacted. Most importantly, the across-the-board exemption of developments in new towns was removed, which should indirectly act as a disincentive to keeping units vacant. Yet, the new law exempts units with an appraised value of less than LE 500,000 from property tax payment. This measure was introduced to ensure tax burden relief for low, moderate and middle income households, especially that the passage of the new law coincided with a period of significant inflationary pressures. As a result, it is estimated that currently less than 5% of urban households will pay property tax.

Some additional measures related to the taxation system could also be useful to stimulate the use of the vacant housing stock. Examples include tax deductions for owner-occupied units and rental income tax exemptions for units rented to limited income households. Similarly, the application of the property tax to serviced land in addition to the land improvement or the restoration of the vacant land tax could serve as disincentive to holding land vacant. The latter is a prevalent practice that is often driven by speculative motives, especially in new towns where public land was allocated at highly subsidized prices, but results in significant negative externalities (e.g. affecting property values, reducing willingness to develop and occupy land, reducing the cost-effectiveness of infrastructure delivery decisions). In effect, the vacant land tax used to exist in Egypt but was abolished by court decision for what experts widely view as technical flaws rather than constitutional or legal impediments.

Encouraging the use of mortgage finance could induce more households to purchase used/vacant units or to finish incomplete units. Moreover, consumer education campaigns, speeding up property registration to facilitate sale of existing units, and promoting development of microfinance for housing to assist lower income households to complete unfinished units, especially relevant to vacancies in the informal areas, could all contribute to decreasing the vacancy rate. Similarly, credit enhancement policies to promote down-market mortgage lending would reinforce those efforts. However, it is important to note that increased utilization of mortgage finance makes sound real estate investment fundamental even more critical. The volatile investment model of purchasing units for capital appreciation alone would be exacerbated by the use of mortgage finance. Of utmost importance, improvements to strengthen rental market regulations and operation will be crucial to alleviating the vacancy problems. Reform of the rental sector is one of the key topics of the Framework, and is addressed in the next section.



2.0 Developing a Fluid Rental Market

2.1 Enhancing Rental Market Regulation

Since the passage of Law No. 4 of 1996 that liberalized new rental contracts, the rental market is showing signs of considerable dynamism. According to the TAPRII Housing Demand Survey, the decontrolled rental sector has absorbed more than 80% of new housing acquired during the 2001-2006 period. Thus, the new law has central importance for catering to the housing demand of the young and mobile in Egypt. Additionally, the new law rent-burden levels recorded by the TAPRII Survey for Cairo average 23.3% of income. This is similar to rent burdens recorded internationally for large cities. It is likely, moreover, that the new law has improved efficiency in the housing sector by increasing housing stock turnover through lower contract durations. Nevertheless, many consider rent levels as high and volatile. Also, key money has not disappeared. Some rental contracts are still informal and provide tenants little understanding of their rights and obligations and little protection against arbitrary terminations.

2.1.1 Model Rental Contractual Agreements

The use of model rental contractual agreements that include the rights and responsibilities of tenants and landlords would ensure that key provisions of the law are part of the contractual agreement between landlord and tenant. This would address any problems of information asymmetry, minimize ambiguities in the landlord-tenant relationship and reduce potential disputes that may arise. Such provisions include the rights and responsibilities of both parties including such issues as rent setting, lease duration, payment and annual escalation if any, security deposit if any, responsibilities for maintenance and inclusions, utility-related issues (connection contracts, payment, etc), termination notice and proceedings.

It may be warranted to introduce in the regulatory framework for rental markets a default term contract such as a 2, 3 or 5-year period that applies in instances when no contractual provisions say otherwise. Such a default term contract would ensure tenant tenure protection without compromising the landlord's rent setting capacity or flexibility to dispose of the housing asset. After decades of rent control and very long-term leases, Egyptian tenants are adjusting to shorter rental contracts practiced under the new law. However, according to the TAPRII Survey, tenants still desire tenure security in the form of longer-term rental contracts. Such "default" tenure could thus balance the needs of both parties. In the case of term contracts, roll-over would be the standard going forward; when the initial term ends, the landlord either gives notice or the contract will be automatically renewed for another period within the rent-setting/escalation parameters set in the contract.

2.1.2 Eviction

The process of evicting a rental tenant under the New Law at the end of a lease term or due to breach of contractual agreements is poorly understood and can still be a lengthy process. Recent amendments to Law No. 4 of 1996 introduced provisions to reduce uncertainty to landlords in new contracts. A key one is that agreements notarized in the presence of the contracting parties would operate as enforcement orders such that landlords are no longer required to have recourse to the courts to enforce tenancy agreements; instead, these can be enforced through administrative channels. These provisions do not pertain to agreements governed by the old rent law. In addition, in the mortgage sector, Egypt has already embarked on a program to enable streamlined foreclosure in warranted circumstances, including both a new law and a training program for judges. This approach could be expanded to rental properties. Streamlined court procedures or extra-judicial procedures have proven to be important elsewhere. In Colombia and Brazil, for example, rental eviction case durations have been reduced within a decade from several years to 3 to 6 months. Additionally, a local ombudsman system for mediating tenant-landlord conflicts below the court level is today mandatory in a number of jurisdictions, including Colombia and Spain. It may also be useful to consider a public program to support certain qualifying households that are evicted from rental

units (e.g. temporary shelter). This would serve both as an important safety net for vulnerable households and as an additional incentive for landlords to bring their units into the rental markets

2.1.3 Registration of Rental Contracts

A simple and costless registration system for leases, as practiced in Brazil and as legislated in Egypt, could have considerable benefits. The benefits for landlords consist in access to clear and streamlined conflict settlement and contract enforcement procedures. The benefits for tenants include the protection against eviction in the case of house sale or comprehensive modernization, and other legal protections in conflict. The GOE would need to play the main role in setting up the system. Registration fees should be low to maximize enrollment incentives, and the process needs to be a simple one (arguably a registration by deposition at Real Estate Publicity Department, for units whose ownership rights have been registered). As a pay off, however, the public sector could expect greater levels of tax formality in the rental sector as well as significant revenues from the currently informal sector. The challenge, however, is what to do about unregistered units, which represent a very large proportion of the urban housing stock. It is therefore critical to sustain the property registration reform momentum, as otherwise the net effect on the rental market of strengthening regulations and streamlining eviction procedures would be negligible.

2.1.4 Taxation

An unfavorable rental tax regime may be thwarting the effort to open vacant units for rental use, as well as causing widespread informality of rental contracts. The tax base is currently defined as 50% of gross rental income, with no additional deduction possible for the higher costs of comprehensive modernization of the unit. The tax rate is up to 20%, which means that rents are de-facto subject to a flat 10% tax. This serves as a financial disincentive to formally register and rent an unoccupied unit.

It is recommended that the rental taxation exposure for small, individual landlords be very limited. The majority of landlords in Egypt are individuals and families who rent out one or two units. Rental income for these landlords should be reported as part of the unified income tax law. To avoid discouraging potential landlords from putting units on the rental market, there should be a waiver for the first unit (up to a specified size or value), or a waiver if total rental income does not exceed a specified level.

Overall, it is recommended that Egypt continues strengthening the framework for tenant-landlord relations. These include: (i) model rental contractual agreements with the roles and obligations of tenants and landlords, and strengthening the regulations governing lease termination; (ii) a registration system to formalize leases; (iii) mandatory mediation prior to court action, e.g. local ombudsman; (iv) consumer, landlord, and judicial education regarding the revised rules; and (v) a streamlined rental eviction process (in parallel to the ongoing initiative in mortgage finance) and consideration of a public eviction guarantee as a safety net for qualifying households and as an additional incentive for landlords to bring their units into the rental markets. Additionally, it is recommended that the issue of landlord taxation with regard to the rental market be further examined to ensure that there are no disincentives to invest in or reasons to keep units out of the rental sector.

2.2 The Effects of Rent Control

The series of rent control laws imposed by the GOE as early as 1944, but especially during the 1950s and 1970s, have had serious effects on the housing market in Egypt. Rent control was originally conceived as a temporary measure after World War II, and it was later extended to preserve housing affordability for limited income groups. Rent control caused housing investors to concentrate solely on building housing for sale, which implied a focus on the upper income segment of the market. Investors in rental housing exited the market and faced severe losses on their existing holdings. At first, rent control law applied only to units built during the 1940s, but controls were gradually extended to apply to all new construction.

Renting is tantamount to owning, for occupants. Rent control prompted the application of key money for new contracts or to release an old rent-controlled agreement. A World Bank study¹¹ on the rental sector in Cairo found that, in practice, key money is roughly equivalent to the net present value of the difference between market rent and the frozen rent level over the duration of a long-term tenancy contract. In effect, renting has been tantamount to owning in Egypt, and households expect to have – and have had – exceptionally long leases relative to most other rental markets worldwide.

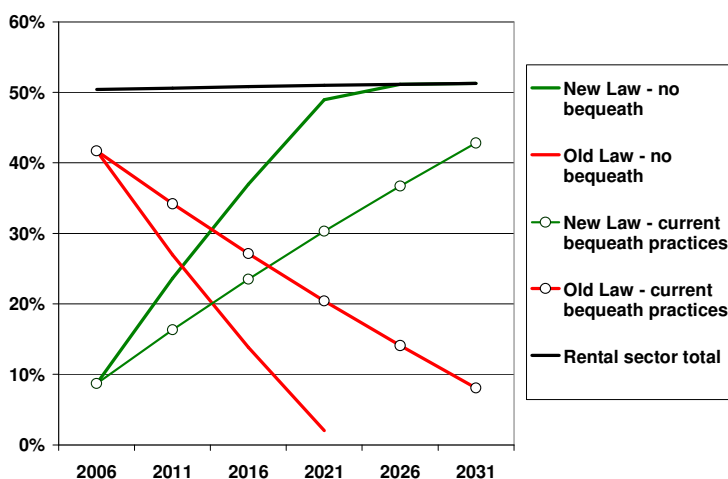
Bequeathing rules create new generations of rent control unit occupants and perpetuate distortions. The 1996 law grandfathered existing rental contracts, thereby allowing units to be passed on one time to a family member living in the household 2 years prior to the death of the tenant. Indeed, this provision, although not uncommon for rent decontrol in its first phase, is frequently abused. A typical form of abuse seems to be family members moving into the apartment shortly before the anticipated deaths of parents or grand-parents, just to comply with the letter of the law. More serious infringements that are reported include changing the place of residence on the government issued identification card and the name on household utility bills to serve as proofs of occupancy. As a result, about 50% of surveyed head-of-household tenants in the age group 25-35 years are living in controlled stock, paying rents usually not exceeding 5% of reported household income. Box 1 presents simulations of the magnitude of the rent-controlled sector under several policy scenarios.

¹¹ Hardman, A, Malpezzi, S. and S.Mayo. 1995. “Egypt Rent Regulation Reform Study for the Arab Republic of Egypt”. Study commissioned by the World Bank. Cairo.

Box 1: The Cost of Doing Nothing to the Rent Controlled Sector

In 2006, 10 years after the new rental law, 41.7% of surveyed units in Greater Cairo were still rent-controlled and only 8.7% were market rental. The survey data indicates that about 50% of old rental contracts would be bequeathed to the next generation, for whom mortality rates and incentives for conversion or termination will remain low over the coming decades. In light of these facts, simulations of different policy approaches are presented in the below figure. Under a “do-nothing” approach, it would take more than 30 years for the rent controlled sector to disappear in Cairo at the current conversion pace. By 2021, 21% of the housing stock would be under rent control, half of the current stock. A scenario where bequeathing is prohibited altogether would indicate a reduction of the share of the old rental stock to the total housing stock by about 5-6%, within a 5 year period. It would mean that Cairo would still have a rent-controlled sector of 14% of the housing stock by 2016, and about 5% by 2021.

Figure 5: Magnitude of Rent-controlled Stock in Cairo under Current Old-law Practices and a Bequeath Prohibition Scenario, % of Total Cairo Housing Stock



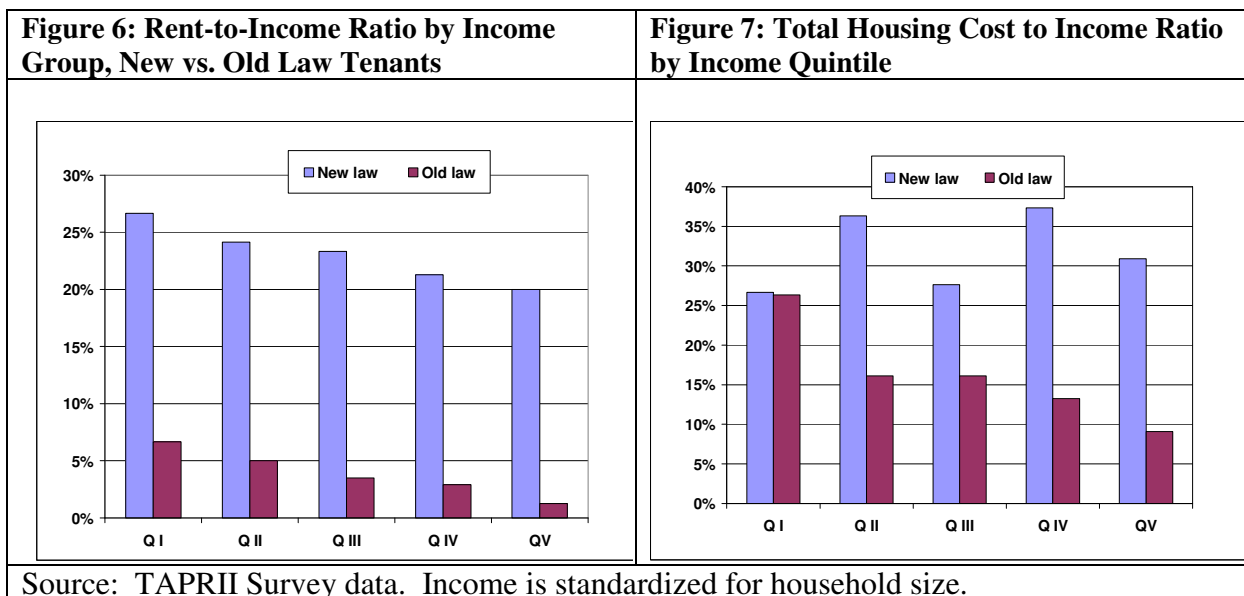
Source: Simulation based on TAPR II Survey data.¹²

The cost differences between controlled and non-controlled rent contracts are considerable. Since tenancy changes in old law contracts usually come with the payment of key money, it has been claimed that average rental payments in greater Cairo – considering foregone interest on key money – do not differ substantially from market conditions.¹³ However, the majority of old law tenancy changes seem to be intra-family, where key money payments are unlikely or at most in-kind.¹⁴ Moreover, marginal rental payments (i.e. for a current tenant facing the choice to move or stay) certainly differ, since a large part of the key money goes to the landlord (at best, 50% would go to sitting tenants) and are non-recoverable in the case of a move. This means that mobility decisions are highly affected. Figure 6 indicates rent-to-income ratios by income quintile for old and new law tenants for the TAPRII Survey households.

¹² Simulation uses demanders survey data, assuming that 80% of new rental contracts closed during 2001-2006 were old rental contract conversions/terminations and 20% from other sources (vacancies/new construction, other). Forecast does not use explicit mortality table for bequeathing tenant generation.

¹³ Hardman, Malpezzi and Mayo (1995)

¹⁴ Unfortunately the TAPRII survey did not record the level of key money paid separately.



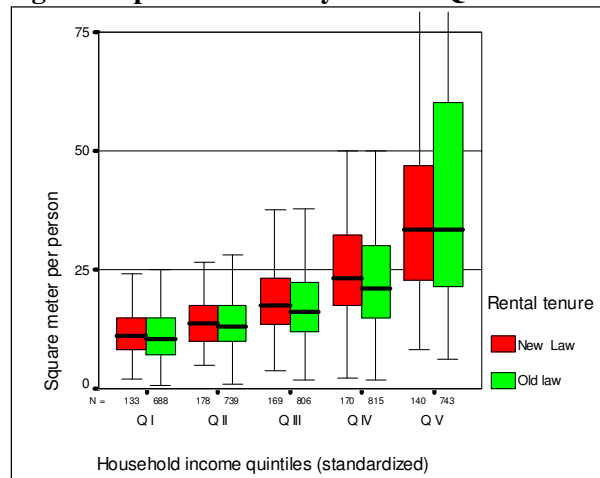
Total housing costs differ from rents for poorer households. Tenants under rent control in Cairo generally pay third parties for services that the landlord would usually provide, or whose costs may normally be passed, at least in part, through regular rent contracts. These charges are for capital repairs, sewerage and water services, and even real estate taxes. The total of these payments, together with rent, provide an estimate of total housing costs. The results indicate that differences between old and new law tenants narrow systematically for poorer households, but not for higher income tenants.

Ongoing rent controls create efficiency losses for the labor and housing markets. The wide differential between controlled and de-controlled rents provides a powerful incentive to retain old rent law contracts and reduce mobility. Indeed, the mobility indicators derived from the TAPRII Survey are very low by international standards (roughly 1.8% of families in Greater Cairo relocate per year). Moreover, rent control impedes the market process of “filtering” in which higher income households purchase expensive (often new) units and free up more economical units (often older) for lower income households.

Excess housing consumption is usually a companion feature of rent control, and for Greater Cairo this can be detected. In the case of the richest 20% of households (fifth quintile), 50% have over 33 m² per person and 25% have over 61 m². Positive correlation is also found between housing consumption and household age; indeed, housing space per capita increases significantly as married children move out. Such instance in the presence of the rent-control regime creates incentives for bequeathing. Finally, while the impact on vacancies cannot be observed in the TAPRII Survey data, the low rent levels are likely to contribute to high vacancy rates. With a nominal monthly rent level of on average LE 34.5 (instead of LE 230, the market rental value), a person with an old law lease could have more easily chosen to hold on to his unit for future use by living elsewhere and keeping the unit closed or vacant for his children or for future investment. Analysis for Sao Paulo has shown that the rent decontrol act of 1991 enhanced the supply especially of small, low-cost rental units. Supply came almost entirely from units held vacant before the passing of the law.¹⁵

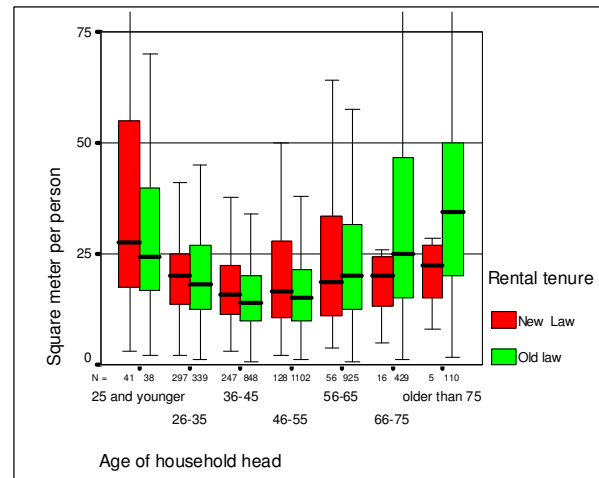
¹⁵ Source: unpublished research undertaken for the World Bank in 2006 by Eduardo Rottmann.

Figure 8: Housing Consumption of Old Law Age Group of Tenants by Income Quintile



Source: Based on TAPRII Survey data.

Figure 9: Housing Consumption by Head of Household



Source: Based on TAPRII Survey data.

Note: Box contains central 50% of observations (25%-75% of distribution), fat black bar represents median (50%-value of distribution).

The TAPRII survey data analysis yields several conclusions on the distribution function of rent control. First, virtually no affordability redistribution of the rent control system can be detected. The rent-to-income ratio under the old law is lower for all household income strata, including the richest. Second, the poorest households have higher rent-to-income ratios and total-housing cost-to-income ratios in both cases, old and new rental law. Third, a large number of beneficiaries of rent control in terms of rent differences are richer and older households, with considerable overlap of the two groups, especially in central Cairo. The highest income old law tenants consume more space than under the new law, and older tenants under the old law also consume much more space.

The rent control regime has also no systematic social safety net function. A household type analysis of the TAPRII Survey data reveals that single parents are strongly overrepresented in rent-controlled apartments. This seems to indicate social consensus that parents not raising children – usually males – leave the unit after a divorce. Extended families are also strongly represented, with grandparents typically being the tenant. In contrast, nuclear families, usually young and with small children, are strongly underrepresented. Singles are overrepresented in rent-controlled stock: these are often elderly (who are potentially socially vulnerable), but in many cases also young singles occupying an inherited rent-controlled unit.

International experience suggests several lessons for approaching rent decontrol in a gradual fashion. First, residential and non-residential rent controlled stock should be treated differently, with rent setting in non-residential, income-generating stock being left to the market.¹⁶ Second, rent adjustments within the residential stock should be introduced gradually to converge toward market rents in a two-step approach of rapidly covering operating and maintenance cost at first to prevent stock neglect and collapse followed by quid-pro-quo rent adjustments against landlord investments to improve the unit. Most importantly,

¹⁶ Currently in Egypt even commercial property rents are “controlled” with only a 1% per annum increase in rent allowed. Attempts to raise the allowable increase have been met with strong resistance from interest groups. Most transfers of rental commercial property take place through large key money payments.

safety nets (e.g. allowances, rental vouchers) are introduced to mitigate the negative effect on affected vulnerable households, such as the poor and elderly.

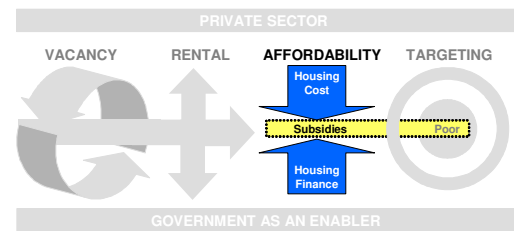
Introducing a gradual approach to rent decontrol could be feasible, as international experience shows. The closest analogy to Egypt appears to be Spain, which, like Egypt, started reforming its controlled stock in 1984 by completely decontrolling new contracts while keeping all earlier contracts under rent control. Transfer of contracts between the living, however, was banned and bequeaths were limited to two generations.¹⁷ The initial reform phase was characterized by a coexistence of high and volatile rent levels in the liberalized market segment and token rents in the controlled units.¹⁸ In 1994, a second reform law was promulgated with two main thrusts. First, it reformed the legal framework for liberalized contracts to provide greater tenure security, which would eventually result in a unified approach for all contracts. Secondly, they began de-grandfathering the previously controlled contracts. The de-grandfathering strategy used in Spain was multifaceted. For very old contracts (pre-1964) the right to bequeath was conditioned on the tenant accepting an increase in rents to a level capturing foregone inflation. Alternatively, a tenant could forgive the right of bequeath and keep the old rent level. For all other contracts closed prior to 1984 the right to bequeath became limited to one generation, to first degree heirs only, and only up to the age of 25 or two years after the death of the tenant, whichever comes later. This effectively meant discontinuation of bequeaths. For all contracts, also, a mechanism to raise rents to a level capturing foregone inflation since the introduction of controls was established. If the tenant was a socially vulnerable household (under 3.5 minimum wages) unable to afford these rent levels, the landlord became eligible for a tax support scheme. A rental reform program is currently being implemented in Morocco. Similar programs have also taken place in Brazil in 1991 and in Colombia in 2001.

Other interesting rent decontrol mechanisms can be found in the former socialist countries of Eastern Europe. East Germany initially moved all rents to levels covering operating costs and in exchange supported poor households via special rent allowances. Poland, Latvia and Russia similarly liberalized rents using rent allowances; in Poland, local government resistance later intercepted the rent adjustment process, however, Latvia and Russia allowed for market rent levels to be reached quickly. In the more strictly managed process in East Germany, in a second phase landlords were allowed to differentiate their rent charges within a predetermined range by the amount of investment in the unit. The investments were supported by a large public modernization loan program, requiring much administrative burden. In a final phase, some countries have adopted a reference rate (Germany) or indexation system (Spain) to govern rent adjustments and deter usurious rent levels, although the idea of government re-intervention in rent setting in the aftermath of a previous rent control regime and in the absence of good information systems may end up having some negative effect on market functioning.

In summary, it is recommended that Egypt considers developing an action plan to gradually address the distortions to the overall housing market resulting from the rent control regime, while implementing a safety net system to mitigate any socio-economic implications affecting vulnerable households. As a first step, it maybe useful to unbundle the rent controlled market by income-generating (commercial, offices, retail, etc) and residential uses, as each have distinct social and economic considerations. Among measures that could be considered to improve flexibility within the residential rent controlled market are: annual rent increases proportional to landlord capital repairs and modernizations; incentives for tenants to voluntarily opt out of rent adjustments in return for giving up their right to bequeath; and contract term limits such as inheritance to the juvenile phase of the heir or to a maximum term after death. Certainly, the any reforms to the rent controlled market would require significant analysis and the provision of social safety nets to avoid adverse impacts on low-income or special needs households.

¹⁷ Including cases in which such bequeaths had already taken place once or twice.

¹⁸ For an empirical review, see Eastaway and Varo (2002).



3.0 Expanding Housing Affordability

Perhaps the greatest obstacle to providing suitable housing for all Egyptians is simply that most families have limited income and capital. Moreover, they have difficulty devoting enough resources to housing, especially given the other pressing demands on family budgets. Only broad and equitable economic development will eventually overcome this affordability constraint. However, greater housing affordability can be reached through a two-pronged approach of (1) increasing access to housing finance and (2) reducing the cost of formal housing and transaction costs. Mortgage finance expands affordability by allowing families to pay for housing over time, while reduced land use planning and building standards allow for lower housing production costs and thus reduce the push towards informality. In the past, housing assistance programs in Egypt have focused on delivering a few housing products of relative high standard, requiring high subsidies, and offering little choice or adaptability of products to beneficiaries' needs. Instead, Government should identify multiple income segments, and target subsidy programs and necessary regulatory reforms at meeting the housing needs of each.

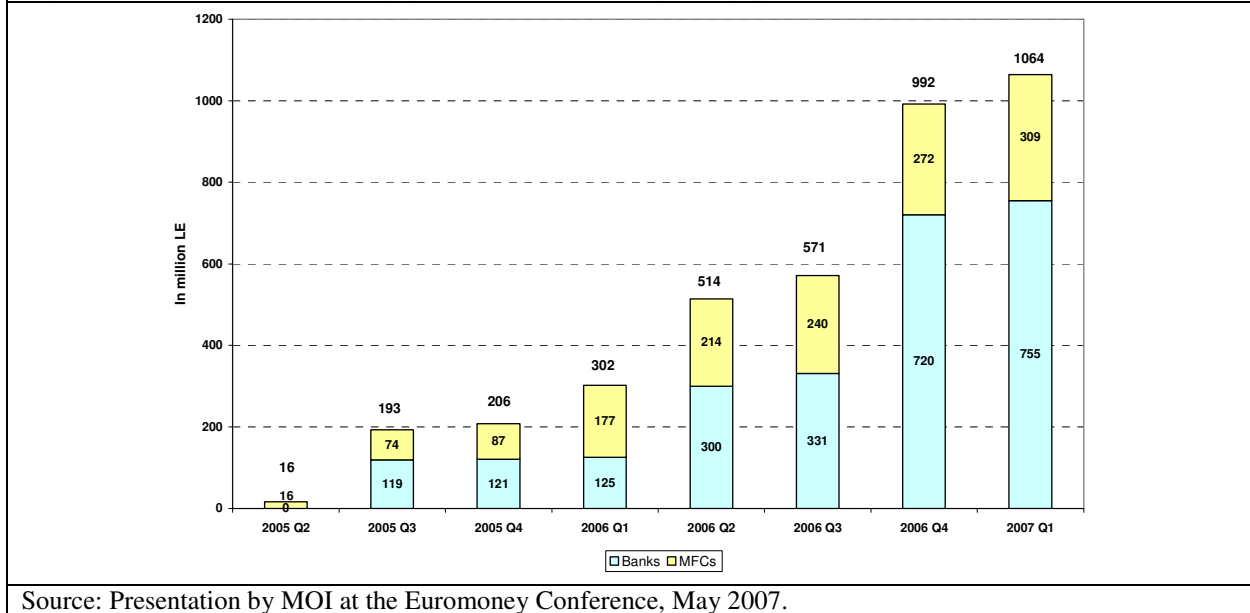
3.1 Strengthening the Mortgage Market for Upper and Middle Income Households

In recent years the government has placed much emphasis on activating the mortgage finance market.¹⁹ Although the GOE issued a new housing mortgage finance law in 2001 to enable access to housing finance, the mortgage market has developed slowly, mainly on account of the lack of land and real estate registration. The mortgage sector is still in its early stages, with mortgage loans outstanding reaching LE 2.2 billion in March 2008 (about 0.26% of GDP). Yet, the rate of growth of the mortgage market has been impressive over the last three years (see Figure 10), and the expected growth rate for next year is even higher (for example, the pipeline of mortgages under the NHP amounts to over LE 400 million). About 68% of these mortgage loans were made by banks and the balance by non-Bank Mortgage Finance Companies (MFCs). A much larger volume of non-registered mortgages is held by banks for which figures are not known.²⁰ By comparison, the total amount in outstanding installment loans, the traditional way to finance housing in Egypt, is believed to be in the order of LE 6 billion. By March 31, 2008, the average mortgage loan size was LE 190,000; the average duration was 13.3 years; the average Loan-To-Value (LTV) ratio was 49 percent; and the average interest rate was 12.8 percent. In June 2008, there were eight licensed MFCs with the Mortgage Finance Authority (MFA).

¹⁹ The enactment of the Real Estate Finance Law 148 of 2001 created the legal framework for mortgage lending in Egypt (including the tripartite mortgage agreement), its principal regulatory agency the Mortgage Finance Authority (MFA), and the GSF. A liquidity facility, the Egyptian Mortgage Refinancing Company (EMRC), has recently been established with participation from the Central Bank of Egypt (CBE), banks, MFCs and the International Finance Corporation (IFC), to provide long-term funds for mortgage lending to non-bank Real Estate Finance Companies and commercial banks.

²⁰ These are mostly older housing loans secured through non-mortgage means.

Figure 10: Cumulative Mortgage Debt Outstanding in Egypt



Source: Presentation by MOI at the Euromoney Conference, May 2007.

A major concern of GOE is the expansion of the mortgage market to lower-middle income groups who need affordable long-term mortgage finance to acquire their own home. To reach that objective, the Government established the GSF under the authority of the MOI, with the mandate to develop innovative products to stimulate the private housing finance industry to grow in scale and expand down-market. The GSF has by Law three types of mechanisms to fulfill its mission: (i) it can issue guarantees/credit enhancement initiatives (with the full faith and credit of the GOE), (ii) it provides upfront subsidies to qualifying beneficiaries, and (iii) it is also authorized to engage in physical development of low-income housing for which it receives government land free of charge.²¹

The GSF offers an upfront subsidy for low-income household (defined as a LE 1,500 maximum monthly household income). The upfront subsidy of up to 15% of the value of the housing unit is now capped at a maximum of LE 15,000 (after a recent Board of Directors decision increased the ceiling, which was set at LE 10,000). The value of the qualifying unit should not exceed LE 90,000 (also increased by Board of Directors decision from the initial cap of LE 75,000 to reflect the increase in construction costs in 2007 and 2008). Households are required to make a minimum down-payment of 10%. With the maximum monthly payment for low-income households set at 25 percent of income the maximum monthly payment for the program is LE 375 per month. This buys a loan of about LE 30,000 at current market conditions of 13-14 percent interest rates for a 20 year term. An additional subsidy is the exemption of payment for the GSF guarantee fee of 1 percent. Contrary to the NHP, the GSF is a demand-side subsidy issued to the borrower. It applies to existing units on the market (provided that they are either registered or deemed to be “registerable”) and to new construction. However, additional supply-side subsidies apply to most new construction schemes (i.e., developers of GSF-approved schemes in new towns can apply to NUCA to obtain land at no cost and off-site infrastructure at 50% of its actual cost). The total subsidy is therefore much higher than the on-budget subsidy of LE 15,000 per household. About 4,500 subsidies were allocated by June 2008.

²¹ The land development function is not perceived as a core task, but rather a means to raise revenue and create opportunities to initiate mortgage lending. GSF was capitalized with 1200 residential units (and some shops) and roughly LE60 million in cash on which it earned 7 percent, and LE274 million in receivables. The residential were sold to qualifying GSF beneficiaries who also obtained upfront subsidies and were matched with mortgage lenders.

Current explorations to make the subsidy program more accessible to lower income segments and in line with the NHP requirements include the application of a Graduated Payment Mortgage (GPM) graduating at 7.5 percent per year over the life of the loan. Such instrument would make the initial payment considerably lower. However, GPMs suffer from negative amortization through the initial years, which makes the program considerably less attractive to lenders. At the same time, the high required down-payment, the supply side subsidy and the upfront subsidy make the negative amortization risk to lenders small. The risk that household incomes do not increase at the set graduation rate is a more serious concern. Alternatives such as *the buy-down of monthly payments, say, over the first five-years of the loan* might be more market-friendly, and feasible in Egypt where savings constraints are less of a problem than monthly payment constraints. These and other subsidy issues are explored under the NHP section below.

Mitigation of credit risk through some form of credit guarantee can play an important role to draw lenders into the mortgage market, and eventually, provide the comfort lenders need to move “down-market”. The GSF has developed a loan guarantee that is mandated for every loan originated by MFCs regulated by MFA. The program provides lenders up to 3 monthly installments every five years on behalf of delinquent borrowers. It intends to avoid legal action and loss of the home when borrowers experience temporary financial distress. The fee for this credit guarantee is one percent of each monthly installment, shared by lender and borrower (but in fact passed through to the borrower). Low-income borrowers are exempt from payment but receive the same GSF coverage.

However, rather than serving as an incentive for lending, the guarantee is perceived by MFCs as expensive relative to potential benefits, as unfair because commercial banks are not charged and as an ineffective tax because it doesn't appear to respond to a product in demand by either the lenders or the borrowers and in fact can lead to moral hazard problems if borrowers exploit their guarantee privileges. In addition, lenders have misgivings about the level of capital held by GSF to pay out claims particularly in case of a systemic reason for default. The system has not been tested, since no delinquencies have occurred. The following recommendations are made²²:

- The GSF should consider phasing out the current guarantee product, which is focused on a narrowly defined and obligatory default guarantee that is inconsistent with best practices for mortgage default insurance; mortgage default insurance must be able to rely substantially on the recoverable value of collateral property.
- The GSF should lead the way in exploring the establishment of regular mortgage insurance, most likely under its institutional structure. A special regulatory framework has to be created, the Central Bank of Egypt (CBE) and the liquidity facility EMRC will have to agree to provide institutional and financial incentives for lenders to use the mortgage insurance product, and the MFA will have to agree to give the GSF similar favorable treatment. The GSF will need to build up capacity which is a key challenge since there is a short supply of qualified people in this specialized field.
- It is advisable that the existing GSF guarantee and subsidy functions be separated. As of today, only the accounting of both arms is differentiated and the guarantee unit has not yet been staffed. But, if the credit insurance activities are to be operationally activated and expanded, the different functions should correspond to distinct institutions, each with their own organization, governance, capital, funding, procedures, etc. The subsidy is intended to bring into the mortgage market households that would not otherwise be eligible for a loan by bridging the affordability gap, and it would need a constant influx of capital to pay for the subsidies towards this end. On the other hand, the guarantee function is intended to tease mortgage lenders further down-market and lower the cost of borrowing and is meant to be a self-financing.

²² Blood, Roger (2007).

3.2 Introducing Microfinance for Low Income Households

Microfinance for housing (MFH) is a subset of microfinance, designed to meet the housing needs of the poor, especially those without access to the banking sector and to formal mortgage loans. MFH is designed for low-income households who wish to expand or improve their dwellings, or to build a new home incrementally, relying on a series of small loans. MFH differs from formal mortgage lending in two key ways: the loans are smaller and shorter term, but more importantly they are usually not collateralized by the property. MFH clients generally cannot qualify for formal mortgage loans, for a variety of reasons, including low income, informal sources of income, lack of land title (although some microfinance institutions make this a precondition) and a dwelling that does not meet formal building standards. Relative to micro enterprise loans – namely working capital and fixed asset loans to micro entrepreneurs – MFH loans are, in some cases, somewhat larger and of longer duration. Finally, however, housing and micro enterprise loans may sometimes be indistinguishable. First, many micro businesses are conducted in whole or in part from the home, and secondly, many micro lenders have learned *a posteriori* that some portion of their SME loans are being used for housing improvements.

Egypt’s microfinance industry has a broad nationwide network of providers, including public and private banks, Mortgage Finance Institutions (MFIs) and Non-Government Organizations (NGOs). Intensive development work has been done over several decades, supported by the GOE, donors and foundations. Key issues of microfinance development - credit, savings, new products, regulation, and outreach - are now codified in The National Strategy for Microfinance, completed in 2005.²³

Table 4: Households Contact with the Financial Sector

Dealings with the Financial Sector	Dealings with Banks
<ul style="list-style-type: none"> • Families: 16.8% • Single demanders: 10.5% 	<ul style="list-style-type: none"> • Current account: families (7.9%); singles (4.0%) • Savings accounts: families (8.5%); singles (6.5%) • Loans, mutual funds: families (2.7%); singles (1.1%)

Source: TAPRII Housing Demand Survey Responses

Plans to offer MFH are already being considered in Egypt by several banks involved in micro-lending, catering to both formally-employed and informal sector low income households; thus, the experience exists for expanding MFH to Egypt’s wider network of lenders. All the issues surrounding the expansion of microfinance worldwide are being addressed in Egypt, including: commercial self-sustainability versus greater affordability through relying on “soft” money or guarantees from donors and foundations (such as USAID with the Alexandria Businessmen Association and the Social Fund for Development through local NGOs); the appropriate regulatory structures for MFIs and NGOs; and, most importantly for purposes of this Note, the pros and cons of association with government subsidy programs.

According to the National Bank of Egypt (NBE), their current clientele for micro housing loans cannot afford the self-build programs now offered under NHP, for example Beit Al Ailaa, as this requires LE 25,000 upfront, as well as a loan to finish the house. The NBE loans for MFH are generally small – LE 250 to LE 5000, repayable over a one year term with APR of 30%. The clients are often from informal areas, earning livelihoods as grocers, traders, and street vendors. This raises an important issue for MHUUD – could, or should, MFH be linked to an alternative “very” affordable housing program under NHP like a self build program for a modest unit spread over a number of years or a program for

²³ The National Strategy for Microfinance (2005), undertaken by the Central Bank of Egypt with the Egyptian Banking Institute and the Social Development Fund with support from USAID, KfW, and UNDP.

completion of unfinished units? An alternative would be that the sector develops independently of NHP, although perhaps supported by MHUUD via affordable land, low cost housing design, etc.

NBE and Bank of Alexandria are already planning to roll out microfinance for housing loan products. Loans would be up to a maximum of LE 5,000 with an APR of 30% and a range of terms. NBE has also been studying using MFH loans for electricity and sewerage hookups. In addition, a savings plan may be mandatory prior to granting some types of loans, and also holding 10% of the loan balance as an interest bearing account. Since MFH loans are generally not collateralized by the dwelling or land title, and since many borrowers are informally employed, mandatory savings are very frequently used by micro lenders worldwide to determine ability to pay and in some cases also serve as collateral. Bank of Alexandria also plans to introduce MFH as a product among its microfinance offerings, and is seeking technical assistance from USAID to develop MFH.

It is recommended that current efforts to develop MFH be supported with technical assistance on loan product development and marketing. The loan portfolio is expected to be fully commercial, similar to current bank loans for micro enterprise. MFH is not a panacea for the difficult problem of low income housing, however, MFH could be an important addition to low income finance and housing policy over the long-term. As part of the down-market expansion effort represented by MFH, GOE should also investigate credit enhancement possibilities for expanding MFH lending. Egypt's guarantee program for micro-enterprise finance could be expanded or replicated for MFH, in the same way that FOGARIM in Morocco was specifically created to assist in enhancing the creditworthiness of informal sector workers and increase lenders' willingness to go down-market by absorbing a large share of the associated risk.

3.3 Increasing the Supply of Affordable Housing Units

Increasing the number of rental and homeownership units in the market will help to push prices down and thus reduce the affordability gap. Several approaches would help achieve this objective: stimulating private sector supply of affordable housing; bringing vacant units onto the market; and making rental markets more fluid and efficient. These approaches have been discussed in detail in earlier sections.

3.4 Streamlining and Relaxing Land Management and Building Regulations

Several urban planning reforms are also currently taking place in Egypt. The MHUUD's General Organization for Physical Planning (GOPP) has completed a draft unified planning and building code called the Law Concerning Physical Planning, Urban Harmony, Building and Conservation of Real Estate Stock. The draft was finalized and was approved by the People's Assembly. The Law replaces a host of previous laws and decrees and groups them under one legislative framework.²⁴ Importantly, it mainstreams the strategic planning process in lieu of the traditional master planning approach, and calls for decentralizing the preparation of strategic and detailed land use plans with technical assistance provided for local governments in need. The Law also decentralizes to Governorates the responsibility of establishing adapted planning and development standards in urban upgrading projects, instead of the traditional reliance on national blueprint standards set in the planning law, which are unrealistically high and ill-suited to upgrading projects. However, the related Executive Regulations, which spell out actual planning and building standards have yet to be drawn up, which is critical since many aspects were referred to the Executive Regulations. As such and until then, the new Law has not yet come into effect.

²⁴ In particular, it replaces Law 106/1976 (the building code, with its many amendments), Law 3/1982 (physical planning law), and Laws 49/1977 and 136/1981 (old rent laws).

Many observers have put much hope in the new law as a means to allow more local control of planning and to allow more flexible and realistic standards for subdivision and building. However, it is difficult to judge whether this is true given that the Executive Regulations have not yet been formulated. It is hoped that new Unified Building Code will overhaul the system that has traditionally been characterized by (i) complex and unwieldy building regulations, (ii) a bureaucratic and costly process for building permit issuance; and (iii) unrealistically high planning regulations and standards. Indeed, the former urban planning law and its executive regulations prescribe inadequate and mostly undifferentiated standards including low densities, limited land coverage ratios, large setbacks, and a rigid zoning regime that prescribes detailed land uses without flexibility for mixed use developments and without responsiveness to market demand.

A direct result of the excessively high building standards and complex regulatory system is the vast amount of housing produced informally. Limited income groups, unable to afford formal housing or adequately located and serviced land upon which to build especially in large cities, found that they had no option but to seek shelter in informal and squatter settlements. Construction costs in the informal sector, even with a 20-30% cost add-on in extra-legal payments to circumvent problems with local authorities and utilities and to navigate the bureaucracy associated with informality, are still more affordable than formal housing supply, especially by the public sector. The end housing product is also more suited to people's needs especially in terms of location and cost, and the progressive construction method is more adapted to their priorities and affordability level. Indeed, almost 45% of new urban housing is produced by the informal sector.²⁵

Subsidized housing schemes are constructed with building standards that are unrealistic for the Egyptian context. In terms of land needed for typical public housing estates, the public housing neighborhood diagnostic carried out in the *Analysis of Subsidized Housing Programs* shows that the average land required per unit ranged from 39m² to 115m², with a clustering around 70-75m² in the New Towns and in general lower averages for governorate housing.²⁶ These net averages are higher than those used by the MHUUD in calculating global land needs. Using the above land ratios would yield net residential densities of between 200 and 300 persons per feddan assuming full unit occupancy by a family of four.²⁷ For a large housing area, the addition of land for schools, other services, open space, and major roads would further reduce this residential density considerably. As a result, existing planning standards call for low gross densities in new towns of 100-150 persons per feddan. By contrast, mature informal urban areas in Egypt have net residential densities in the range of 1,000-1,500 persons per feddan. Clearly, such high densities of 1,000-1,500 persons per feddan result in severe overcrowding and negative externalities and thus do not represent a standard that is advocated. However, the gap with prevailing gross densities of 100-150 persons per feddan in formal developments is significant and points to a major disconnect and a wide cost gap between formal and informal development due to overly high planning standards applied to formal development. This affects the affordability of the poor and pushes them towards informality.

Subsidized housing projects in Egypt are provided, in most cases, with a good standard of basic off-site and on-site infrastructure, but this comes at a huge cost to the public coffers. A huge fiscal challenge for the development of large subsidized housing projects is that infrastructure is expensive. As part of the *Housing Supply Analysis Note*, low-cost housing and associated infrastructure cost estimates were carried out, concluding that currently the cost of servicing land, including all associated off-site infrastructure,

²⁵ During the inter-census period (1996-2006), the urban housing stock is conservatively thought to have grown by an annual average of 2.8% or 263,838 units (9% higher than the annual average for the previous inter-census period 1986-1996 where the average was 241,916 units). Of these, 55.6% were formal and 45.4% informal.

²⁶ Land was the total area bounded by the perimeter streets which defined the estate. It does not include recreational open spaces or services such as schools.

²⁷ Feddan is a unit of measurement prevalent in Egypt and which equals approximately 4,200 square meters.

ranged from LE 266 to LE 333 per square meter of buildable land in 2006.²⁸ These figures will have increased considerably since then due to annual inflation in construction costs of about 20-30%. On-site infrastructure is costly because of the high planning standards and spacious grouping of buildings and the ample open areas between them. This is particularly true of newer projects (Mubarak Youth Housing for example) in the New Towns. The land required per unit within a superblock (not counting land for schools and other services) in most cases exceeds the housing unit surface area, frequently resulting in Floor Area Ratios (FAR) that can be less than 0.7. If the associated land needed for population-serving services (schools, playgrounds, etc.) are included, then land-per-unit ratios will normally exceed 130m²/unit.

The geographic mismatch of supply and demand for housing that has exacerbated the vacant unit problem in Egypt also adds to the high development cost of housing as most housing is located in distant New Town locations. Off-site infrastructure (trunk water, wastewater, power, and phone lines) serving a public housing estate must run over considerable distances and/or new trunk infrastructure (e.g. sewage treatment plants, power generation, etc) must be developed, due to the remote location of most estates, especially in the New Towns. The same is true for main roads. Thus the cost of construction of these systems or lines can be extremely expensive, as are the associated recurrent operating and maintenance costs. The expenses associated with off-site infrastructure for subsidized housing units will only increase in the future, as more distant and remote public lands must be found to allocate for housing programs. Identifying land within already urbanized areas where subsidized housing could be built would serve the dual purpose of matching the locational demand needs of lower income households while also significantly reducing the overall cost of development by limiting the need for new trunk infrastructure construction. Such areas could include Awqaf land, agricultural pockets, and the release of unused land held by State Owned Enterprises or decommissioned uses (e.g. Nozha Airport in Alexandria and Imbaba Airport in Giza).

Improvements to the public land management system would enhance the supply of public land available for affordable housing. The problem of poor site location that is often encountered in most affordable housing schemes and especially in the new towns, and which leads to limited occupancy, owes to the fact that there is a quasi-total reliance on public land. Several improvements to the public land management system could have a significant effect on ensuring adequate supply of well-located, well-serviced land and thus improve the likelihood of success of affordable housing schemes include: (i) inventorying and availing well located public land in cities; (ii) inventorying and selectively availing well located public land in new towns coupled with urban transport investments; (iii) reviewing unused public land stocks controlled by the different sectoral ministries and channeling them to different uses; (iv) repossessioning public land allocated to end users which remains undeveloped beyond contractual terms; (v) improving public land asset management; (vi) introducing regulatory instruments and availing the funds needed to enable acquisition of private land via negotiated purchase or preemption right; and (vii) availing the land to developers through competition (e.g. sealed bids) rather than through negotiated deals or a first-come, first-served basis.

To reduce housing prices, the GOE should consider relaxed and adapted land development and building standards. Although new schemes aiming to stimulate the owner-builder or self-help housing process are being introduced in new towns, applicable planning and design standards remain higher than needed to achieve the housing affordability outcome that underlies the dynamic informal housing sector. For example, the 150 square meter plots of the Ibni Beitaq program could be reduced by 25-50 percent. A reduction in land allocation for services and street right-of-ways in developments would reduce the amount of land needed per unit, and accordingly the overall cost. Additionally, by permitting mixed uses, a housing development may be able to achieve a cross subsidy from the sale of rent of commercial space

²⁸ World Bank, Arab Republic of Egypt Analysis of Housing Supply Mechanisms, October 2006, pp 23–24.

while also reducing residents' need to travel for distances for goods and services. Finally, improved property registration and streamlined building permit procedures would quicken the development timeframe and reduce risk and transaction cost.

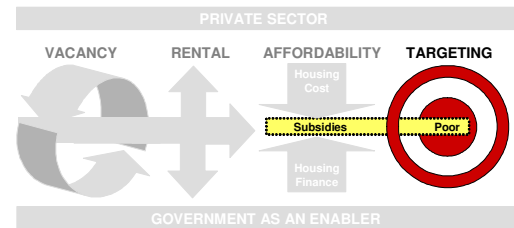
Strong momentum is in place since 2004 to reform the dysfunctional urban land and property registration system and several steps have already taken place. Egypt has two co-existing property registration systems. The *sejel ainee* (title registration, although in reality akin to parcel-based deed registration due to weak adjudication) applies in rural areas and is governed by Law 142 of 1964. The *sejel shakhsee* (person-based deed registration) applies in urban areas and is governed by Law 114 of 1946. It is estimated that only 5-10 percent of Egypt's urban land and real estate is registered under the *sejel shakhsee* system. The GOE's efforts, with technical assistance from the USAID-financed EFS project and the World Bank, comprise two key initiatives: (i) removing critical legal and procedural obstacles hindering land and property registration in new towns where much demand for mortgage finance exists; and (ii) converting the registration system in urban areas from *sejel shakhsee* to *sejel ainee*. A critical step that has been achieved in 2007 was the significant reduction of land registration fees from 3 percent of property value to a flat fee not exceeding LE 2,000. This has already had an important effect on stimulating demand for land and property registration.

Several important steps to improve land registration in new urban communities have already taken place. On September 21, 2006, NUCA and MFA signed a protocol to stimulate land and property registration in new urban communities. The protocol provides for the transformation of the *Takhssiss* form of land allocation (a conditional transfer of ownership) into a legal instrument acceptable by mortgage lenders, which is achieved through NUCA's authorization of landholders to mortgage their *Takhssiss* (in effect converting it to ownership), provided they have paid NUCA the full land price. Another measure was NUCA's dropping of the transfer fee (called *Rossoum Tanazol*) of 10 percent of the land value, which was charged on all subsequent transfers and which was a significant transaction cost. NUCA also authorized partial registration of land in large developments, on the condition that developers have been making regular payments up to the date of the request and that the full price for the partial area that they wish to register has been paid. This measure is critical to stimulate mortgage market development since NUCA in the past refused to register any land or real estate part of a larger development, even if completed and sold, until developers paid for the land in full, which took place over a 10-year period. To facilitate implementation, circulars prepared by the Ministry of Justice (MOJ) were distributed to all Real Estate Publicity Department (REPD) offices as well as circulars by NUCA that were distributed to the new urban community authorities. The protocol measures have started producing early results. Over 1,000 housing units controlled by GSF benefited from registration and three developments in New Cairo reportedly took advantage of the partial land registration provision.

The effort to mainstream the sejel ainee system of property registration in urban areas, coordinated by the Ministry of State for Administrative Development (MSAD), is also progressing: Several important steps have been implemented. An international consortium has been retained to design and implement the automated registration system and necessary networking among agencies. Detailed registration procedures have been developed for the new automated system and have been approved by the REPD, the Egyptian Survey Authority (ESA) and MSAD in May 2007. The issue of service bottleneck at ESA was addressed through direct contracting of ESA to do the mapping work at the new urban communities based on existing NUCA maps (LE 30 million were transferred to ESA for this purpose). MSAD expects that by October 2008 all urban properties in Egypt would be mapped, in part relying on taxation and NUCA maps. Feedback from lenders underlines that important improvements in registration have been made. The MSAD plan is to have one million urban property units registered by the end of 2008, and some 3-4 million by end of 2009. Although the MSAD targets have been revised downwards (50% of initial plans), they remain somewhat optimistic, especially in the case of existing urban areas (year one target involves five new urban communities and four existing urban areas). This is because title adjudication in urban

areas by the REPD has still not been tested at such an increased volume of activities. This is likely to be the real bottleneck especially in cases of large numbers of unregistered transactions or use of power-of-attorney and where competing systems have been resorted to such as the court's *saha wa nafaz* procedure.

A well-functioning land and property registration system is fundamental for developing an active mortgage finance system, attracting investments, and creating an enabling investment climate. The launch of systematic titling adjudication and registration program in urban areas and new towns is clearly a critical, albeit a massive, undertaking. What is critical is that the implementation of this program avoids the pitfalls of the *sejel ainee* process as applied in the past in rural areas in Egypt, and which converted historically registered deeds into titles without adjudicating the titles or acknowledging the prevailing land possession (in Arabic *Hiyaza*) at the time of registration (it can mainly be credited for creating for each property a Cadastral Information Form). The systematic registration program will therefore need to undertake effective legal adjudication of titles, community awareness and dissemination campaigns on the benefits of registration, coupled with the ongoing simplification of the registration process.



4.0 Developing Effective Targeting

Although government subsidized housing programs are aimed at households with low incomes, there have been only limited attempts to target beneficiaries based on income, wealth thresholds, or means tests. In fact, in most government housing programs the required qualifications are of the most rudimentary, with available units being distributed through administrative channels on the basis of waiting lists or by lottery if demand exceeds supply. Over decades the Egyptian government has relied on a standard application process to begin the housing unit distribution process. Authorities announce a new housing program and accept filled in applications (called *istimarat*) from citizens. In the governorates, citizens in need of housing can apply at any time at the housing directorates. Although targeting and distribution of units varies from one governorate to another and even within a governorate from one year to the next, there are some common requirements. First, citizens wishing to acquire government housing units purchase applications from the Housing Directorate (usually LE 5 to LE 20). Second, it is usually required that an applicant be living in the governorate (as recorded on the ID card) and that he/she be married. Other criteria might apply, such as a statement that the applicant has no residential property. In any event, the submitted application is screened and if considered accepted it is put on the waiting list. When a number of units are completed, either the oldest applications are picked by their date of submittal or all qualifying applications are submitted to a lottery and applicants are picked randomly until the required number is reached.

In 2001, MHUUD developed a basic point system under which beneficiaries qualify and units were to be allocated, but the scoring does not appear to be focused on low-income households. For example, higher points are given for applicants that are older (usually within an age band up to 40-45 years) and have higher education levels. It also puts an emphasis on those who are married and have more than one job, and gives considerable weight to those working in new towns. Whatever the merits of this point system, it is understood that it has hardly ever been used. Since most MHUUD housing is in remote desert locations where there is mostly still little urban life, practically anyone can qualify for the purchase of units if they meet very simple requirements and can come up with the reservation down payment.

In all programs the allocation of units in a particular housing project is random, with valid applicants assigned units through lists. There is no means for a group of families to acquire units in the same building or area, and thus they cannot hope to bring with them even a fraction of the networks and social capital embodied in extended family or co-worker relationships, which are extremely important aspects for those of limited income. This stands in stark contrast to how general housing markets, including those of the informal sector, work. In these cases one knows exactly the unit being purchased or rented, including the pros and cons of the neighborhood and who will be neighbors. In new, and especially informal, residential areas there is the ability to re-produce at least some of the “social glue” upon which livelihoods of the poor depend. In new public housing, by contrast, one will be living with complete strangers. It is no accident that theft is a common complaint in some new public housing estates, especially in new towns.

The TAPRII Survey indicates two very specific types of groups are currently looking for housing: young single men, mostly wishing for a unit in order to marry, and families within larger family units, many of whom are overcrowded or face various deficient conditions. Their characteristics are summarized in Table 5 (additional information on the “demanders” from the TAPRII Survey is found in Annex 1.1). Notably, both groups strongly prefer Greater Cairo and prefer a long-term rental contract rather than owning, although the family demanders are somewhat more likely to want to own than singles. Some of

the single demanders, even though their current income is low, are highly educated, and their future “permanent” income, combined with help from their families, may enable them to rent or purchase with no or minimum subsidy. On the other hand, current family “demanders” tend to be more overcrowded relative to the rest of the sample and to have more housing deficiencies. Probably as a consequence, they are significantly less satisfied with their current housing conditions. The young, single demanders are more willing to start “small” according to survey results. Nearly half of them expect to get help from their parents as compared with less than 10% of the family demanders. Thus, the income circumstances of the parents should perhaps come into play. Similarly, 57% of the family demanders expect to get no outside help at all, as compared with 38% of single demanders.

Table 5: Profiles of Housing Demanders

Profile of individuals looking for housing (primarily young, single men)	Profile of families looking for housing (Average family size = 4.1)
<ul style="list-style-type: none"> • Income: lower overall, many with no income • Many are highly educated • For some, “permanent” income likely to exceed current income • 63% prefer long-term lease; 32% to own • Savings: lower than the demander families • Their families will help them purchase a unit • 71% prefer staying in Greater Cairo; New Cairo is the top choice among New Communities 	<ul style="list-style-type: none"> • Frequently living with extended family • Over-crowded relative to rest of sample (35% have <40m2; average 1.6 persons per room) • Housing units tend to have more deficiencies • Significantly less satisfied with current housing • More frequently under new rent law at present • 60% want 80m2 or more • 54% prefer long-term lease; 37% own • 67% prefer staying in Greater Cairo; 6th October is the top choice among New Communities

Source: TAPRII Greater Cairo Household Demand Survey

Clearly, the “family demanders” and “single demanders” differ from one another. This merely serves to emphasize the point that some decisions should be taken as to which groups are “most deserving” of subsidy, rather than relying on self-targeting and the limited information that is currently collected in the application process. For example, a case can be made for a priority status in the NHP subsidy programs for low income families living in inadequate or crowded housing conditions. Other criteria, such as single parent households or nuclear families within large extended families, may serve to further refine the category of households “most deserving” of subsidy assistance. In contrast, young men – especially those that are single demanders – often have good future income prospects. Thus, they may be second priority candidates, best suited for rental housing, subsidized or non-subsidized, depending on their income and other circumstances. In many societies, young people begin with small (often shared) rental housing, and proceed over time to larger rental units or home ownership.

Income verification is difficult. Although some 60% of demanders stated they have provable salaries (government and formal private sector employees), these salaries may well be only part of total household income, with additional incomes coming from secondary jobs, small business activities, rents from properties, transfers, family support, etc. In fact, some government employees have very lucrative alternative sources of income which are several times greater than the nominal salary. Also, the 40% of households stating that they could not document or prove any source of income is presumably is the self employed and those who work in the informal sector. The Ministry of Finance (MOF) has recently introduced a unified personal income tax system with national application. The system is much simpler; it is based on self-reporting and a uniform tax rate of 20 percent that is lower than before and eliminates exceptions. The minimum taxable income that must be declared exempts most limited income families,

and these are precisely those families that any housing subsidy system would aim to target. The personal income tax system could be used, however, to help screen out those who are not eligible.

*What might be effective identification and targeting mechanisms that could be implemented?*²⁹ It is relatively straightforward from identity cards and other documentation to verify the age, gender and educational status of the applicant (head of household or individual demander), his/her marital status, and the number of dependents. The official town of residence of the potential beneficiary is also noted on identification cards, but frequently this has no relation to the actual, current address. This information, while verifiable, does not provide enough information to target subsidies. And the use of these cards would exclude those without official personal documentation, who tend to be the poorest.

Self-targeting is the least administratively burdensome method for targeting subsidies. By providing small units or a less sought-after form of tenure (i.e. rental), higher income households will likely choose not to pursue subsidized units. This type of self-targeting has been successfully used in Egypt. But self-targeting may still exclude those in most need. For example, large families may be “self-screened” out of small units. Similarly, those without the required income documentation will be screened out even though they are likely to be lower income (self-employed or informally employed). Projects in the new cities will screen out those without employment in these cities, without their own means of transportation, or who cannot afford costly transportation back and forth to their current places of employment.

‘Piggy back’ housing subsidies on to other GOE safety net targeting programs. The Ministry of Social Solidarity (MOSS) runs both small pension and small social assistance (income support) programs aimed at the very poor and destitute.³⁰ This is run through an extensive system which includes 2,500 local welfare offices and 20,000 social workers. Eligibility includes widowed or divorced housewives, and a kind of means testing is applied (through home visits) to confirm eligibility. One weakness of the program is that eligibility requires full personal identification documentation, which some of the poorest segments of society do not have. Another piggy-backing possibility would be to link housing subsidies to the food ration card system. This system currently is very poorly targeted (relying mainly on self-targeting due to the poor quality of the rationed goods), but the GOE is currently improving the system, with the introduction of electronic ID cards to replace the ration cards. However, as with MOSS social assistance programs, eligibility requires full personal identification documentation, which some of the poorest households may not possess. There are also suggestions that the cash-transfer social assistance programs be modified to target mainly families with large numbers of school-age children. This kind of “conditional cash-transfer” approach, if instituted, could open a path for certain types of housing assistance.

Use proxies to estimate family income. Proxy Means Testing relies on several correlates of poverty to identify the poor and, theoretically at least, can produce significant improvements in poverty targeting and outcomes. In a recent World Bank study, Proxy Means Testing was identified as having good potential in Egypt, and it suggests correlates or variables which be used, such as household head age, number of adults in a household, number of children in a household, women household head, educational status, and a number of others.³¹ Electricity consumption of a household has been suggested as one single income proxy to identify poor families.³² The TAPRII survey shows a strong correlation between household

²⁹ See David Sims, “Contributions to an Affordable Egyptian Housing Strategy”, Consolidated Report, The World Bank, June 2007

³⁰ For more information on GOE’s social assistance programs, see World Bank, “Egypt – Towards a More Effective Social Policy: Subsidies and Social Safety Net, No. 33550-EG, December 2005.

³¹ World Bank, op. cit., Annex B.

³² Studies have shown that there is a relatively strong relation between average electricity usage (Kwh per month) and per capita income (by quintiles). And practically all households consume electricity officially and can easily

income and ownership of certain assets such as cars, mobile phones and air-conditioning sets. However, this approach has never been tried in Egypt, even on a pilot basis.

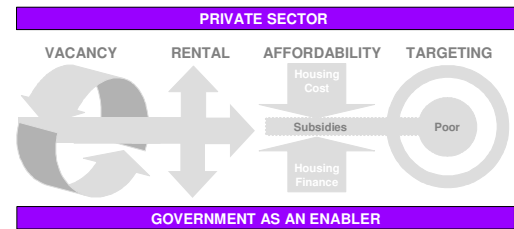
Family wealth assessments. Assessing family wealth by asset inventories might have some screening value, but it might err both in exclusion and in leakage. Also, the administrative burden would be considerable. In addition, such items as a vehicle or air conditioning ownership may reflect historical asset acquisition rather than current income.³³ Even so, statistically there is a strong correlation between household assets, particularly owning a car, and predicted per capita consumption.

Leakage can frustrate attempts at targeted subsidy distribution; random checks may assist in keeping this to a minimum. Assuming that it were possible to effectively allocate subsidies for housing acquisition based income and other characteristics, there is no easy way to ensure that the targeted beneficiary actually lives in the unit, except through burdensome repeat inspections (which may be open to abuse). It is not uncommon, for example, in subsidized government housing programs for relatives of the qualifying beneficiary to live in the unit, or for the unit to be sold or rented to third parties. Random inspections should be carried out to determine the extent of leakage and to whom use of the unit is being transferred.

While the approaches discussed above could be applied to reduce abuse and leakage, the consequent administrative burden could be very high. Piloting a new application process under NHP would provide an opportunity to test these new approaches and build relationships with supporting agencies such as MOSS. A longer application can provide more deterrence effect for ineligible households and thus more opportunity for better targeting. A pilot program under NHP is outlined in Section 4 of Part VI.

provide monthly bill statements. Yet the whole energy sector is riddled with subsidies and reforms in rates are being considered. These reforms will inevitably change electricity consumption patterns and thus it may be difficult to set up threshold levels for subsidy eligibility until such reforms are enacted. Also, if significant housing subsidies are linked to electricity consumption, and this link becomes well known, scenarios for abuse can easily be imagined.

³³ It is common for much of an Egyptian family's assets to have been acquired after the breadwinner returned with substantial savings from working abroad.



5.0 Enabling the Housing Delivery System

Enabling the housing delivery system includes effectively engaging the private sector in the delivery of housing, providing an equitable regulatory framework, and formulating policies to keep the housing system on track.

5.1 Engaging Private Sector Participation

The GOE must proactively assume its role as an enabler of the housing market rather than a producer of housing units. Experience in most countries in similar stages of urban development and economic growth as Egypt's clearly shows that government's proper role in housing is to guide and regulate the private sector and to avoid directly producing housing, except in very special cases.³⁴ Successful housing agencies in these countries concentrate on indirectly influencing both the supply and demand side of the housing equation, using subsidies sparingly and sharing risks which the private sector is unable to take. Significantly, the GOE's ability to form effective partnerships with private housing developers is key to meeting the goal of providing 500,000 housing solutions under the NHP in the short-term and to the long-term sustainability of enabling the provision of affordable housing in general.

Over the past 25 years, the public sector built as much as 36% of all formal housing units supplied in urban areas, which came at a significant fiscal cost of LE 26.4 billion. A plethora of public agencies and programs for direct affordable housing supply exist in Egypt, and together these entities have delivered 1.26 million public units during the period 1982-2005 (36% of all formal housing units built during this period in urban areas).³⁵ The largest supplier has been the Governorates with 44% of the public housing built in urban areas. Although cooperatives delivered 22% of the public stock produced in the 1982-2005 period, they have been losing ground along with a falling budget.³⁶ Finally, NUCA was responsible for 20% of the public stock.³⁷

The positive trend of increased private sector participation and investment needs to be capitalized upon, and further obstacles removed for the private sector to play its lead role in housing supply. Between FY2001-2002 and FY2004-2005, the private sector contribution has reached 88-90% of all new formal units with an average of 145,000 units per year while the public sector's annual average has fallen to 18,000 units. The public sector is withdrawing from direct supply while an invigorated private sector is playing an increasingly important role. Adequate (supply-side and/or demand-side) incentives need to be provided for the private sector to cater to the needs of low and moderate income groups, including making available well located and serviced land, streamlining bureaucratic procedures for land subdivision and building permit issuance and property registration, and enhancing the end-users' affordability levels through, among other things, enhanced access to mortgage finance. Feedback from developers indicates that supply side incentives in the form of access to subsidized public land is a key prerequisite if they are to participate in the development of affordable housing, at least in the short or medium term until the land market normalizes and the predictability of government housing subsidies is established.

Other areas of possible public-private cooperation in Egypt could include:

³⁴ World Bank, *Housing Enabling Markets to Work*, April 1993.

³⁵ These include: Governorates, NUCA, Joint Projects Agency, General Organization for Housing Construction Cooperatives, Housing Finance Fund, HDB, housing and development companies, and many development agencies.

³⁶ Now less than 20% of a LE1 billion peak per year (recorded in the 1995-1998 period).

³⁷ Their investment has also fallen to 5% of its former peak of about LE1.1 billion per year in the 1997-99 period.

- **Developer finance.** The lack of developer finance is an important problem, as consumers currently provide the bulk of development finance through down-payments, developer-provided instalment sale schemes, and mortgage finance for units under construction (although a March 2008 CBE circular curtailed banks from offering the latter, which represents an important setback to mortgage market development). Mexico's Sociedad Hipotecaria Federal (SHF) has addressed this issue by developing a monitoring system for low-income housing developers enabling it to provide guarantees for market-based bank developer finance and even securitizations.
- **Rent and mortgage payment collection.** Mortgage payment and rent collection in the public lending channel has been outsourced in several instances to the Housing and Development Bank such as by Alexandria Governorate. Privatization of this function is not essential as long as this is efficient, but could be a possible route to secure long-term sustainability. Private rent collection is today a standard in many Western European social housing developments.
- **Maintenance/ property management.** An important area to be explored for public-private cooperation could be property management, especially with an eye towards addressing the vacancy rate within public housing programs (both ownership and rental). Simple management or servicing contracts keep the investment on the public balance sheet, but shifts management and collection risks to the private sector.

A particularly problematic area, not limited to Egypt, is the failure to protect the public sector from downside risk. Current cost- and risk-sharing arrangements are purely contractual, due to the absence of a public-private partnership regulatory framework that could possibly govern the relationship. A common feature of such contracts is lack of clarity about risk sharing arrangements, often resulting in subsequent 'negotiations' between private and public parties about sharing losses. This minimizes both parties' incentives to mitigate risk (i.e. better planning, design and operating joint projects). Currently, private developers participating in the NHP barely face any commercial risk. Land is provided at a subsidized price and paid over time, thus requiring only a limited outlay of capital upfront. Consumers purchase the unit before construction, reducing the amount of developer capital needed to construct the unit. If construction costs increase, it is simply added to the sales price.

If private developers are required to share in the development risk, there must be sufficient compensation or upside to make the transaction financially feasible and commercially attractive. In short, they must see additional reward for assuming the additional risk. One way of accomplishing this is to allow for a greater mix of incomes (subsidized and non-subsidized units, which is also useful in reducing the risk of ghettoization of poverty and limiting the neighborhood risk to lenders) and a greater mix of land uses in large scale projects as a means of providing the developer more upside and reducing the amount of public subsidy needed to make the development project economically feasible. Another means of compensation is to give the private developer more flexibility to respond to changing market conditions, other than simply raising the sale price. If land is purchased at the "market" price from the government, perhaps there could be flexibility in the number of subsidized units to be sold or the type of subsidized unit. To provide further flexibility and spur innovation, the developers of large-scale projects should be granted some flexibility in land use standards (plot sizes and configurations, mixes of uses, etc.) to allow them to use design innovation as a means of reducing cost while retaining the quantitative target of the program in terms of number of subsidized units. Like the Planned Unit Development approach that is prevalent in the US, overall project design could be considered for permitting and approval rather than strict adherence to the zoning code.

5.2 Rationalizing and Improving the Institutional Framework

Institutional reforms are needed to streamline the housing delivery system and better match housing subsidies with limited income households. Specifically, reforms should include: (i) unambiguous policy adoption of government's role as an enable of housing markets/systems, leaving housing supply and finance ultimately to the private sector with the provision of subsidies to cater to the needs of those unable to afford their shelter; (ii) merging, streamlining, and reducing existing public housing supply institutions; (iii) developing a regulatory agency/function for rental housing markets and for housing construction; (iv) developing a function for managing incentives and subsidy instruments targeted at private sector lenders and developers; (v) putting in place a monitoring and evaluation (M&E) framework and setting up a responsible entity, which would feedback into the policymaking process; (vi) developing effective agencies at the Governorate level, with a separation of financing, development and regulatory functions; (vii) developing effective targeting and screening functions (through engagement of the MOSS, MFIs and lenders' underwriting capacity, NGOs, etc); (viii) developing capacities for public awareness, campaigns, and outreach; and (ix) creating a high level Housing Policy Council as the policymaking arm of the GOE.

A review of GOE entities which currently deal with housing shows that they are almost exclusively aimed at aspects of the supply of housing units. This is true both for the bodies which are under the umbrella of the MHUUD and also those found at the governorate level. Table 6 presents a matrix of current housing institutions set against their main functions.

Table 6: Current Housing Implementation Matrix

	Programming	Land Development	Housing Production	Financing	Risk & Guarantees	Subsidies	Targeting & Allocation
MHUUD							
NHP							
NUCA							
Cooperatives							
Joint Project							
Hsg Finance Fund							
HDB							
MOI							
GSF					*		
MFA							
National Banks							
CBE, Nat'l Inv							
Mortgage Finance							
Governorates							
Formal Private							
Informal Private							

* Role not yet activated

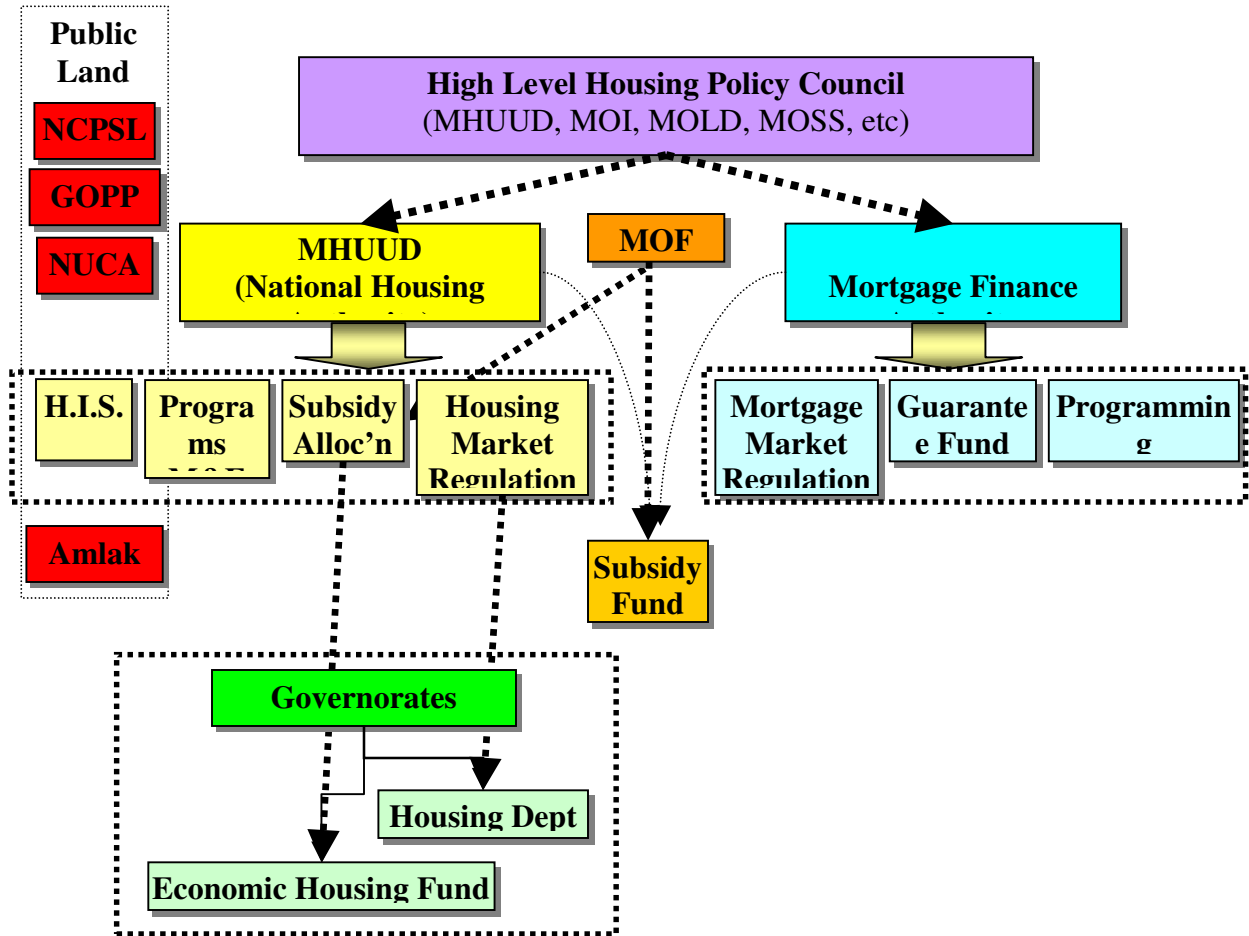
Strong rol	Weak role
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There are a number of government agencies which carry out overlapping functions relating to housing supply. Programming, land acquisition and development, housing production, financing, beneficiary targeting and unit allocation are duplicated by a large number of separate agencies. The 26 Governorates also carry out parallel functions, largely through their economic housing funds. With the exception of the HDB, other banks, and the mortgage finance companies, there is little specialization. And all of these

agencies, with the exception of the new GSF, are limited to supporting the supply of new housing and do not operate on the demand side of the housing equation. At the same time, the array of institutions related to housing have minimal mandate or focus on forming effective partnerships, regulating, or intervening in the private and informal housing markets. There is also a dearth of information and statistics needed to understand how these housing markets work. Government role *vis-à-vis* private sector housing has been limited to some public land allocation and enforcement of planning and building standards.

It is recommended that the GOE begin rationalizing the institutional framework under the NHP and introducing missing functions. In the long run, the management of Egypt's overall housing policy needs a high level authority which can function as the housing sector coordinator, but in the short-term an inter-ministerial working group, backed by a monitoring and research unit located in the MHUUD, could be formed. The High Level Housing Policy Council would be responsible for policymaking related to the housing sector, including endorsement of strategies, plans, programs as well as launch of new initiatives, and mainstreaming successful pilots at the national level. The GOE may also consider introducing in the medium/long-term a “National Housing Authority”, which would combine the role of the current housing sector of MHUUD and the Housing Information System (which the GOE has put as a key sector priority). Such Authority would serve as the “brain” for the proposed Council and would be charged with preparing policy proposals, strategies and plans, establishing monitoring and evaluation systems, maintaining land and housing market data/information, studying markets, etc. With such information and analytical work in place, the Council would advise on the formulation of legislation and decrees.

Figure 11: Proposed Institutional Framework for Housing Sector



Whereas the MFA is already functioning and its structure and operations are relatively clear, the proposed National Housing Authority would entail a number of innovative functions, such as:

- **A housing information collection function**, responsible for surveying and/or compiling data on the housing market including (1) new law rental production and rent levels, (2) progressive retirement of the old law rentals, (3) housing production and sales (both affordable and market rate units), (4) size and price levels in the second-hand housing market, and (5) quantity and terms of mortgages.
- **A housing subsidies management function**, aiming at developing subsidy packages which are limited, are cost-effective, and which go to those most in need. An important part of this function would be developing and promoting effective targeting and screening mechanisms for potential subsidized housing beneficiaries (with links to NGOs, MOSS, and others partners.)
- **A housing layout and standards function**, aiming at introducing less costly (and more affordable) residential land and building standards, including legislation for special "affordable housing zones" aimed at the small housing developer and owner-builder. Coupled with this would be a land market investigation function, aiming at identifying suitable urban expansion land for affordable housing. This function would be undertaken in coordination with governorates, GOPP and public land management authorities.

- **A housing monitoring, evaluation, feedback, and research function**, aiming at constantly improving the knowledge of housing markets and learning from experiences. This would include investigations of construction systems to explore cost-reduction innovations. It may prove cost-effective that some aspects of this function be out-sourced to specialized firms and consultants.
- **An institution strengthening function**, assisting governorates to play important roles in affordable housing development within their jurisdiction. This would aim at governorate housing departments and the governorate economic housing funds.
- **A publicity and outreach function**, aimed at informing the public of housing schemes which might benefit them and raising awareness of innovations in both rental and ownership housing markets.

5.3 Establishing a Housing Information System (HIS)

The establishment of a housing information system is a priority action. The lack of housing information affects almost all areas of proposed reforms and hinders policy making. Information collection on housing markets should be designed based on analytical models and compiled through central and local government and other entities (brokers, etc). Data on mortgage finance and credit information could be collected separately but linked with the housing database. Many separate databases are already being developed, such as GOPP's Urban Observatory, the MFA database on mortgage lending (although limited to registered mortgages), and statistical information from CAPMAS. A central unit would need to build on these efforts and transform the databases into a coherent set of information tools for policy and market development. MHUUD, with support from USAID, has initiated work on the formation of an Egyptian HIS and designed the content of a national housing survey.

Box 2: The U.S. Housing Information System

National housing information systems are typically composed of data collected through a national housing survey and data collected from multiple private sources. In the United States, for example, the Department of Housing and Urban Development (HUD) serves as the main compiler of housing statistics, issuing a quarterly compendium of housing data and an annual report.

HUD's Office of Policy Development and Research (PD&R) is responsible for maintaining current information on housing needs, market conditions, and existing programs, as well as conducting research on priority housing and community development issues. PD&R also maintains extensive data on the characteristics of subsidized housing units and tenants, which is collected from local HUD offices. The role of PD&R is to provide reliable and objective data and analysis to help inform policy decisions.

The main information sources for HUD's quarterly and annual publications come from six public and private sources.

Housing Stock:

- American Housing Survey (AHS). The National Census Bureau conducts the survey for HUD. The AHS collects data on the Nation's housing, including apartments, single-family homes, mobile homes, vacant housing units, household characteristics, income, housing and neighborhood quality, housing costs, equipment and fuels, size of housing unit, and recent movers. National data are collected biannually, and data for each of 47 selected Metropolitan Areas are collected about every six years. The national sample covers an average 55,000 housing units. Each metropolitan area sample covers 4,100 or more housing units. The AHS returns to the same housing units year after year to gather data; therefore, this survey is ideal for analyzing the flow of households through housing.

Housing Production:

- National Association of Home Builders (NAHB). NAHB is a trade association for companies involved in the construction or renovation of housing. The association surveys its members and collects city and county level building permit data to prepare reports on new housing starts, new housing characteristics, and new housing prices. Additionally, NAHB conducts a monthly survey of home builders to produce an index of their confidence in the business outlook.

Used Housing Market:

- National Association of Realtors (NAR). The NAR is an association of real estate brokers and agents. NAR conducts monthly national surveys of its members to collect current data on existing home sales, as well as profiles of home buyers and sellers. The NAR is the main source for housing price data.

Rental Market:

- Survey of Market Absorption (SOMA). Each month, the National Census Bureau (on behalf of HUD) selects a sample of residential buildings containing five or more units for the SOMA. The initial 3-month interview collects information on amenities, rent or sales price levels, number of units, type of building, and the number of units taken off the market (absorbed). Field representatives conduct subsequent interviews, if necessary, at 6, 9, and 12 months after completion.

Housing Finance:

- Mortgage Bankers Association (MBA). MBA is the national association representing the real estate finance industry. The association surveys members and provides weekly data regarding average mortgage commitment rates by mortgage product and volume measures of mortgage applications.
- Federal Housing Finance Board (FHFB). The FHFB regulates the 12 Federal Home Loan Banks that were created in 1932 to improve the supply of funds to local lenders that, in turn, finance loans for home mortgages. The Board is an independent regulatory agency of the executive branch of the U.S. Government. Each month, the FHFB conducts a survey of rates and terms on conventional mortgage loans.

IV. IMPROVEMENTS TO THE NHP

Now is the opportunity to leverage the NHP subsidies and the political momentum created by the program to initiate the reforms needed to build a well-functioning housing system.

1.0 NHP's Evolving Profile

During the Presidential elections in 2005, President Mubarak pledged that the GOE will facilitate the delivery of 500,000 new affordable housing units in the six year period from 2005 to 2011, or about 85,000 units per year, 50% of which would be located in new towns and 50% in governorates. Under the current program guidelines, each eligible household will receive an upfront subsidy of LE 15,000. The Ministry of Finance is thus allocating over LE 1 billion per year for this purpose. However, all off- and on-budget subsidies related to the typical unit are together estimated to cost LE 52,000 (70-75% of total development cost inclusive of infrastructure and the opportunity cost of land). This raises the price tag of this program to about LE 26 billion, which means, at existing subsidy levels, yearly subsidies of LE 4.4 billion (around 0.7% of GDP) to deliver 85,000 units per annum.³⁸

The NHP Agency, placed under the MHUUD, is an interim program agency assigned the primary responsibility for implementation of the NHP through 2011. The Agency offers public or private developers upfront lump-sum subsidies of up to LE 15,000 per eligible limited income household to reduce the cost of newly built housing units, in addition to making land and off-site infrastructure available in new towns at no cost through the NUCA. When the program was launched, the basic housing unit envisaged under the program was a 63 square meter unit in multistory walk-ups, a construction cost of LE 50,000, and an up-front subsidy of LE 15,000 which is directly paid to the developers upon unit completion. The beneficiary pays a down payment of LE 5,000, and needs to finance the outstanding LE 30,000 through a 20-year mortgage credit corresponding to monthly installment payments starting as low as LE 160, and set to rise by 7.5% per year.

The NHP represents a significant departure from previous supply-side housing construction programs. It is similar in that it is a government managed and financed program which builds and delivers new housing units to beneficiaries under an "application regime." However, its design features stimulate the incorporation of the private sector into its implementation. It is also more transparent and offers more choice to beneficiaries. For example, it improves upon past programs through the following measures: (i) an upfront cash subsidy from the State budget rather than distortionary interest rate subsidies on soft loans for housing; (ii) a requirement for complementary mortgage loans which are now offered under new laws and institutions set up since 2001; (iii) beneficiaries seeking housing units will be able to choose among different down payment amounts and repayment schedules, including the option of an annual monthly installment escalator clause; (iv) there is an explicit intent to include the private sector in the finance and construction of units; (v) rental housing is included in the mix of units produced; and (vi) core housing and sites and services schemes are included as well.

Particularly, the NHP is attracting private sector developers to finance and build subsidized units, and this represents a great improvement over past systems, in which the private sector was virtually excluded, except for isolated instances. The NHP provides land and off-site infrastructure at a reduced cost in the new towns, and developers are to construct units according to the standards of the NHP (units must be of 63 square meters or less) in one of two options: either 50% or 100% of the built area of the project must be devoted to subsidized units. If developers choose to build on 100% of the land, the basic land price charged is LE70 per square meters. If developers opt for a mixed income development, the 50% of the

³⁸ World Bank estimate as of February 2008.

land on which to build affordable core housing is allocated at LE 70 per square meter, whereas the remaining 50% of the land earmarked for market housing is allocated at LE 333 per square meter. If developers request large land areas (200 Feddans and above), the land price is discounted in steps (LE 35 per square meter, declining further with larger land areas). Private developers were invited to express interest in either 100% affordable housing developments or in mixed income developments (50% affordable and 50% market rate housing) under NHP. As of May 2008, a total of 105 companies have registered for the program and 288,500 housing units have been programmed under this private sector channel. By May 2008 a total of 13,324 units were under construction. Upon completion of the NHP units within a maximum permitted period of three years, the developer will market these units to families which meet the NHP criteria. The per unit cash subsidy of LE 10,000 for private developers and LE 15,000 for public developers is contributed to reduce the purchase price for the qualifying household.

In addition, upfront subsidies are lower than for previous subsidy schemes -- roughly 30% subsidy as compared to the Mubarak Youth Housing which required 67% of subsidies. However, additional subsidies need to be taken into consideration, such as the opportunity cost of infrastructure and land subsidies, likely cost overruns on construction expenditures which have to be compensated for by the state, and hidden subsidies by government lenders on interest rates (a below-market interest rate of 10.5% applied to the LE 2.3 billion committed by the three public banks and a public MFC relative to market rates today of 14% or more). In present value terms the interest rate subsidy alone would require an additional cash subsidy of LE 5,850 on a mortgage of LE 30,000, which would raise the upfront subsidy to LE 20,850 on a LE 50,000 unit or 41.7 percent of the nominal cost.

A low level of beneficiary interest in the first year, prompted MHUUD to examine other housing options. Since then, several other products have been proposed including expandable core houses, sites-and-services and most recently rental units.

The most significant new product introduced under NHP is a public rental program, which currently is estimated to amount to a total of 211,500 units, or 26% of the expanded NHP target. The product was introduced at the request of Governorates, which identified a great need for small rental units at affordable terms without any down payment. The basic unit is a 40 square meter unit comprising of one bedroom, a living room, a bathroom and a kitchen, and is intended at the poorest segments of society.³⁹ The rent level is calculated at around LE 160 per month. For poor households unable to pay that rent, the Ministry of Social Solidarity will examine these cases to set the affordable rent level, with the balance to be covered under the Ministry's social safety net programs. Protocols were signed with 14 Governorates for the delivery of 25,500 units, and the MHUUD views that as much as 100,000 units can be delivered through this program (75% in Governorates and 25% as worker housing in new towns). In light of the popularity of the rental model, it was also decided to provide 63 square meter units under similar arrangements. Three protocols were signed for a total of 8,500 units, with the plan set at 20,000 units. Against the history of Egyptian public housing programs, this move can be seen as a major programmatic shift away from finished housing ownership and back to a structure that is likely to better match low-income household demand. This point is underlined by the fact that rental was reintroduced primarily at the request of Governorates, which identified a great need for small rental units at affordable terms and without the down payment requirement. Still, there may be problems, such as the nature of the rental contract – will it be time-bound and could tenants be evicted? Additionally, unless governorate rental housing projects include a range of unit sizes and types, there is a danger of creating residential ghettos of

³⁹ Developments are built and owned by Governorates. The construction cost is estimated at LE 30,000 per unit. The financing available for this purpose includes: (a) a LE 15,000 subsidy extended to Governorates per eligible unit; and (b) a LE 10,000 soft loan at 6% extended to Governorates per unit. Governorates are left with a LE 5,000 gap as well as any construction cost increase to finance from their Economic Housing Funds.

very poor households, as occurred in the 1970s and 1980s in governorate emergency housing (*massaken eiwaa'*) projects.

A core housing option, entitled Beit Al-Ailaa (family house), was announced in May 2006. Land and an expandable core house are made available to beneficiaries by NUCA. Plots are between 100-120 square meters. The core unit comprises of one bedroom, living room, kitchen and bath, built on 40 square meters. Depending on plot size, beneficiaries can themselves construct one or two additional rooms using their own financing, up to a maximum plot coverage of 50%. An additional floor can be built in the future. Construction must follow standard plans provided by MHUUD for free. Payments of LE 80 per month would be charged to households for the 40 square meter model.

The sites-and-services model, called Ibni Beitaak (build your own house), was announced in November 2006. MHUUD advertised the delivery of 20,000 land parcels of 150 square meters each in 18 new towns. Households are allowed to build on 50% of the land a maximum of ground plus two floors (MHUUD provides free of charge building plans/designs to interested beneficiaries. The ground floor needs to be built in year one. The serviced land price asked of households is LE 70 per square meter (compared to an average of LE 140-150 as indicated by MHUUD for infrastructure cost recovery). The land price is payable over 10 years, with a 10% down payment, a 3- year grace period, and the balance in installments over 7 years without interest. This implies a net present value of LE 49 per square meter. The LE 15,000 upfront subsidy is disbursed in three stages, tied to construction progress. As many as 110,000 applications were received, a much stronger than expected demand for this product. The President instructed MHUUD to increase the supply of this type of product; and there are currently 90,800 lots in the pipeline. As of May 2008 a total of 1,437 lots had been planned and serviced.

As a result of the introduction of these new housing options, there is now enhanced "market" diversification/ segmentation within the NHP. The 35m² rental units are targeted at the lowest income groups who do not have savings for down payment on a homeownership unit and are very income-constrained. The larger 63m² rental units attract moderate income groups with a preference for a starter home with 5-10 year lease duration and/or who do not have sufficient funds for a down-payment. Moderate-income groups with preference for homeownership and with the ability to provide a down-payment have options in the NUCA and Governorate 63m² ownership units. In addition, moderate-income households can seek a subsidy from the GSF coupled with a mortgage (that the GSF facilitates) to purchase a new or used unit, so long as the purchase price is less than LE 75,000 (as an alternative to the 63m² size restriction that MHUUD relies on). Finally, middle-income segments with the ability to raise higher down-payments and secure larger loans would be catered to under *Ibni Beitaak* if they desire building their own unit or could acquire existing units developed by the private sector. Those willing to build a second unit for a qualifying household could access a second NHP subsidy. Higher income households also have the ability to purchase private sector-developed units on the open market using mortgages not linked to a government subsidy program.

2.0 Main Issues with the NHP

There is a large gap between household income and housing supply cost, even under the cheaper housing options promoted by the National Housing Program (NHP). Table 7 shows the maximum affordability for the median household in each quintile based on a 20 year subsidized or market loan whose repayment equals 25% of the reported, the required down-payment, and the NHP subsidy if eligible. Households in Quintiles 1 through 4 are eligible for the LE 15, 000 subsidy and below-market interest rate (10.5%) loan. Households in Quintile 5, however, are not eligible for the upfront subsidy or the below-market interest rate loan; the loan amount is based on a market interest rate of 13 percent (which prevailed in February 2008, although it has gone up to 14 percent if not more since then).

Table 7: Large Gap between Greater Cairo Affordability and NHP Housing Supply Cost

Quintiles	Q1	Q2	Q3	Q4	Q5
Median Monthly HH Income by Quintile in	400	600	750	1,000	1,750
Affordability (loan, down pmt & subsidy)	30,016	35,024	38,780	45,041	46,679
Economic Hsg (63+5 m2, 35% land cov,					
Total unit cost (excl. block offsite land/infra)	49,140	49,140	49,140	49,140	49,140
Purchase price gap	(19,124)	(14,116)	(10,360)	(4,099)	(2,461)
Low cost/Rent (40+3 m2, 35% land cov,					
Total unit cost (excl. block offsite land/infra)	31,200	31,200	31,200	31,200	31,200
Purchase price gap	(1,184)	3,824	7,580	13,841	15,479
Beit Al-Ailaa (120m2 lot, 40m2 core, 50%					
Total unit cost (excl. block offsite)	39,066	39,066	39,066	39,066	39,066
Purchase price gap (note upfront subsidy)	(14,050)	(9,042)	(5,285)	975	2,613
Ibni Beitak (150m2 lot, SS, 63m2 unit, 50%					
Total unit cost (excl. block offsite)	49,167	49,167	49,167	49,167	49,167
Purchase price gap	(19,151)	(14,143)	(10,387)	(4,127)	(2,489)

* Income is based on the results of the TAPRII Housing Demand Survey in Greater Cairo.

** Based on NHP guidelines: For eligible households (Q1-Q4), LE15,000 subsidy, LE5,000 down payment and 10.5% interest rate loan for 20 years; Q5 households, no subsidy, 20% down-payment, market interest rate (13%).

*Some NHP products require a beneficiary contribution that is beyond low-income households' means. Of specific concern is the escalating beneficiary contribution required to purchase the privately developed ownership units. Mortgage loan amounts are constrained by a stipulation in the Mortgage Law that restricts monthly repayment to 25 percent of household income. Plus, the original payment can only be LE160 under NHP. Although some mortgage providers have created loan structures that expand the mortgage amount such as reliance on annual bullet payments, the maximum loan amount ranges from LE 30,000 to LE 45,000. In an environment of increasing construction costs, private developers have raised the sales price of units. These two elements combined have forced beneficiaries to make down payments of between LE 29,000 to LE 40,000, significantly above the LE 5,000 envisioned in the NHP. The *Ibni Beitak* program has also proved to be an expensive endeavor for beneficiaries. While the down payment of LE 1,050 is quite low, completing has an estimated cost to the beneficiary of about LE 53,000.*

*Unless the affordability constraint is released, it is likely that there will be leakage of units to higher income households. In the case of *Ibni Beitak*, there is anecdotal evidence that this is already occurring by means of selling the serviced lots to higher income buyers even before starting construction of the unit. In regard to the privately constructed ownership units, it is likely that beneficiaries may have significant undocumented earnings that allow them to make the substantial down payments and enter into mortgage loans with large early-term principal repayments. As credit conditions are expected to tighten (likely rise of mortgage rates from the current 13-14 percent range) along with steep inflationary trends in 2007 and 2008, especially in building materials, there is pressure on lenders to increase down-payment required from households, and on the NHP to provide additional subsidies. Unlike public developers, private developers capture subsidies without sale price limits, so their margins are less affected than those of public providers. The analysis of both the direct and indirect subsidy levels of the existing NHP program and the potential implications of building material price hikes reveals high fiscal costs (in terms of accrued subsidies per unit), particularly for the public sector delivered component financed by public lenders (even before taking into account any additional credit loss).*

While the NHP includes housing models that depart from the classic 63 square meter unit in walk-up housing blocks, and this represents a welcome move towards a greater mix of affordable housing products, there is still concern about the location of the units. The core housing and sites and services schemes, and smaller units in classic housing blocks are to be located in the New Towns, and allocated areas within the New Towns will tend to be in the furthest sites where land is available, arguably in remote areas at the periphery. Both the core housing and sites and services schemes are attempting to attract the same kinds of household investors who currently are so prominent in informal urban areas. However, it will be difficult to attract this target groups to these remote areas far away from their source of employment, livelihoods, and social networks. In addition, NHP standards of low plot coverage and low exploitation ratios which mean low densities and high on-site infrastructure costs, as well as high off-site infrastructure costs typical to new towns, will mean that either affordability for these schemes will be problematic or indirect subsidies will be costly. The resulting neighborhoods will also be difficult to serve with convenient transport and other services. Addressing the issue of poor location of subsidized housing is imperative, and one way of rectifying the situation is to identify publicly owned and underutilized parcels of land in urban areas that could be used for low-income and mixed-income housing.

Most housing “demanders” have low incomes relative to housing payment, limited relationship with banks and perceive the new National Housing Program as expensive. The majority of TAPRII Survey respondents who are seeking housing are young men who plan to marry, and 61.2% of them prefer a long-term lease. Of the families who are looking for housing, 54% also prefer a long-term lease. The high demand for rental is reflected by the fact that 82.2% of households chose rental housing between 2001 and 2006 versus only 17.8% who bought their units.⁴⁰ Respondents who did not borrow from a bank cited the cost of a bank loan, the need for collateral and cultural barriers. Few households have dealings with any financial institution⁴¹. The TAPRII Survey also found that there was limited awareness or understanding of the NHP options. Yet, once NHP options were described, the overwhelming sense was that they are not affordable though widespread comments about loan terms, purchase price, and rents rated as “too high.” Another issue, not specifically addressed in the TAPRII Survey, is that many low income households have informal incomes which bar them from entering the program.

In addition, the savings ability of lower-income households or their capacity to mobilize funds for the down-payment in other ways is limited, although less so than in many developed and developing countries. Raising funds necessary to pay either the whole cash price of a unit for sale, the down-payment portion of the sales price required by developers or under government schemes, or the advance payment which is commonly required to rent a unit, is another major affordability constraint. The majority of units for sale on the private housing market require full cash payments. This has been the norm for decades. Some units in both the formal and informal private sectors are offered with installment plans, but these rarely amount to more than 30 to 50% of the total price and must be paid in 3 to 5 years. As such, Egyptian families have had to mobilize significant amounts of funds to acquire housing. Households do this through personal savings, borrowing from friends and family, revolving savings and credit groups (called *Gam’iya*), and/or conversion of other assets. The TAPRII Housing Survey allows a look at the ability-to-pay for rental housing advance payments and equity down-payments for purchase. Housing demanders expressed their ability to mobilize surprisingly significant amounts. Indeed, the

⁴⁰ Other survey findings include: (i) most (81%) households looking for housing have incomes less than LE 1,000 per month; (ii) young households (between 20 to 30 years of age) are more accepting of the concept of mobility than older households; (iii) demand for serviced land represents only 3.8% of total demand; (iv) both singles and families currently looking for housing overwhelmingly prefer Greater Cairo, 71% and 67% respectively; and (v) only 3.8% of the surveyed households who bought their housing unit between 2001 and 2006 bank-financed the purchase of their home.

⁴¹ 78.9% of surveyed households have no dealings with banks, financial corporations, or mortgage companies.

median overall response was LE 7,000, the median amount of LE 10,000 was considered “getting expensive,” and the median response for what is considered “too expensive” was LE 12,000.

The large gap between affordability and the NHP housing supply costs as currently envisioned can be addressed using a two-pronged approach of (i) removing regulatory impediments that increase the cost of housing supply (see Section 3), and (ii) expanding access to housing finance, with a focus on mortgage finance for middle-income households and micro-finance and other innovative approaches to address the needs of the lowest income deciles. For each income segment (quintile, family composition, age, etc.), Government should identify necessary real estate development regulatory reforms, provide incentives for mortgage and non-mortgage lenders to expand lending to addition income segments, and finally plug the gap between affordability and supply cost through subsidies when necessary.

3.0 Improving Affordability in the NHP

3.1 Making Housing Finance Accessible

Mortgage finance should be an integral part of the NHP because greater access to housing finance will augment the ability of middle income households to purchase housing and allow the GOE to focus on implementing housing programs for the low-income. Mortgage lending is critical to reach NHP housing targets because there is potential for the private mortgage market to serve a large portion of the middle and lower/middle income households with much less subsidy than traditional government housing programs. This allows the government to concentrate its limited resources on those who need them most.

A challenge for the NHP is the eligibility of the beneficiary households to contract and repay 20-year mortgage loans. So far, three public banks (NBE, Misr Bank, and HDB) and a public MFC (Taamir) have pledged together LE 2.3 billion for the program at a fixed below-market interest rate of 10.5% (market priced mortgage loans would be at 13-14%). This pricing raises sustainability concerns for a large scale program, notably for the HDB which has less core deposits, and could undermine the current broader efforts to restructure the banking sector and lead to adverse soft loans or other forms of unwelcome additional subsidies. The new liquidity facility, the EMRC, has helped the banks deal with the mismatch (margin between the fixed below-market rate and the market rate) and provides a better basis for using the lower interest rate, although it has still not yet disbursed.

In order to make the mortgage loan more affordable for NHP beneficiaries in the initial years, a GPM instrument is envisioned with a 7.5% annual increase of the monthly installment in order to minimize the initial monthly payment (LE160 in year one) and boost credit affordability. One concern is possible negative amortization in the first few years, depending on the level of the supply subsidy and down-payment together. This added risk is shunned by the banks. The credit risk would also be higher because the annual increase of 7.5% is considered high. It is based on recent annual civil servants’ wage increases of about 10% per year of the basic salary (much lower than the take-home wage due to several add-ons), which is not necessarily the norm for households employed outside of the public sector and does not represent a long-term floor for future wage appreciations of civil servants.⁴²

The NHP income limits and payment to income ratios stipulated by the Mortgage Law, greatly constrain household purchasing power. Mortgage loans from the MFCs at market interest rates have repayments that are limited to 25% of household income, and therefore the maximum loan amount under an amortizing loan (as specified under the NHP) is around LE 30,000 assuming an interest rate of 13% per

⁴² The 2008 civil servants’ wage increase was, at 30% of basic salary, unusually high due to very rapid inflation and rising food prices.

annum. Because of inflation pressures, interest rates are likely to increase to at least 14%, thus reducing the maximum loan amount. To expand the purchasing power of homebuyers, the MFCs have developed creative loan structures. Structures currently in the market include introductory teaser rates that increase during the term of the loan (such as 12% in year 1, 13.5% in years 2-6, and 14.5% in years 7-20, in the case of the largest MFC Tamweal) and obligatory bullet payments (early-term principal repayments). In the case of one MFC, these bullet payments consist of annual payments equivalent to 10 monthly payments for the first 10 years, over and above the monthly payments on the amortizing loan that has a 7.5% escalation per annum. Using this structure, the MFC is able to increase the mortgage loan by about 50% to about LE 45,000. Yet, all what the use of such creative and risky instruments can do is offset the recent increase in unit prices due to construction cost increases, leaving the households to come up with very large down-payments, averaging around LE40,000 in private sector-built units. If the initial NHP target for the level of credit repayment is not adjusted to market realities, lenders would have to introduce riskier amortization schedules (negative amortization in the early years, very long terms, or large yearly bullet payments) that increase credit risk. Both increased riskiness of mortgage lending and implicit funding subsidies to banks would be undesirable consequences that could set back efforts to normalize the mortgage market.

To induce lenders to participate in down-market lending including for the NHP, the GOE may consider providing other types of incentives. For example, NHP funds could be used to support risk sharing or to cover additional transaction costs arising from underwriting and servicing small loans. Part of the upfront subsidy offered under the program could be used for interest buy-down for a limited period to reduce monthly payments in the early years where the affordability challenge is highest. In brief, a mortgage buy down is an initial lump-sum payment that enables the lender to lower the interest rate for a given duration on a fixed rate mortgage. This would assist income constrained households who can accumulate down-payments from savings and family sources, but who cannot make the monthly payments warranted in a high interest rate environment. A mortgage buy-down is a transparent means of augmenting affordability in a high interest rate context. Additionally, should the qualifying buyer be able, the NHP should allow the option of increasing the equity down payment to further reduce the required monthly installments.

There is a need to harmonize the GSF with the NHP. The main difference between the GSF approach and the NHP is that the former is not a government housing supply program, but is available for any household that needs financial assistance to acquire a housing unit on the market (thereby relying mainly on private developers and private lenders). The unit can be newly constructed or a resale unit available on the market, on condition that it is registered or is deemed “registerable”) at the REPD. Although the GSF has a somewhat different client base, confusions and distortions could arise from having both NHP and GSF operate under the new and rapidly evolving mortgage finance structure unless subsidy amounts, terms and conditions are harmonized. Besides the issue of the cash subsidy differential (currently being addressed⁴³), private banks and MFCs operating under Law 148/2001 and wishing to participate raise the funds through such sources as deposits, securitization, etc, and on-lend them as mortgages at interest rates of 13-14 percent per annum. By contrast, under NHP (at least the LE 2.3 billion commitment), mortgage loans are extended by public banks and MFCs at the below market interest rate of 10.5 percent, which is possible in the case of HDB due to access to a soft loan from the National Investment Bank.

Recognizing the magnitude of the problems arising from tougher market conditions, and the poor targeting of the NHP subsidies for finished housing through developers, the GOE should develop a new scheme of upfront household subsidies that would be part of a comprehensive package to finance the unit including mortgage credit and a household down-payment. It is recommended that the program of credit-

⁴³ LE 15,000 per household/unit for public developers under the NHP versus LE 10,000 through the GSF. This difference prompted the GSF Board of Directors to approve an increase of the subsidy to LE 15,000 which was awaiting ratification by the Minister of Investment to come into effect.

related subsidies be implemented and operated by the GSF, on behalf of the MHUUD and MOI, as the GSF has already established experience and credibility in administering a similar program with various mortgage lenders, albeit at a lesser scale. The establishment of the main features of the program - including targeting criteria but also a regulatory and budgetary framework – as well as any later related adjustment - would not be decided by the GSF but by higher-level policy making authorities within the context of the broader housing policy. The advantages of such a program are that: (i) the subsidy benefits the consumer directly, rather than indirectly through a subsidy to developers, which generally improves the efficiency and transparency of household subsidies; (ii) it allows a broader range of options of houses to be included in the overall package of subsidies (e.g., unfinished houses and existing houses); (iii) it increases the ability of middle and lower middle income group to access credit and hence lowers the amount of needed subsidy or increases the number of people to benefit from the subsidy, all else equal; and (vi) it allows expanding mortgage markets to play a pivotal role in increasing the production of housing, which would gradually contribute to the improvement of mortgage finance terms associated with the reduction of risk and going to scale.

Mortgage linked transparent upfront subsidies and/or buy-down subsidies allow lenders to make loans at market conditions and allow for better targeting through lenders' underwriting systems and through implementing a subsidy system progressive with loan size and house value/size. However, mortgage linked subsidies are only feasible for households who are creditworthy and for properties trusted as collateral by lenders. In the Egyptian housing market this means that a large proportion of households deserving of a subsidy cannot be served through such a program, even if over time the program is adjusted gradually to reach lower income groups. A mortgage-linked subsidy is therefore always only one part of an entire subsidy package. It needs to be complemented by alternative subsidy programs that cater to those households excluded from mortgage lending. For example, site and services projects that combine a serviced land subsidy, self-help and access to micro-loans, subsidized rental housing, as well as such instruments as guarantees and contractual savings for access to mortgage finance by qualifying households with undocumented/irregular income.

Shifting from a supply-side dominated subsidy system to a demand driven mortgage-linked subsidies would need to occur in a gradual fashion. Private developers who are accustomed to receiving heavily subsidized land upfront would need to adjust to a system in which all the subsidy comes in upon the sale of each individual housing unit. The current pipeline of NHP allocations will facilitate this transition. Moreover, the transition period will allow the MHUUD and the GSF sufficient time to fortify their monitoring and evaluation capabilities.

The introduction of the new subsidy program would have consequences for the governance structure of the GSF. The first requirement is the separation of the subsidy and guarantee functions, which should be reflected by a legislative amendment to the Decree establishing the GSF. The separation should be complete, including products, corporate governance, operations, and financial management (beyond the current administrative and accounting separations). Managing a guarantee program requires an independent decision process based on prudent risk management principals prior to the consideration of subsidies, even if the guaranty is used to promote a social agenda and if insurance premiums are reduced for that purpose. The second requirement is the reconfiguration of the (to be renamed) Subsidy Fund's Board of Directors to reflect the role of the MHUUD in policy development, which could be achieved by decree.

The NHP should require all housing units to be registered by the beneficiary at the REPD. This has not been always the case, as this process requires first the housing project block to be entered into the title or deed register, then to be divided into individual titles. For the new towns only, a protocol was signed in September 2006 between NUCA and the MFA in order to facilitate the registration process and create a legal framework acceptable by mortgage lenders. It is too early to assess the effect of this protocol; it is

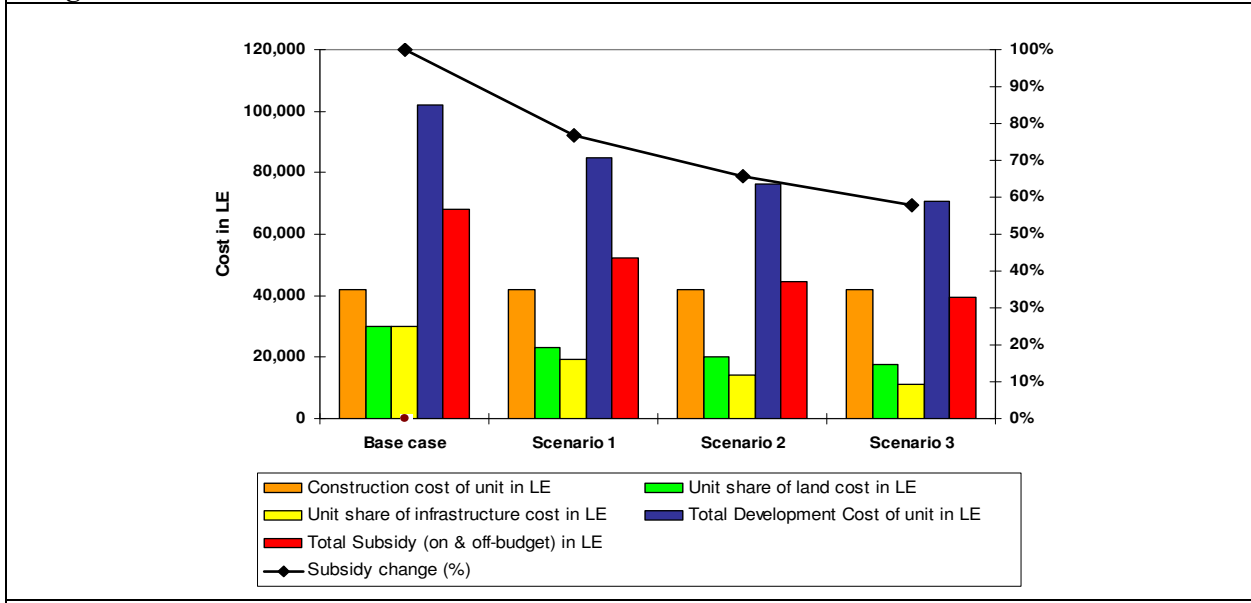
nonetheless expected to have an important impact, even though the process of subsequent registration is likely to be fraught with many complications as it falls back into the jurisdiction of the MOJ and the ESA, which have no role in the block and first registration. In NHP projects executed by private companies, the title transfer to the developer can occur in a sequential manner, provided the land cost has been paid in full for the partial area to be registered.

MFH loans could be of meaningful assistance for home improvement, finishing dwellings that have not been completed, or expanding of existing dwellings; it is inadequate to finance a new dwelling. MFH loans could also be the “first” loan in a cycle of loans used to build modest dwellings incrementally, as in the core housing program of the NHP. Also, MFH loans could be used to finish off and rent/sell units on the market, thus establishing the traditional link in microcredit between the loan and income generation. Promoting MFH in Egypt could have two important roles. First, MFH could serve as long-term provisions of finance to assist poor households improve their dwellings, including unfinished units. Second, it could serve as a possible addition to NHP subsidy programs, to assist households that cannot qualify for, or who are not a part of NHP. For example, for households in the first quintile, no current NHP program may be affordable, including the low cost rental. Households in the second and third quintiles can afford the rental program, but none of the others, even with the subsidy, including the *Beit Al-Ailaa* program. Only households in the fourth quintile can afford the *Beit Al-Ailaa* program. In addition, the affordability assumptions are quite generous: they are based on a 20 year loan with a payment to income ratio of 25%, at a concessionary interest rate of 10.5%. In contrast, the households who are the prime candidates for obtaining MFH loans generally cannot qualify for formal mortgage loans, either because of low income or because of variable income from informal sources.

3.2 Reducing the Supply Cost of the NHP Housing

To reduce the cost of affordable housing programs in Egypt, the GOE must consider relaxed land development and building standards for NHP housing. For example, more efficient land coverage (increased from 50% in the base case to 60% in Scenario 1, 70% in Scenario 2 and 80% in Scenario 3) in the *Ibni Beita* program decreases subsidy burden cumulatively by 42% (see Figure 12). Reducing land coverage and increasing the Floor-Area-Ratio (FAR) also yields large reductions in the subsidy amount for the *Beit Al-Ailaa* program as well (see Figure 13). In short, higher density development allows for more units to be built on less land. This lowers the amount of subsidy required by reducing the total development cost. Conversely, reducing the quantity of land needed to construct a set number of units would also facilitate the use of more expensive, but better located parcels of land for the same level of subsidy.

Figure 12: Effect of More Efficient Land Utilization on Public Subsidy Needed in the *Ibni Beita* Program



Source: World Bank, April 2007

Another means of reducing the overall cost of supplying affordable housing, as well as the public subsidy burden, is to promote the development of NHP housing by the private sector. Figure 14 demonstrates the potential gains of coupling efficient use of land with private development in NHP Economic Housing. The shift to private development reduces the total development cost by approximately 14% and reduces the public subsidy burden by 16 – 20%. In the base case, the housing is developed by the public sector and has a maximum FAR of 1.75 and lot coverage of 35%. Scenario 1 shows the savings to the total development cost realized through production by the private sector based on prevailing cost differentials. Scenarios 2 through 4 highlight additional saving under private development with increased lot coverage and allowable FAR (40% lot coverage and 2.0 FAR in Scenario 2, 48% lot coverage and 2.4 FAR in Scenario 3, and 60% lot coverage and 3.0 FAR in Scenario 4).

Figure 13: Effect of More Efficient Land Utilization on Public Subsidy Needed in the *Beit Al-Ailaa* Program

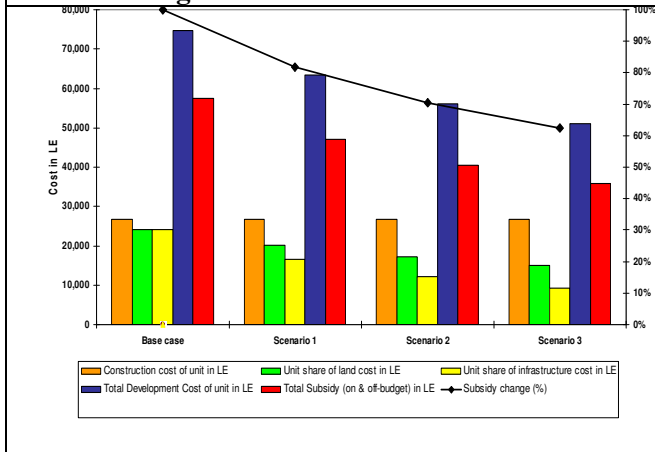
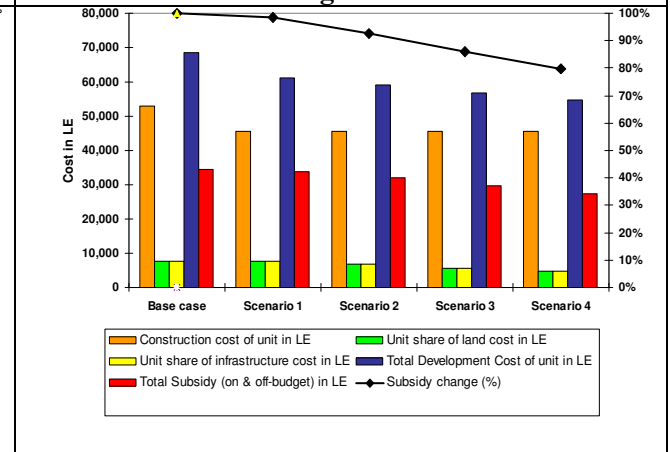
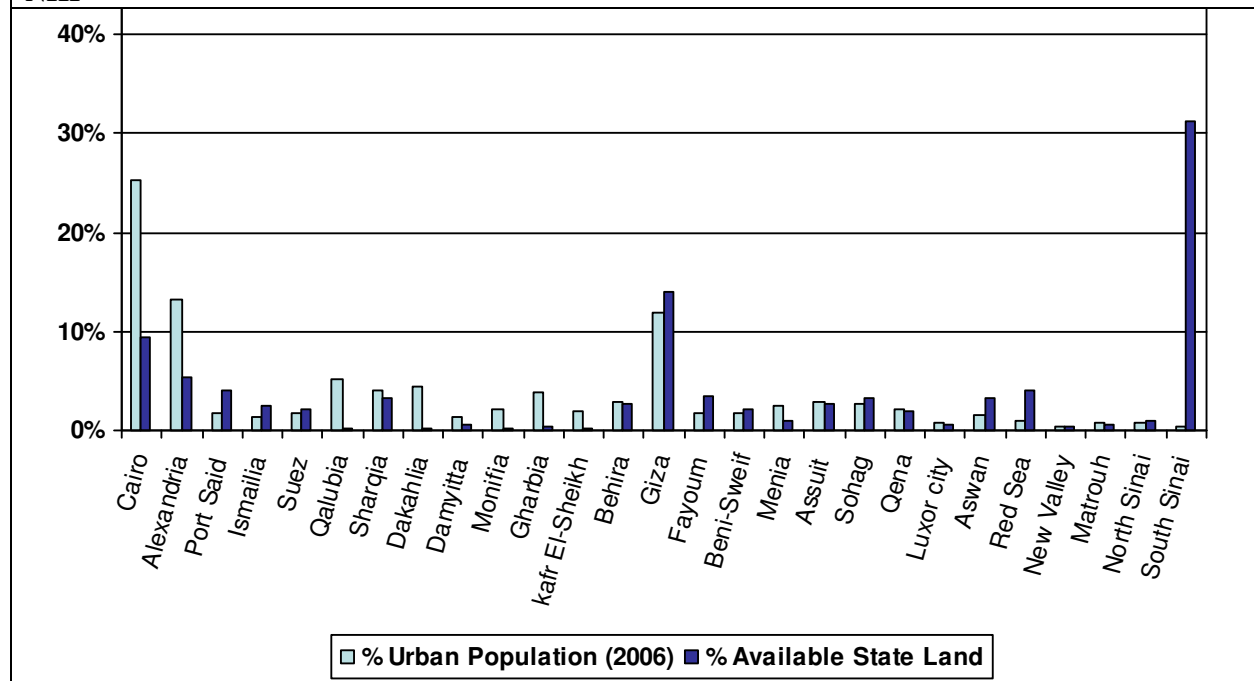


Figure 14: Effect of Private Development & Efficient Land Utilization on Subsidy Amount in NHP Economic Housing



The reliance on State lands (mostly desert and remotely located) remains a challenge for the NHP. Past public programs led to poor matching of geographic supply with demand on the macro level and serious location problems at the micro or metropolitan level. Although the NHP claims to have sufficient land available for its five year production targets, such massive amounts of land can only be found in the most remote expansion areas of new towns and in governorate desert sites, which, to be unencumbered and free of previous land assignments to sectoral agencies, can only be located far from existing towns. A total of 3,167 feddans of land are available for the NHP in the new towns and 7,171 feddans in the governorates. This means that respectively 105,763 units and 320,376 units can be accommodated on these lands. This produces a national total of 426,139 units, which means that, on paper at least, there is just enough land to meet the NHP target of 500,000 units in six years.) As shown in the Figure 15, there appears to be a mismatch between the governorates where urban land is available and existing population centers (a proxy to demand). Of the major population centers, only Giza seems to have balanced available land and projected housing needs, and it thus redresses some of the imbalance in Cairo.⁴⁴ In the Delta governorates, very little if any State land is available, and in Alexandria the lack of land relative to need is pronounced. By contrast, a large portion (32%) of all public land available for NHP is found in the South Sinai governorate where barely 0.3% of Egypt’s urban population lives.

Figure 15: Governorates’ Share of Urban Population in 2006 vs. of State Land Available for the NHP



* Public land made available for the NHP in new towns was added to the Governorates in which they are spatially located (even if the new towns are administratively independent).

Given that land availability has bedeviled past programs, it must be questioned whether all these lands can be made available clear of encumbrances, and can be provided with trunk, off-site, and on-site infrastructure within the various planned budget lines and timeframes. Hence the recent announcement of using *Awqaf* land in the NHP may provide a promising element of answer to this location challenge.

⁴⁴ Whereas New Cairo, one of the most promising New Towns, is excluded from the NHP for unclear reasons.

Under NHP land and infrastructure continues to be offered to executing agencies as well as private sector companies at a reduced price that is below infrastructure cost recovery levels. The costs and therefore the effective additional subsidies carried by the State for housing infrastructure under NHP may increase in real terms over time. As both governorates and NUCA scramble to identify and rapidly service vast new areas in remote desert sites to meet the NHP targets, off-site infrastructure costs will increase as well as the need to construct or expand system elements such as treatment plants and booster stations, implying tremendous amounts of additional fiscal resources. In addition, all new housing areas under NHP need the package of public facilities such as schools, youth centers, public parks, clinics, and fire and police stations, which are especially needed since the NHP program consists of large scale developments with almost no reliance on infill housing, which can rely on existing services. The costs of these many facilities are unknown but substantial, and will require large investments by NUCA in the new towns and line ministries in the governorates.

There may be opportunities for housing authorities and private sector companies participating in the NHP to develop housing projects with an eye to recouping some of the subsidies inherent in housing units by profiting from forms of internal cross-subsidy. For example, units on the ground floors could be sold at market prices and authorized for use as commercial spaces, since in reality these units in housing development have proven to be desirable for commercial uses, often traded for over five times their costs because of their potential for conversion. Some units could be larger and sold at market prices, which would achieve two important objectives of income-mixing and cross-subsidization. Finally, through clever land use planning, large profits can be made by the sale of well-located parcels (e.g. well located and corner lots, some larger parcels) on the open market. Such arrangements which can significantly reduce overall housing subsidies have not been attempted at any scale in past and current government housing programs, and to date the NHP has not articulated such a strategy despite its great potential to reduce the overall subsidy envelope.

4.0 Targeting in the NHP

Section 4 of Part III provides a more detailed description of the challenges to targeting subsidies in Egypt and provides recommendations for improving the overall system. This section focuses specifically on targeting with the NHP and recommended pilot projects.

Targeting and affordability are key elements of the NHP that need to be revisited. The NHP relies on the usual application regime, with basic information such as age, address, occupation, and a self-reported statement of monthly income. Qualification criteria are that the household cannot own another unit, must be at least 20 years old, and proven family income cannot exceed LE 1,500 per month.⁴⁵ Basically, the NHP is open to any adult who does not already have full control over his existing unit, has not or is not seeking other subsidized housing, and whose income is not above a certain limit that hardly excludes anyone but the top 20 percent of the income distribution, especially because the income limit is based on proven salaries, which does not take into account undocumented income from second jobs and informal and self-employment. The pool of potentially eligible participants is vast, and could encompass any applicant under the 80th percentile of the urban income distribution. According to the TAPRII Survey, the first year payment would be affordable to most families in Greater Cairo, except the three lowest deciles.⁴⁶ Yet there is a need to introduce varied options to improve affordability such as rental housing (in light of the high demand for long-term leases) and a higher down-payment in return for lower monthly

⁴⁵ Through self-declaration since the time and cost of an administrative, manual cross-check of past unit distribution is high.

⁴⁶ The poorest 30% of households would represent over a million families in Greater Cairo and over 2.5 million families in urban Egypt.

repayments.⁴⁷ Even in rental housing, a prevalent practice from the rent control regime, but which has persisted afterwards, is the use of a large down-payment (key money) to access a long-term lease for a housing unit at a much reduced monthly rental rate, which further reinforces the likely success of a higher upfront payment option.

Recent major changes in the NHP programs, however, will greatly increase reliance on rental programs. This will certainly facilitate self-targeting, as poor and modest income households seek this option. This is an important step forward, especially as the TAPRII Survey demonstrated many of those now looking for housing prefer to rent. Rental tenure is mostly self-targeting – given the high preference of Egyptians for homeownership and the zero down-payment need, demand can be expected to be concentrated among younger, elderly, and poorer households. This complements the typical self-targeting mechanism of NHP and earlier program via size restrictions of the units produced. Rental programs also allow more flexibility for income changes. If the financial situation of a tenant changes, the public subsidy donor can usually either terminate the contract or increase the rent in order to reduce the mistargeting. This is usually not possible under ownership programs. Under a rental contract, as opposed to a subsidized ownership unit, the recipient has little incentive to keep the unit vacant. Even if this results in a subletting practice that is illegal under program guidelines, an occupied unit secures a welfare gain for the Egyptian society. Finally, rental stock can usually also be produced in larger and more standardized schemes, as individual preferences for design, size and other features will be less pronounced than under ownership programs.

Although the introduction of low income rental programs under NHP will greatly increase self-targeting, targeting within the homeownership programs needs much refinement. Because of the high leakage in past government programs, it is recommended that the NHP homeowner programs take priority in putting improved targeting in place to avoid subsidizing those who already own or have control over (subsidized) housing units. Information from the TAPRII Survey indicates that many “demanders” – those currently looking for housing – are young single men, with low income or no current source of income, coming from households with moderate or higher income and having adequate space. Subsidizing this category of demanders essentially puts the family in control of more units than just the nuclear family’s residence. By contrast, the survey suggests that numerous other “demanders “ are nuclear families living with extended families in crowded and poor conditions. Better targeting could serve those in most need to alleviate inadequate housing conditions, and avoid the problem of households owning multiple units, including subsidized housing.

NHP provides an opportunity to pilot the approaches discussed in Section 4 of Part III to reduce abuse and leakage. It is recommended that a revised system should first be pilot-tested under NHP. The group of most concern would be those applying for subsidies for the homeownership programs under NHP. It is recommended that a compromise position be adopted: (i) test a pilot process involving a much expanded application form, and screening and verification process on a sample of households (say 5-10% through actual residence visits); (ii) monitor/inspect subsidized units for a sample of applicants to examine vacancies and leakage (say 10-20%); and (iii) manage this process in a new/expanded monitoring unit recommended to be established in MHUUD. Thus, for a trial period, MHUUD would use a much longer application form. This form would "test" applicants from several angles, which would be used to identify reasonable proxy variables for income and current housing status. For example, application forms should state: (i) MOSS status and food ration status; (ii) a complete description of current household and housing status (housing size, location, housing expenses, along with an affidavit that the head of household does not own another house); (iii) average monthly electricity consumption (Kwh) for previous year; (iv) all

⁴⁷ Notably as past studies show that housing acquisition in Egypt is in large part financed through sale of jewelry and agricultural land and property assets, savings including remittances and inheritances, gifts and zero-interest loans from family or friends, etc.

income, social and household variables needed for Proxy Means Testing; (v) income tax information; (vi) a request for real estate tax bills; and (vii) an inventory of assets, including car and consumer durables.

This process would be carried out by an expanded Monitoring Unit within MHUUD. The application data should be computerized for a sample of households on a trial basis. One goal is to try to correlate stated income, other variables, and “actual” income; determination of actual income would probably require a household visit and conduct of an expenditure analysis, such as that in the TAPRII Survey. The income tax data would be used where possible. Trial runs for Proxy Means Testing could be conducted. Informal screening could result before computerized systems were established. The end result would be to redo the application form after finding out which data most usefully describes household eligibility. Finally, even if these tests do not turn out to be as precise as desired, perhaps the detail of the application might make “ineligible” households think twice about applying.

Monitoring Subsidized Units for Leakage and Vacancies. Another step in this process would be to conduct a survey of subsidized housing units to determine occupancy status and legitimacy of occupant. This too should be done on a pilot and sample basis, as a full survey would be expensive. This could be done in relationship with the vacant unit survey recommended earlier. Vacant subsidized units could be required to be occupied by their owners (on some terms to be defined, allowing for work abroad, etc.) or to be formally rented or sold. Vacant, subsidized units subsequently found to be unoccupied without valid reason or occupied by ineligible households could remit to the state. And while the administrative burden would increase, the prospects of reducing the reportedly high leakage ratio would appear to warrant the additional cost.

In sum, these recommendations are designed to serve three inter-related goals in the NHP: (i) delivering subsidies to the identified priority households based on clear parameters for eligibility and priority; (ii) discouraging leakage to third parties, especially ineligible households; (iii) and minimizing ineligible applicants from securing subsidized units, especially if these are multiple units, thereby exacerbating the vacancy problem.

5.0 Strengthening the NHP Rental Program

The rental program should allow for variation of unit sizes and rent levels, according to local demand and land price/construction cost profile. It is recommended that the strict program constraints of a ‘cost rent’ of LE 160 and square meter constraints be reconsidered in favor of a maximum cost/subsidy per square meter approach. In combination with the total cost constraints per unit limiting overall fiscal exposure this would leave Governorates greater freedom in construction design, e.g. to address areas where demand from larger families is greater, or where affordability is higher in absolute terms (not relative to area income levels). The rental tenure constraint itself reduces the need for imposing a maximum unit size, which in turn limits the future marketability of the units – should the government decide to sell. A certain flexibility in rent setting – e.g. between 140 and 250 LE – could also limit the gaps between public and local market rents in different locations (i.e. different land values), limiting the amount of rent seeking by higher income households in good locations and improving targeting.

Private sector collection and property management should be the standard. While Governorates and MOSS remain in control of origination and termination of contracts, it is recommended that collection to be outsourced to third parties (following the case of HDB in rent collection in Alexandria Governorate), ideally via management contracts that include maintenance. Such a move could also provide further stimulus to a national collection industry that may also be able to service private rental and mortgage contracts.

Improvement of targeting, stock management. To improve targeting of the rental units, MOSS should be integrated into the monitoring of tenant's income. Helpful in that regard could be rental contracts with terms limited to 3-5 years that will automatically roll over if the eligibility criteria are still fulfilled. Tenants who gain increased financial stability while occupying the unit, however, should not be evicted because a tenant income mix may socially stabilize and enrich the developing neighborhoods. Rather, a system of moderate 'misallocation fees' for those whose incomes exceed the limits should be designed.

6.0 Diversifying the Delivery Channels of the NHP

Alternative objectives can be reached through the application of NHP subsidies. For example, the NHP subsidy pool could be used to help qualifying buyers purchase resale units or to help finish units to be completed and put on the market. Additionally, the NHP subsidy could be used as an eviction guarantee by an eligible household to rent a vacant unit.

- **Purchase of resale units.** There are two possible approaches. (1) *Contractual savings for qualifying applicants which, after a certain period, allow the applicant to qualify for a cash subsidy.* The applicant would find the unit, negotiate the price, and allow an inspection of the premises and the seller's documentation. Upon signature and exchange of standardized civil contracts, the contractual savings plus cash subsidy, plus perhaps a further down-payment, would be handed over and the unit possessed. This approach could be made more flexible if part of the subsidy could be used for the buyer of an unfinished unit to make it livable or some of the subsidy could be used for a contract with the seller to complete an unfinished unit. Incentives for owners of unfinished stock will need to be designed (e.g. exemption of fees if rented to a low income household) so that the owners would bring the units to the market by registering with MHUUD. (2) *Loans secured through traditional means topped up with the cash subsidy and a down-payment.* This scheme would operate much as described above. Traditional loans involve a range of possible guarantees (such as signed checks, personal guarantees, registered property guarantees, employer guarantees, etc.). However, there are two main issues: (a) loans for home purchases are by definition not productive and thus could be perceived as high risk by lenders, and (2) a large portion of target households will not be able to secure loans through traditional means. Thus such a scheme might only find a niche market where the purchaser will turn around and rent the acquired unit to pay off the loan.
- **Completion of unfinished units, e.g. for rental.** As an example, assume that completion costs for an unfinished unit in Cairo lies in the range of 100-200 LE per square meter, which would result in completion costs of LE 6,000-12,000 for a 60 square meter unit. This is a fifth of new construction costs in a New Town, while the existing unit is usually better located. Low income landlords with qualifying units could be provided with an NHP subsidy if they accept that the unit is to be rented out to a qualifying household for a certain period of time. If costs are such that a loan is also required for completion, a GSF-guarantee of a market-rate loan could be considered. For a mortgage loan, the land would need to be registered or become registered throughout the construction phase. Construction progress, and loan disbursement, would be monitored by a team of program officers/engineers. The cost of this inspection program could be largely borne by the MHUUD to incentivize owners.
- **Incentive for swift release of rental units by the tenant, also serving as an eviction guarantee for the landlord.** Term rental contracts under such an agreement could be endowed with a GOE eviction guarantee upon contract termination and/or in cases of violation of contract terms by the tenant. Such an eviction guarantee could be in the form of a (escrowed) subsidy accessible to the tenants that swiftly release the rental unit (and which would contribute to finance their subsequent

housing solution) or to be cashed by the landlord in compensation for the foregone rent during the eviction process.

7.0 Enabling the NHP Housing Delivery System

7.1 Expanding the Role of the Private Sector

Under the NHP, the private sector is primarily engaged in development and lending. There are steps that could be taken immediately to expand and better define the role of the private sector within NHP that would simultaneously work towards the goal of redefining the GOE as an enabler of a well functioning housing system.

Advantages currently favoring public developers need to be removed to create a level playing field for private sector participation in the NHP. Currently, public developers receive an upfront subsidy of LE 15,000 per eligible household, whereas private developers receive *ex ante* (upon completion of construction) only LE 10,000 per household. Meanwhile, both are still required to provide the units at a maximum price of LE 50,000 per unit to adhere to the program guidelines. According to MHUUD, the reason why private developers are interested in this scheme is their ability to access public land for mixed income developments at below-market price under the 50-50 regime (market rate vs. affordable housing). The LE 333 per square meter charged for the remainder of the land for market rate housing is estimated by MHUUD to represent about 50% of the market price in the better located new towns around Greater Cairo, which in light of the recent practice of NUCA of auctioning land to developers, appears to be the reason why private developers are interested in this model.⁴⁸ Developers opt for the 100% affordable housing option if there are no real financial gains from obtaining the marketable land at a discounted price. The initial objective was to pass on the marketing risk to developers, but the analysis of model contracts reveals that developers may be able to hand over the units to MHUUD which would be responsible for allocating them to beneficiaries from its waiting lists (even if the MHUUD insists on passing on the marketing task/risk to developers). If this is the case, then developers may be choosing the 100% affordable housing option as a low risk (and likely low return) alternative because they are certain that the government will take over the units. As of May 2008, some 288,500 units have been earmarked for developers that expressed interest in the NHP.⁴⁹ One private developer, Orascom Group, has acquired a site in Sixth of October City for the construction of 50,000 subsidized units. In June 2008, as much as 5,000 units had been completed and another 5,000 units were under construction.

To strengthen the growing mortgage market, subsidized lending should be curtailed under NHP. As described earlier, it is critical to stop providing below-market interest rates (10.5%) coupled with the NHP subsidy, thereby allowing private banks to provide mortgage loans under NHP at market interest rates. If the goal of the below-market interest rate is to make the loan more affordable for low income households, then alternative measures could include interest rate buy-downs or the introduction of a guarantee program like FOGARIM in Morocco.

7.2 Rationalizing the Institutional Framework and Introducing Missing Functions

A host of long-term reforms to the institutions governing housing in Egypt were put forth earlier; however there are steps that could be taken immediately under the NHP to begin rationalizing the institutional

48 An auction in May 2007 resulted in prices that reached as much as LE 4,000 per square meter and an average price of about LE 1,000 per square meter for well located land in one of the new towns around Greater Cairo.

49 In May 2007, 2,000 acres of land in Sixth of October were allocated to a private developer, Orascom, to construct 50,000 homes under the NHP. Orascom has opted for 100% of the units to be subsidized.

framework and introducing missing functions. In the long run, the management of Egypt's overall housing policy needs a high level apex body/authority which can function as the housing sector coordinator. In the short-term, an inter-ministerial committee, backed by a monitoring and research unit located in the MHUUD, could be formed possibly relying on the Social Affairs Ministerial committee. Tasks of this working group would include the following deliberations and actions over the next four years:

Legal/Regulatory:

- **Private sector support and facilitation**, to give private sector developers a much greater role in housing production, both as part of the NHP and in the wider housing market. A regulatory framework, including laws/bylaws and a regulatory authority is needed to provide an even playing field for private sector participation.
- **Define better targeting and screening mechanisms**, to ensure that NHP subsidized units are going to families most in need of them.

Institutional/Procedural:

- **Streamlining and reducing duplication of agencies**, including the amalgamation of the numerous housing production agencies which exist under the umbrella of MHUUD at the national level.
- **Strengthening governorate capacities**, especially the management and financing of housing projects through housing directorates and the economic housing funds.

Monitoring and Evaluation (M&E)/Support for Policy Making:

- **Creating housing monitoring, evaluation and feedback capacities:** As a first step, the NHP itself needs to be well monitored. The full current costs and related subsidies of NHP projects need to be calculated on a regular basis, including land and infrastructure costs. Also, NHP products need to be monitored and evaluated as they are produced, including beneficiary take-up, payment, vacancies, and satisfaction (especially for innovative products such as *Ibni Beitak* and rental units). Also, monitoring success of the first mortgage packages, both under the NHP and GSF, will be essential.
- **Creating housing research capacities of wider housing markets**, both through investigations of secondary market and statistical data and through carefully targeted surveys of key housing issues, such as vacancies and affordable rental markets. Actions taken under NHP to begin data collection and organizing its analysis can work towards the establishment of a complete housing information system.

It is an open question as to who would undertake the important new functions suggested above and what might be the operational setups and information management systems. Some external technical assistance to the NHP would go a long way towards helping to establish these functions.

VI. SUMMARY OF RECOMMENDATIONS

Table 8: Summary of Reforms to Develop a Well-Functioning Housing System

WELL FUNCTIONING HOUSING SYSTEM REFORM RECOMMENDATIONS	
<i>Issue/Reform Type</i>	<i>Summary of Recommendations</i>
Address the Excess Vacancies Problem	
Unlock Vacant Units <i>Goal: Better Use of the Housing Stock, both Government and Private Housing</i>	<ul style="list-style-type: none"> • Conduct a survey of vacant and unfinished units • Consider tax incentives linked to releasing vacant units for rental, which may combine with measures to disincentivize holding units vacant, as may be appropriate (the rationale being the resulting negative externalities on property values) • Measures to further activate and promote awareness of the New Rental Law provision for streamlined tenant eviction procedures to promote rental utilization
Improve Rental Market Regulation	
Improve Rental Market Regulation <i>Goal: Rental Market Efficiency and Reduced Vacancies</i>	<ul style="list-style-type: none"> • Provide consumer education/ publicity on rent reforms • Define model rental contractual agreements governing the rights and responsibilities of tenants and landlords • Develop an ombudsman or other out-of-court mediation to expedite and lower the costs of dispute resolution • Establish low or no-cost windows for registration of rental contracts • Offer education of judges related to streamlined eviction process
Rental Market Development	
Consider Further Rental Market Reforms <i>Goal: Efficiency and Equity in Rental Housing</i>	<ul style="list-style-type: none"> • Put in place an action plan to gradually address the distortions to the overall housing market resulting from the rent control regime (including review of international experience) while implementing a safety net system to mitigate impact on vulnerable households.
Continue Reforms to the Mortgage Finance Sector	
Continue Mortgage Market Reforms <i>Goal: Fully Functioning Mortgage System</i>	<ul style="list-style-type: none"> • Continue efforts to improve legal framework through revisions of Law 148-2001 • Enable the development of credit and housing market information systems
Develop Credit Enhancement Policies in GSF <i>Goal: Risk Sharing in Down-market</i>	<ul style="list-style-type: none"> • Develop new credit risk sharing programs, including mortgage default guarantee/insurance, to encourage expanded and down-market lending • Separate guarantee from subsidy functions within the GSF • Stop current GSF “3-month payment” guarantee • Examine the feasibility and market response to pre-titling guarantee by the GSF for mortgage loans until registration

<i>Lending</i>	
Develop Microfinance for Housing	
Expand Housing Microfinance <i>Goal: Housing Finance for Low Income Households</i>	<ul style="list-style-type: none"> • Provide support for development of low income housing micro-loan products for home improvement and progressive housing construction • Explore credit enhancement systems for microfinance under the guarantee function (of GSF)
Land Use Planning and Building Standards	
Strengthen Land Use Planning and adjust Building and Land Use Regulations <i>Goal: Reduced Development Costs and Improved Affordability</i>	<ul style="list-style-type: none"> • Increase the land development ratio (both land coverage and maximum permissible development) • Streamline land subdivision and building permit systems • Make use of well located public land for affordable and mixed-income housing • Authorize subdivisions and affordable building/infrastructure standards in specified “popular” neighborhoods with local government regulatory control • Provide incentives for mixed-income housing developments • End restrictive zoning and introduce measures to increase flexibility (block-based versus parcel-based zoning) • Authorize mixed commercial/residential use • Modify regulations on building height, floor-area-ratios, and land for services to increase density
Enhance Supply of well-located Land <i>Goal: Better Located Housing Developments</i>	<ul style="list-style-type: none"> • Develop streamlined regulations for the development of private land for affordable housing, including “special zones” • Inventory public lands in cities and new towns , which requires inter alia: <ul style="list-style-type: none"> ○ Evaluating public land holdings of sectoral ministries, state-owned enterprises, and decommissioned land uses for possible recycling to affordable housing ○ Initiating the repossession of public land that remains undeveloped after the contractual terms • Investigate use of <i>Awqaf</i> lands • Review ban on conversion of agricultural land for urban use in special zones, especially the agricultural land pockets (<i>mutakhalellat</i>)
Continue Reform of Land & Property Registration Systems <i>Goal: Increased Registration of Property</i>	<ul style="list-style-type: none"> • Accelerate ongoing efforts in improving land registration, including harmonizing registration laws and scaling up systematic registration efforts • Consolidate survey and registry in one institution • Discontinue/regulate proxy registration and loopholes • Conduct major public awareness campaign
Improve Targeting	
Improve Targeting of Low Income Households	<ul style="list-style-type: none"> • Better enforcement of existing criteria to help limit vacancies and speculation • Streamline targeting methods for all government subsidized housing

<i>Goal: Decrease Leakage and Increase Equity</i>	<p>programs including reliance on lenders in mortgage-linked subsidy programs, governorates, MFIs, etc</p> <ul style="list-style-type: none"> • Consider additional targeting criteria to improve accuracy
Government as a Housing Market Enabler	
Institutional Reform <i>Goal: Improved Policy Development and Regulation of Markets</i>	<ul style="list-style-type: none"> • Establish high-level inter-agency “policy” council with a strong technical secretariat • Provide proposed National Housing Authority and high level policy council with greater policy-making and evaluation/monitoring resources • Merge/streamline public housing supply institutions to reduce duplication • Develop regulatory capacity for rental sector • Help strengthen the capacity of Governorates and their economic housing funds • Establish a Housing Information System to inform policy making
PPP Models <i>Goal: Better Sharing of Risk</i>	<ul style="list-style-type: none"> • Strengthening the land disposition, regulatory, and monitoring procedures for private sector development of affordable housing, putting in place the right incentives and subsidies for private developer participation • Enhance role of the private sector in servicing and collection of rents in government projects

Table 9: Summary of Improvements to the NHP

FOCUSED IMPROVEMENTS TO THE NATIONAL HOUSING PROGRAM	
<i>Issue/Reform Type</i>	<i>Summary of Recommendations</i>
Utilize Existing Housing Stock under NHP	
Vacant and Unfinished Units <i>Goal: Leverage NHP to Active Vacant Housing Stock</i>	<ul style="list-style-type: none"> • Use NHP subsidy (with link to mortgage loans) to enable qualified buyers to buy second hand or unfinished units • Use NHP subsidy for qualified owners to complete units provided they are willing to rent them to qualifying NHP beneficiaries • Use NHP subsidy for escrowed grants as an incentive for NHP beneficiaries to swiftly release rental units and/or as guarantee to the landlord against eviction related delays • Use NHP subsidy to assist down-payment for rental units as prevails in long-terms contracts (5-10 years) • Investigate options to enhance public transportation systems to New Towns (quality, frequency, and affordable cost)
Expand Affordable Mortgage Lending	
NHP Mortgage Lending <i>Goal: Support Development of the Growing Housing Finance System</i>	<ul style="list-style-type: none"> • End below-market interest rates (10.5%) for NHP linked loans; banks to provide mortgage loans under NHP at market interest rates • Explore using interest rate buy-downs within mortgage-linked subsidy system to assist affordability • Consider provisional registration or post-construction permits for qualifying informal structures that meet reasonable planning, health and safety criteria to allow eligibility for mortgage loan • Register properties built on State land

<p>Credit Enhancements</p> <p><i>Goal: Broaden down market lending via risk sharing</i></p>	<ul style="list-style-type: none"> Consider, in the medium term, to pay for mortgage guarantee insurance, for NHP-eligible households
<p>Develop Microfinance for Housing and Integrate with Affordable NHP Programs</p>	
<p>Provide Microfinance lending in NHP</p> <p><i>Goal: Assist Lowest Income Households to Improve their Housing Conditions</i></p>	<ul style="list-style-type: none"> Develop an affordable sites-and-services or core housing scheme that includes access to microfinance loan options. Build on current lending in microfinance for housing
<p>Establish Housing Savings Accounts</p> <p><i>Goal: Improve Savings Levels and Banking System Use</i></p>	<ul style="list-style-type: none"> Use savings (within the postal system) as rationing device and underwriting tool for housing microfinance
<p>Improve Land Supply and the Location of Land for NHP projects</p>	
<p>Better Located Land Supply for Subsidized Housing</p> <p><i>Goal: Better Supply of Well-located Affordable Housing</i></p>	<ul style="list-style-type: none"> Make land for NHP projects available to match employment, transport, and education opportunities/needs of low income households Allow use of NHP subsidies for housing on non-State land
<p>Additional Housing Typologies/Programs</p> <p><i>Goal: Improve Reach of NHP to Lower Income Households</i></p>	<ul style="list-style-type: none"> Relax land and building standards for <i>Beit Al-Ailaa</i> and <i>Ibni Beita</i> programs Introduce mixed-use residential/commercial development and mixed-income development to allow cross subsidies to operate at the project level Include urban upgrading as a means to better target poor households
<p>Improve Targeting under NHP, especially of homeownership programs</p>	
<p>Improve NHP targeting</p> <p><i>Goal: Decrease Leakage and Increase Equity</i></p>	<ul style="list-style-type: none"> Pilot new targeting methods using existing mechanisms (“piggy-back” approach) <ul style="list-style-type: none"> Proxy income eligibility using MOSS or food ration programs Consider test of Proxy Means Testing Consider use of electricity usage or car ownership as income proxy Consider additional targeting criteria to improve accuracy <ul style="list-style-type: none"> Overcrowding and/or poor living conditions; single parent families

	<ul style="list-style-type: none"> ○ Residents of informal areas and slums • Facilitate and prioritize “Group” applications for extended family moves to New Towns or other areas
Improve Rental Programs under the NHP and Consider Additional Ones	
Rental Program Improvements <i>Goal: Liquid Rental Market</i>	<ul style="list-style-type: none"> • Relax unit size constraints (to address local demand, cost differentiation) while keeping overall cost limits through cap on unit value or rental value
New Rental Programs <i>Goal: Modernization of Stock and Activation of Vacant Housing</i>	<ul style="list-style-type: none"> • Subsidies to landlords to provide housing to low-income qualifying tenants • Use NHP subsidy for escrowed grants as an incentive for NHP beneficiaries to swiftly release rental units and/or as guarantee to the landlord against eviction-related delays • Use NHP subsidy to assist down-payment (key money) for private rental units
Increase the Private Sector’s Role in NHP	
NHP Private Sector Role <i>Goal: Level Playing Field for Private Participation</i>	<ul style="list-style-type: none"> • Engage more private lenders via mainstreaming market-based lending in NHP and use of credit enhancements
PPP Opportunities <i>Goal: Broaden the Scope of Possible PPPs</i>	<ul style="list-style-type: none"> • Develop PPP policies in NHP projects that ensure adequate risk sharing with the private sector in completion costs, timing, and marketing issues • Utilize private collection services such as those of the HDB • To the extent possible, revise contractual agreements for NHP projects (at least for those not started yet) to adequately calibrate risk sharing between private developers and the Government
Rationalize the Institutional Framework	
NHP Management <i>Goal: More Efficient Delivery of Services</i>	<ul style="list-style-type: none"> • Initiate a high-level inter-agency working group • Increase outreach/public awareness of NHP options • Improve budgeting by accounting for land and infrastructure costs • Monitor post delivery of NHP units for vacancies, resale and rent to third parties

Annex 1. Summary of Previous Studies and Reports

Over the last year, four studies on housing in Egypt were conducted. The first is a *Housing Supply Analysis Note* (World Bank), which analyzes the situation of urban housing supply in Egypt, including the study of existing formal and informal mechanisms to deliver for urban housing, institutions responsible for supply and regulation, the characteristics of the formal and informal housing, and the institutional and regulatory framework governing land use planning and development. The second study is a *Housing Demand in Greater Cairo* (USAID TAPRII), which uses data surveyed in December 2006 and yields results on the housing demand and household characteristics. The third is an *Analysis of Subsidized Housing Programs* (USAID TAPRII), which assesses past, existing and pipeline subsidy programs in Egypt to draw lessons learned. Finally, *International Best Practices* were presented at a workshop held in April 2007 with the intent of assessing different schemes of housing subsidies and reforms used in other emerging markets, in order draw lessons pertinent for Egypt.

The following sections summarize the main findings of the three documents. The key messages from the International Best Practices presentation are summarized in Annex 3.

1.1 Housing Supply Analysis Note

Due to a large number of vacant units, the total urban housing stock exceeds the number of urban households. The government must address distortionary regulations in order to unlock the vacant units to accommodate new housing demand. The average annual growth rate of the urban housing stock in Egypt (3.6%) far surpassed that of the urban population (1.9%) during the inter-census period (1986-1996). By mid-2005, the total number of housing units in urban areas in Egypt reached close to 9.49 million units. By contrast, in January 2005, the total number of urban households was estimated at 6.84 million units. The result is that in 1996 there were 1.4 housing units per urban household and 2.64 million housing units that were vacant or unused. Taking into account multiple unit ownership (10% of urban households owned/controlled 20% of the total housing stock), there still was in 1996 about 20% of the total urban housing stock that could be considered to be available on the market, whether units ready for occupancy, that are still under construction or which remain unfinished for a long time.

Almost 40% of new urban housing is produced by the informal sector. During the inter-census period (1986-1996), the total urban housing stock grew by an annual average of 241,916 units, of which 151,896 units (62.8%) were formal and the remainder (90,021 or 37.2% of total) were informal. In the 1986-1996 period, the public sector built 29.5% of all new (formal and informal) housing units built in urban areas during this decade and 47% of the formal housing stock, with the private sector responsible for 33.3% of total housing stock and 53% of formal housing stock. The largest producer of urban housing during this period was the informal sector, conservatively estimated to have delivered 37.2% of all new units (the ratio would be higher if we account for replacement units).

Over the past 25 years, the public sector has built as much as 36% of all formal housing units supplied in urban areas, which came at a significant cost of LE26.4 billion to the public coffers. A plethora of public agencies and programs for direct of supply of affordable housing exist in Egypt today. These include Governorates, housing and development companies, the Joint Projects Agency, the General Organization for Housing Construction Cooperatives, the Housing Finance Fund, the Housing and Development Bank, development agencies, and the New Urban Communities Authority. Together, these entities have delivered 1.26 million public housing units during the period 1982-2005 (36% of all formal housing units built during this period in urban areas) at a total cost of LE26 billion, excluding the cost of land and off-

site infrastructure. By and large, the largest supplier of public housing was the Governorates, which were responsible for the supply of 44% of the total public sector-built stock in urban areas during this period and mostly targeting low- and moderate-income households. This shows the extent of local government contribution to public housing supply, an impact that could have been even greater had they not had limited local revenues and had their mandate evolved to enabling access to affordable land and housing within their jurisdiction instead of direct supply. The Housing Cooperative system delivered as much as 22% of the total public stock provided in the 1982-2005 period, although it is increasingly seen as out of favor with the General Organization for Housing Construction Cooperatives' budget falling to less than one-fifth of its peak of over LE1 billion in the 1995-98 period. Finally, NUCA was responsible for 20% of the total public stock, but similarly its total investment has fallen to about 5% of its peak of about LE1.1 billion in the 1997-99 period.

There has been a steady increase in the private sector's share of annual formal housing production over the past decade. With respect to the formal sector, the private sector contributed 64% of all formal housing units built in urban areas between 1982 and 2005, with the total investment having exceeded LE60 billion. The 1992-99 period was the only trough observed in the private sector's performance, where its share of the formal housing stock was less than half (ranging between 33-48%). Since then, a positive trend has been the steady and significant increase in the private sector's contribution, which reached 88-90% of all new formal units since 2002 with an average of 145,000 units per year. At the same time, the public sector's annual average fell to a little over 18,000 units, which points to public sector withdrawal from direct supply and an invigorated private sector playing an increasingly important role in housing supply.

The urban housing crisis in Egypt is not a quantitative/scarcity problem but distortions to the housing market caused by an accumulation of ill-conceived and inadequate policies that led over time to creating a mismatch between supply and demand and to severely curtailing private sector investment in housing supply. The problem manifests itself among other things in a large share of the existing urban housing stock being kept vacant and under-utilized, and in private sector withdrawal from investing in the rental housing sector to focus instead on the upper segments of the market catering for homeownership (which is simply unaffordable even for middle-income groups in the absence of housing finance). It is also argued that there was, and still is, a mismatch between housing demand and supply, with on the one hand an oversupply of formal housing for upper-middle and high-income groups (at the same time as demand was dampening due to weakened purchase power), while on the other hand there is a shortage of supply for low, moderate and even middle-income groups, leaving the informal sector to meet their needs.

Limited income groups, unable to afford formal housing or adequately located and serviced land upon which to build especially in large cities, found that they had no option but to seek shelter in informal and squatter settlements. Construction costs in the informal sector, even with a 20-30% cost add-on in extra-legal payments to circumvent problems with local authorities and utilities and navigate the bureaucracy associated with informality, are still more affordable than formal housing supply. The end housing product is more suited to people's needs and the progressive construction method is more adapted to their priorities and affordability level. What is interesting is that even in the informal sector, there is an oversupply of housing units, estimated in the GCR at 500,000 units and in a sample of three informal settlements at 15-20% of the total stock.

There is a large stock of formal and informal housing units that are vacant and which could be brought back to the market if an appropriate regulatory framework and incentives to owners/developers could be secured and effectively implemented/enforced (including enhancing the security of property rights to land and real estate, and ensuring when needed expeditious court-administered tenant eviction procedures in case of end/breach of contract terms and conditions).

The positive trend of increased private sector participation and investment in housing supply needs to be capitalized upon, and obstacles facing the private sector need to be removed, if it is to play the lead role in housing supply. Adequate (supply-side and/or demand-side) incentives will need to be provided for the private sector to cater to the needs of low and moderate income groups, including making available well located and serviced land, streamlining bureaucratic procedures for land subdivision and building permit issuance and property registration, and enhancing the end-users' affordability levels through among other things enhanced access to housing mortgage finance.

The main challenge today is to devise affordable housing policies and strategy that address the distortions that to date constrain the housing market from functioning efficiently. The first critical steps in this regard were the abolition of the rent control legislation in 1996, after five decades in which it severely distorted the housing market, and the set up of the regulatory and institutional frameworks governing housing mortgage finance. The key remaining challenges that the new affordable housing policy will need to address are to: (i) put in place the institutional and regulatory frameworks and incentive structure needed to enable an expanded private sector role in the delivery of affordable housing in a competitive and transparent framework; (ii) rationalize the subsidies provided to limited-income groups by eliminating distortionary and off-budget instruments and developing efficient targeting instruments that could be easily administered; and (iii) ensure that the regulatory framework and incentives allow the development of a viable rental market to serve the needs of the lowest income groups in conjunction with some homeownership opportunities (which are more expensive and thus less scalable).

1.2 Housing Demand in Greater Cairo

As requested by the Ministries of Investment and Housing, TAPR II completed a comprehensive and in-depth empirical analysis of the demand for housing in the Greater Cairo area. The analysis used data collected from December 2006 to January 2007 under the TAPR II 2007 Housing Demand Survey. This survey uses the same representative sample that was employed by CAPMAS in its 2004–05 Household Income, Expenditures, and Consumption Survey (HIECS) survey for Greater Cairo and covers 9,082 households. To collect the housing data, TAPR II drafted a questionnaire that took into account comments and inputs of principal stakeholders of the Egyptian housing sector. The TAPR II 2007 Housing Demand Survey is the first comprehensive housing demand survey carried out in the last 30 years. It yields results that shed interesting light on the housing market, especially demand characteristics, in the Greater Cairo Area. These results are summarized below.

The majority of the TAPRII survey respondents who are seeking housing are young men who plan to marry –61.2% of the demand is for long-term lease; 54% of families currently looking for housing prefer a long-term lease. It is estimated that there were 603,701 housing demanders in Greater Cairo in 2006. In other words, the percentage of demanders among households was 17.5 percent of 3,452,679 households. Cairo City had 341,492 demanders while 217,022 demanders were in Giza City and 45,187 demanders were in Shobra El-Kheima. The vast majority of those who are currently seeking housing are male (93.1%), and 46% of them are in the age range of 20 to 30. 56% of respondents have indicated marriage as reason for needing a housing unit. Other reasons cited include small size of current units (16%) and seeking independence (8.8%). The high demand for rental housing is clearly reflected by the survey finding that the majority of households who acquired their units between 2001 and 2006 chose rental housing (82.2%). Indeed, only 17.8% bought their units.

The majority (81%) of households looking for housing have incomes less than LE 1,000 per month. The higher demand for lease is for units of 63 m² with rent values not exceeding LE 200. Demanders are ready to pay advance payments up to LE 12,000 for a rent of LE 100. Demand for larger units of 100m² for rent is much lower with rent ranging between LE 200 and LE 400. Demanders are ready to pay

advance payments up to LE 24,000. The low-income categories prefer a lower down payment and higher installment value. In regard to homeownership, 93.9% of demanders are in favor of installment payments. The preferred mean installment value is LE 332 per month and mean down payment LE 13,101. But, among the offered models, demanders picked the option of paying a down payment of LE 5,000 for unit sizes 63m² to 90 m².

Young households (between 20 to 30 years of age) are more accepting of the concept of mobility than older households. They accept the idea of starting with a small rented unit and then moving to larger one as soon as need arises and financial capability improves. Older respondents reject this idea. Indeed, 58.7% of demanders (who have not yet been married) intend to move alone to new unit. However, demand for units below 40m² is very low, and 60% of families looking for housing want 80m² or more. Demand for serviced land represents only 3.8% of total demand. The demand is mainly in new communities where land is currently available. Land demanders' affordability levels are as follows: 31.6% have monthly income between LE 500 and 1,000; 31.6% have monthly income between LE 1,000 and 2,000; 10.5% have monthly income between LE 2,000 and LE 3,000; and 19.3% have monthly income of more than LE 3,000.

Only 3.8 percent of the surveyed household who bought their housing unit between 2001 and 2006 bank-financed the purchase of their home. The median market price per square meter during that period was LE 666.7. Moreover, prices per square meter (at current prices) were stable during that period, as they had exhibited no consistent trend either upward or downward. Among these households, 76.9 percent paid in full while 23.1 percent paid in installments. Only 3.8 percent (of the 160 buyers) had taken a bank loan to partially finance their housing purchase. The majority of buyers had used their regular income savings to finance their housing purchase (65.0 percent of purchases), or proceeds from sales of their property (45.0 percent of purchases), or contributions and loans from relatives and friends, and loans from workplace. Among borrowers, the preferred loan period was 3 years and monthly installment payments commonly ranged from LE 500 to LE 1,000. Respondents who did not borrow from a bank cited the cost of a bank loan and the need for collateral as the reasons they did not turn to this financing source. Some respondents also cited cultural barriers for not acquiring bank loans. More generally, few Greater Cairo households have dealings with banks. Survey results show that 78.9 percent of surveyed households have no dealings with banks, financial corporations, lenders, or mortgage companies.

Both singles and families currently looking for housing overwhelmingly prefer Greater Cairo, 71% and 67% respectively. For singles, New Cairo is the top choice among the New Towns, and 6th of October is the top choice among families.

The survey found that there was very limited awareness or understanding of the National Housing Program options. Moreover, once the NHP options were described, the overwhelming sense was that they are not affordable. There were widespread comments on loan terms, purchase price, and rents all being "too high".

The demand study concludes that the GOE needs to better align housing programs with the needs of those who are looking for housing. Across all income groups, the greatest demand is for rental housing while most of the NHP offering are for homeownership. The Government has increased rental housing in the public supply pipeline, including 100,000 units to be provided on *Awqaf* land, but more rental programs should be considered including options for renting from private owners. Another significant finding of the demand study is that most households who are currently looking for housing prefer to stay in Greater Cairo. Extrapolating this finding to the national level, it could be assumed that households prefer to live close to where they are currently living. Converse to this finding, the NHP plans to build one-third of the 500,000 unit goal in New Towns.

1.3 Analysis of Subsidized Housing Programs

In Egypt, overwhelmingly the predominant form of housing subsidies are found in the various government-financed and government-implemented housing programs which are ostensibly aimed at lower-income households. These government programs are under different authorities; however, the housing models and payment conditions have remained remarkably similar. Government-provided, subsidized public housing in Egypt has a long history, starting in the early 1950s. The serviced land upon which this housing has been built is, almost without exception, provided at no cost by the State and thus represents a subsidy element in addition to the construction cost which is subsidized mainly through low installment payments and the infrastructure cost which comes from various State budget lines. Since the 1980s practically all housing programs have been for home ownership.

Other forms of housing subsidies in Egypt are not considerable in value or coverage, especially compared to those operating within government housing programs. First, State land (usually desert land) has been and continues to be allocated to authorities at zero cost or at prices that are below the costs of servicing these lands with infrastructure. These mechanisms represent a direct financial subsidy, although recently government agencies controlling State land have sometimes been imposing acquisition prices that tend to cover at least some fraction of the infrastructure costs. Second, In the 1970s and 1980s key building materials such as cement and steel rebar were sold at official prices through the building permit regime which were considerably lower than prices on the open market. However, this practice has been discontinued for roughly 20 years. There are currently no known subsidies operating in housing construction. Third, although infrastructure and public services are loaded with direct and indirect subsidies, they tend to apply to all consumers and are not specifically targeted at the poor or the beneficiaries of housing programs. For example, practically no one in Egypt pays the full cost of water and wastewater services. Last, the implicit subsidies which housing can enjoy through tax breaks and holidays are few, simply because in Egypt housing is little exposed to tax regimes. The property tax imposed by the Ministry of Finance is universal on all residential properties (even that of squatters!) and is thus neutral, except for the fact that it is always behind in evaluation, in collection and in geographical application. In any event the annual effective property tax rates are extremely low.

Over the period 1952-1982 MHUUD records show that a total of 1,118,000 units of government housing were built, at an average annual rate of 37,790 units. Over the 1982 – 2005 period production ranged from 14,000 to 100,000 units, with an annual average production of 54,700 units. Most recently, in the 2001-2005 period, annual production has been way below the average (only 15,000 to 35,000 units annually). The largest portion of total government housing was produced by local government, i.e. governorates, (44% of the total for the 1982-2005 period). However, from a high annual production rate of almost 50,000 in 1992-93 governorate housing production has declined fairly steadily, and in the 2002-2005 period such production averaged only 12,000 units per year. The second most important type of government housing production was by housing cooperatives, with 22% of total production over the 1982-2005 period. However, from a high rate of production up until 1997, cooperative housing has declined dramatically, so that in the 2002-2005 period the annual rate was less than 3,000 units. The third most important type of government housing production was in the new towns, with 20% over the 1982-2005 period. In the 1997-2002 Five Year Plan period annual new town housing production averaged 25,000 units or 45% of the Government total, but in the 2002-2005 period production fell dramatically to less than 2000 units annually (9.4% of the Government total for that period). Other forms of housing production (by Government housing companies, the joint projects agency, the housing fund, the housing bank, and tamiir agencies) represent only small contributions to the total production of Government housing (less than 14% over the whole 1982-2005 period). It should be noted, however, that there have been extensive amounts of public housing built over the years by the armed forces and Ministry of Interior for their personnel. Unfortunately there is no information about this housing.

Although theoretically government housing is aimed at households with limited income, as far as is known there have been no attempts to target beneficiaries based on income or wealth thresholds or means tests. In fact, in most government housing programs the required qualifications are of the most rudimentary, with available units being distributed by lottery if demand exceeds supply. Over decades the Egyptian government has relied on a standard application process to begin the housing unit distribution process. National level housing authorities and governorates announce that there is a housing program and accept filled in applications (istimarat) from citizens. In the governorates, citizens in need of housing can apply at any time at the housing directorates. These applications are usually very straightforward, and require payment of a nominal fee.

- Although targeting and distribution of units varies from one governorate to another and even within a governorate from one year to the next, the following can generally be said to apply: Citizens wishing to acquire government housing units purchase applications from the Housing Directorate (usually LE 5 to LE 20). It is usually required that an applicant be living in the governorate (as recorded on the ID card) and that he/she be married. Other criteria might apply, such as a statement that the applicant has no residential property. In any event the submitted application is screened and if considered accepted it is put on the waiting list. When a number of units (usually a phase of 250 to 1000 units in a particular site) are completed, either: (1) the oldest applications are picked by their date of submittal; or (2) all qualifying applications are submitted to a lottery and applicants are picked randomly until the required number is reached.
- Applications for units in the new towns are either filed with the particular new town agency or at one of MHUUD's national housing authorities, with new town preference indicated. As with governorate housing, the submitted application is screened and if considered accepted it is put on the waiting list. When a number of housing units near completion, either: (1) the oldest applications are picked by their date of submittal; or (2) all qualifying applications are submitted to a lottery and applicants are picked randomly until the required number is reached.

In 2001 MHUUD developed a basic point system under which beneficiaries qualify and units were to be allocated, but the logic behind the point structure seems a bit confused, since higher points are given for applicants which are older and have higher education levels. It also puts an emphasis on those who are married and have more than one job, and gives considerable weight to those working in new towns. Whatever the merits of this point system, it is understood that it has very rarely been used. In effect, since most MHUUD housing is in very remote desert locations where there is little urban life, practically anyone can qualify for the purchase of units if they meet very simple requirements and can come up with the reservation down-payment.

In all programs the allocation of units in a particular housing project is random, with valid applicants assigned units through lists. That is, there is no means for a group of families to acquire units in the same building or area, and thus they cannot hope to bring with them even a fraction of the social networks and capital embodied in extended family or co-worker relationships. (Such is extremely important for those of limited income.) This stands in stark contrast to how general housing markets, including those of the informal sector, work. In these cases one knows exactly the unit being purchased or rented, including the pros and cons of the neighborhood and who will be neighbors. In new, especially informal, residential areas there is thus the ability to re-produce at least some of the "social glue" upon which livelihoods of the poor depend. In new public housing, by contrast, one will be living with complete strangers. (It is no accident that theft is a common complaint in some new public housing estates.)

Government housing programs in Egypt provide very high direct and indirect subsidies, estimated at 60 – 75% of the unit cost. Taking the 63m² unit of the recent Mubarak Youth Program as the base case and assuming a discount rate of only 9%, results show that the smallest unit in the Mubarak Youth Housing Program has an extremely high subsidy cost in terms of the State budget. At least 68% of every pound directly invested by the State in such housing is never recovered. There is also a loss of potential land revenues, which raises the total subsidy to at least 75% of full costs per unit. And the true subsidy element is much higher, since calculations assume perfect repayment, no cost overruns, rapid construction and timely allocation.

Land for government housing must exhibit one key attribute: it must be State land. There is no budgeting for land acquisition in government housing. Thus planners of any government housing scheme must seek locations where the land is owned by the State and whose acquisition is costless. The result is that almost all government housing is located either in the new towns in remote desert locations or on local government desert lands which are also far from existing urban agglomerations. This results in a mismatch between geographical supply and demand and makes it difficult for beneficiaries, especially those of limited income, to pursue normal livelihoods. It is no wonder that in more recent government housing programs vacancy rates always exceed 50%.

Most observers would agree that Government housing is, in general, of good structural quality. Under the Mubarak Youth Housing Program, finishing quality improved noticeably (but then so did the comparable cost per unit).

In volume terms, government housing production does not begin to address the housing needs of lower income families. In the last 25 years the government has been producing an average of 50,000 subsidized units per year. And recent trends show that this volume is decreasing. Compared to the annual national need for new low cost housing units, such direct provision of housing can at best only meet a fraction of gross need. And, whereas the annual need for low income housing is increasing every year, historically the supply of subsidized housing units is decreasing.

Given the high subsidy element in past government programs, both the down payments and installment payments could be considered affordable by over 80% of urban households. But are lower income households the main beneficiaries of government housing programs? It is extremely difficult to answer this question because the targeting/assignment system is rather random, depending on an “application regime” which is executed partly on a lottery basis, and partly “rationed” by the small size of the unit and unattractiveness of certain locations. Certainly a portion of those gaining new government units will turn around and sell them, thus enjoying a once-off windfall financial gain, which if they are truly poor could be seen as a kind of un-intended income transfer. There is no information on the incomes of beneficiaries (and no attempt to distribute units on an income means basis).

Annex 2. Summary of Mortgage-related Regulatory Improvements

Several regulatory changes have been made to facilitate the growth of mortgage lending:

- Law 143 of June 2006 amended the stamp-duty law of 1980 and eliminated stamp-duty on mortgage loans;
- Law 88 of 2003 was amended in June 2005 allowing the sharing of individual credit information upon the individual signing a consent clause, the establishment of a private credit bureau (Q3 of 2007), and the sharing of credit information with non-bank financial institutions;
- Clarification of Law 148 concerning the use of adjustable rate mortgages; and
- A new foreclosure law holds considerable promise in shortening the property recovery and eviction time, and an awareness and education campaign among judges and court-personnel will strengthen the implementation of the law.

Similarly, progress is being made in the property and mortgage registration process:

- NUCA and MFA signed a protocol in September 2006 to stimulate property registration in the new urban communities, which is finally being implemented and is showing results. The protocol provides for the transformation of the *Takhssiss* form of land allocation (a conditional transfer of ownership) into a legal instrument acceptable to lenders. This transaction is made possible through NUCA's authorization of landholders to mortgage their contract (in effect converting it to ownership), provided that they paid NUCA the full land price owed.
- MFA, working closely with the Ministry of Justice (MOJ) issued three circulars that were widely distributed to all Real Estate Publicity Department (REPD) offices: (i) January 2007: lists the procedures governing the authentication of mortgage contracts, the registration of a mortgage as an encumbrance on the land, the requirement of lender approval as a precondition for registration of subsequent transactions on mortgaged properties, and procedures associated with foreclosure. (ii) March 2007: instructs REPD offices to facilitate block registration of NUCA landholdings (a prerequisite to the subsequent registration of *Takhssiss* contracts). (iii) Clarifies the tripartite contract. To date, over 1,000 condominium units, built by NUCA and handed over to the GSF at the time of its creation, benefited from registration. The units were made available to eligible low-income families who received an upfront subsidy and a mortgage loan. Further collaboration between the MFA and NUCA ensured that information circulars have been disseminated to the different New Town Authorities with key procedural issues related to the protocol.
- Fees for title registration were lowered in August 2007 to a maximum of LE 2,000⁵⁰ as a significant incentive for owners to register their property.

While it is still too early to assess the impact of the protocol, it is expected to have an important stimulating effect on registration and mortgage finance in New Towns, especially for first transfer instances (from developers to beneficiaries). For future transfers, the lack of capacity at the Egyptian Survey Authority (ESA) in providing cadastral information may create problems.

Regulatory areas that need to be addressed with some urgency are:⁵¹

- Development of guidelines for consumer information/disclosure and “truth-in-lending”, standardization of loan closing procedures.
- Removal of statutory limits (Law 148) on mortgage debt-to-income ratios (now set at 25 percent). Setting statutory limits that are difficult to adjust poses unnecessary limitations on lending: (i) the

⁵⁰ The fee has dropped successively from 12% in the early 1990s to 6%, 4.5%, 3%, and finally to a flat fee

⁵¹ This section draws from Blood, Roger (2007). *Mortgage Finance Project: Prospective Use of Mortgage Default and Related Lines of Insurance in Support of Home Mortgage Financing Activity* (Unpublished report prepared for the World Bank)



25 percent limit may reduce the borrowing power of many low-income families and hence decrease their option for home-ownership; (ii) it does not take account of differences in borrower circumstances (e.g, type of family arrangement, remittances); (iii) as Egypt's mortgage and consumer lending markets develop, a total debt-to-income ratio will become more relevant as an underwriting criteria.

- Removal of the statutory definition of what is to be considered a person or household of low-income (an individual with an income equal to or less than LE 1,000 per month or a household with an income equal to or less than LE 1,500) and the related restrictions on the targeting of subsidy programs.
- Establishment of a regulatory framework concerning escrowing funds in support of financial transactions, including home-purchases with mortgages. Currently, deposits made by the home-buyer to the builder are not protected and segregated from other builder funds, which leaves the buyer mortgage borrower unprotected. A first step was introduced by the CBE which enforces the segregation of consumer down-payments to developers seeking to access bank financing.
- Termination of the current GSF cash-flow guarantee program and redesign a mortgage insurance product that will more explicitly advance the goals of the MOI and MFA.