

Affordable housing, a social challenge amidst Lebanese crises

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- Since 2019, Lebanon has been experiencing the worst financial and economic disaster in its history.
- The explosion on 4 August 2020 affected many of the capital's residential buildings.
- With over half of the country's 6 million residents living under the poverty line^[1], these crises reinforce the social need for affordable housing.

The mismatch between housing supply and demand

In Lebanon, over 88% of inhabitants live in cities^[2]. It is in the Greater Beirut area, where more than half of the country's population is concentrated, that housing markets are the tightest. Over the past thirty years, mid- to high-end apartments for home ownership have made up the bulk of the residential supply. Real-estate prices are often prohibitive: during the 2000s, they doubled in the capital and are not trending downward despite the current crisis, given that property is a refuge asset to hedge against the devaluation of the Lebanese pound and the impossibility of accessing dollar deposits. The developers' specialisation in mid- to high-end property, the priority placed on investment demand (including from the diaspora), and the elevated prices more broadly reflect the financialisation of property assets that has been ongoing since the end of the civil war (1975–1990).

On the other hand, local end-user demand mainly comes from households with modest incomes looking for affordable rental accommodation. This trend has intensified since 2012 with the arrival of over one million Syrian refugees, on top of the 270,000 Palestinian refugees and the 250,000 domestic workers present in Lebanon. In the current crisis, this trend is also exacerbated by blocked savings, and shrinking household incomes and borrowing capacities. The consequences of this mismatch between housing supply and demand are very tangible, particularly in Greater Beirut. The vacancy rate in residential real estate is high (23% in the capital)^[3] and, since many households cannot afford home ownership, they are pushed into the informal rental market with its concomitant insecurity of tenure and precariousness, including energy insecurity.

[1] The World Bank, European Union and United Nations (2020). *Lebanon Reform, Recovery and Reconstruction Framework*. www.worldbank.org/en/country/lebanon/publication/lebanon-reform-recovery-reconstruction-framework-3rf

[2] World Bank (2018). *Urban population (% of total population) – Lebanon*. <https://data.worldbank.org>

[3] Beirut Urban Lab (2000). *The Beirut Building Database*. Unpublished presentation.

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Policy Brief

“ Local end-user demand mainly comes from households with modest incomes ”

**200%****Property prices in Beirut shot up by 200% between 2003 and 2013.****23%****of dwellings in Beirut are either vacant or under-occupied.****55%****of households have no bank account.**

Fragmented and non-inclusive public policies

This imbalance between supply and demand stems from multiple factors, the foremost being urban policies that show little concern for regulating land and property markets. Since the 1990s, public action has focused on two main aspects: firstly, the crafting of a regulatory and tax framework that favours the production of high-end properties and, secondly, schemes to assist mortgage-based homeownership for the upper-middle classes. Commercial banks have approved nearly 130,000 loans over 20 years. Yet, this channel for housing production has stopped since the Banque du Liban's freeze on subsidies in 2018. In fact, this policy already had a limited capacity to improve access to housing for most people given that 55% of households have no bank account and thus no access to bank financing.^[4]

In parallel, public policies show little interest in an ailing rental market. In 2014, a new law introduced the gradual phasing-out of the rent control policy that ensured a system of "de facto affordable housing" in Beirut and Tripoli. This mechanism created many perverse effects, especially since the 1980s currency devaluation and the collapse of rental income for landlords. As a result, many neighbourhoods with older properties, where most rental leases are found, have deteriorated rapidly for want of regular maintenance on the buildings. This is particularly the case in the neighbourhoods adjacent to the Port of Beirut, which were severely hit by the explosion of 4 August 2020. The 2014 Law did not, however, seek to revive the free rental market, which is not only unaffordable for tenants, but also unattractive for investors.

► The need for a new housing policy

Given the structural dysfunctions of Lebanon's housing sector, and in the context of a major social crisis, priority must now be given to a housing policy that proposes a strategy, actors and tools able to produce a diversified and affordable supply. This goal means not only strengthening the technical and financial capacities of public operators and local authorities, but also intervening across the entire housing value chain.

► Build an effective approach to land and property

If selling and rental prices are to be stabilised at levels in line with household purchasing power, this requires increased governance of land and real estate markets, particularly through an overhaul of taxation and proactive action on land and real estate. Innovative schemes to mobilise public, private and religious properties (e.g. separating land from buildings, cooperatives, long-term leases, etc.) could be developed or bolstered, and local authorities and the private sector could be mobilised. This recommendation, and the previous one, are ambitious: it would clearly require a strong political will to implement them.

► Reconfigure the existing housing stock

Given the high vacancy rate and an economic crisis set to last, the production of affordable housing should focus in priority on reconfiguring the existing stock and on developing inclusive urban regeneration projects in the older degraded neighbourhoods in Beirut, Tripoli and Saida.

► Promote rental accommodation

To better meet demand, the rental sector must be revitalised. For housing stock in the liberalised rental market, intermediation schemes (support scheme for renting out) already tested by some NGOs could be extended to convince owners to rent out their vacant or under-occupied housing. In parallel, a pilot stock of rental social housing could be created through the acquisition of developers' unsold dwellings (along the lines of the French VEFA-HLM model, whereby residential buildings can be sold to social landlords upon completion of works), unoccupied dwellings and dwellings formerly under rent control, or via social rental usufruct (division of ownership rights). These initiatives would then require innovative models to be developed in the areas of financing, governance and management.

[4] World Bank (2019). *Global Financial Inclusion Database – Lebanon*. <http://databank.worldbank.org>

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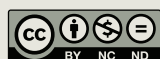
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