

# HOUSING SUPPLY IN ALGERIA: AFFORDABILITY MATTERS RATHER THAN AVAILABILITY

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## **Abstract**

This paper analyses the performance of the housing supply sector in Algeria. The country is witnessing a high rate of urbanization, and a fast growing labor force. The effects of housing policy on labor market, and ultimately economic growth are important. Similarly, policies that cause housing costs to rise significantly can have a much greater effect on the poor than does, for instance, a relatively small housing subsidy program. Accordingly, the scope of the research expanded to consider these broader issues, even if the focus continued to remain on how policies could be designed to improve the situation of the poor. After the introduction, the structure of the paper discusses briefly the methodology used. Then it presents the housing situation, policies and practices, followed by the dynamics of the housing sector. The main findings of the study, low levels of affordability and related problems are presented. Finally the study presents recommendations to help to improve the situation.

**Keywords:** housing supply, affordability, availability, housing policies, housing market.

## **1. Introduction**

The provision of satisfactory housing is a major issue in Algeria. It has gained a great interest and became one of the development priorities. The problem of urban housing is most visible in the country as it is in the process of transition from rural to urban and from traditional to modern societies. In addition to rural-urban migration, the population growth witnessed by Algeria creates an urgent need for comprehensive housing policies aimed at providing decent housing for all income groups, but particularly the lower income groups. Appropriate housing policies can help achieve the goals of a well-functioning housing sector which is in fact a basic condition for social and economic stability and development. The housing situation is one of the most important factors in determining living conditions. Housing conditions are expected to improve with economic growth and development. Poor housing conditions are a sign of poverty, and all the indicators of housing quality improve with higher incomes.

The availability of detailed statistical data and indicators on housing are an essential prerequisite to an analysis of the housing situation and policies. However, such data on the housing stock and the

condition of such stock are generally difficult to obtain in the country. Because of the lack of comprehensive housing surveys in Algeria, population and housing censuses or household surveys are the major sources of such information. In some studies, housing conditions are examined by comparing the housing stock with the size of the population. An assessment of the average household size can provide an estimate of overcrowding. The condition of the housing stock and the level of services available to household members such as safe water, sanitation, electricity and energy supplies are further measures of the differences across the country.

A preliminary glance shows that the housing sectors in Algeria perform inadequately. Price of housing is extremely high. More precisely the house prices in the country are far above the levels that would be expected at their levels of income. For instances, house price to income ratio is around 9 (*Deniz et al, 2008*), indicating that a middle income family needs to save its annual income for more than 9 years to be able to buy an average housing unit in big cities like Algiers, Oran or Constantine. Apparently inexorable demographic demand for housing in the country is reflected largely in house price increases rather than in increased housing production. Although housing subsidies in the form of land and interest rates are important components of housing strategies in government's policies, significant portions of those subsidies are mis-targeted. (*Deniz et al, 2008*) Furthermore, while demand by higher income groups is satisfied, demand by lower and even middle -income groups is left to informal sector. There are signals that informal housing stock increases Algeria.

It is understood that the housing sector produces one of the longest-lived goods in the economy, and housing is the prime investment made by most households in most countries. Therefore, changes in real incomes and savings, and inflation, have impacts on the housing demand and its supply. (Buckley, Ellis and Hamilton, 2001) Housing investments typically account for 2 to 8 percent of gross national product (GNP) and housing services account for an additional 5 to 10 percent of GNP (World Bank Report 2003). Annual spending on housing accounts for between 7 and 18 percent of GNP (Buckley, Ellis and Hamilton, 2007)

## 2. Methodology

The study is a secondary data analysis of housing sector performance and policies. It focuses on a set of indicators. By that it is meant that the data on the housing sector is not strictly empirical in the sense of the results one might observe or infer from a household survey. Rather, it is based on the reports provided by either government officials and/or local experts. (Ministry of Housing and Urbanism 2008, Algeria's national board of statistics or office national des statistiques 2008, SNAT-Shemas national

d'aménagement du territoire in Demain l'Algerie 2008, World Bank reports 2006-2008). The approach is in many ways a diagnostic of the housing market situation in Algeria. This approach was used to buttress the perspectives taken in the (World Bank's Housing Policy Paper, 2003), and subsequently elaborated on in a book by (Angel, 2000) and a number of market oriented international literature articles by (Malpezzi and Mayo, 1999) and (Malpezzi, 2000), and (Buckley and Tsenkova, 2001).

### 3. Housing policies, deliveries and practices

The main focus of the housing policy adopted by the government aims to diversify housing types according to household incomes. Low income groups have access to social housing totally financed by the government. For the intermediate groups, a direct financial aid is provided by the government on budget resources. The concerned households may borrow added credits from banks in order to purchase a house from public or private developers. Households living rural areas are also eligible to government financial aid. The government's aim is to maintain people in these areas. They could also obtain from resources of the agriculture development national fund, made available by the government in order to promote production and animal breeding activities. The financial aid for rural construction ranges from \$ 4000 to \$ 5000 according to the incomes. The government has also developed a formula of access to housing property within 25 years period, with an initial contribution of 25 % of the building cost. The 75 % left are refunded on monthly basis. This formula had a large success among middle class people living in the large urban cities. As far as households living in the slums are concerned, they have access to social housing programs. In this case, the slums are demolished and the land designed for new projects. The distribution of social housing is assured by an administrative committee where local authorities and NGO's are represented. The management of the social housing stock is taken in charge by public housing offices (OPGI). These offices recover rents from occupiers of social housing and promote other kinds of dwellings. They assure maintenance and up keeping duties.

Financial resources for social housing have also evolved. Funds are not entirely raised from national budget. Banks and the potential users contribute as follows: 50 % from the treasury, 40 % from banks 10 % from the users (Ministry of Housing, 2000).

With regards to the different aspects of the housing policy adopted by the government, the position of the commune or the local authority is to identify plots of lands necessary through town planning master plan. Each local authority has to evaluate needs in urban and rural areas according to suitable dwellings. Needs are set up in local housing plan (LHP). This plan is submitted to the wilaya which

stands for the county. Then the Wilaya spreads among the local authorities the allocated housing and aids programs by the government.

The undergoing Complementary program for growth support (PCSC), ambitious program adopted by the government for the five year plan 2005-2009, concerns all sectors and activities in the country. With \$ 55 billions, plus approximately \$ 14 billion for development of the high plains and far South, this program aimed to create a great deal of jobs and to boost the economic growth (African economic outlook, 2007). It continues the efforts of the Economic recovery Programme (PSRE) from 2001-2004. The housing and urban development sector benefited \$ 5.55 billions. In this regard, more than one million of dwellings will be constructed. (Ministry of housing and urbanism, 2008)

During the 1999-2004 period, 810.000 dwellings have been delivered; these fulfillments have relatively reduced the chronic housing shortage. See table 1. Consequently, the dwelling occupancy rate (TOL) went down from 7 persons to 5.5 persons between 1999 and 2004. With the completion of the program of 1 million dwellings during the period 2005-2009, this occupancy go down to around 5 persons per dwelling. (Ministry of housing and urbanism, 2008). We should bear in mind that these figure do not hide in any way the structural and chronic housing supply crisis. The right figures should include the room occupancy ratio, to see whether or not improvement has been made.

TABLE 1 -HOUSING SUPPLY [WITHOUT AUTO CONSTRUCTION] FOR THE PERIOD 1999-2004.

Algeria	1999	2000	2001	2002	2003	2004
	124 208	130 072	101 962	104 275	74 071	81 175

Table 2 shows that in the five year program 2005-2009, 339 697 dwellings have been implemented [27.15 %] and a number of 549 946 dwellings [43.95 %] are under construction.

TABLE 2 - HOUSING DELIVERY PROGRAMS.

Program nature	Cumulated programs	Implemented programs	Still in construction	Programs to be launched
Rented social housing	311 890	90 775	154 069	67 046
Participatory social housing	261 440	47 918	135 827	77 695
Rural housing	510 698	162 910	201 329	146 457
Rent to sell	129 115	19 478	39 269	70 368
Promo housing	38 068	18 616	19 452	0
Total	1 251 209	339 697	549 946	361 566

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The housing shortage experienced by Algeria was a result of a natural demographic growth during decades. It has been made worse through rural exodus towards town and cities. In this respect, job opportunities and better conditions of life in the cities attracted important number of people from rural areas. With regards to what has been presented and the burden of the housing issues experienced during twenty years, it is necessary to recognise that the successive governments have played a major role in providing housing supply. Although, the burden of cumulated housing shortage is still high as shown in table 3 that indicates the tendency [population growth and housing shortage] expected to reach a housing shortage of nearly 2 millions of dwelling by the year 2025 under the condition of the current pace of supply and delivery. The hypothesis for the population growth and housing demand for 2025 as projected by the SNAT or Shemas National de l'Aménagement du territoire [Ministère de l'environnement et de l'aménagement du territoire report] corresponds to the expected trend of development.

TABLE 3 - HOUSING PREVISIONS, POPULATION GROWTH AND CUMULATED SHORTAGE.

Year	Population	Rate%	Housing stock	Objective	Needs/ units	Cumulated shortage
2009	34 901 154	1.66	-	5.4	6 463 176	763 176
2010	35 480 091	1.65	-	5.3	6 694 356	994 357
2011	36 066 348	1.64	-	5.2	6 935 836	1 235 836
2012	36 657 783	1.63	-	5.1	7 187 800	1 487 800
2013	37 255 535	1.62	-	5.0	7 451 107	1 751 107
2014	37 858 889	1.61	-	5.0	7 571 778	1 871 778
2015	38 468 841	1.60	-	5.0	7 693 768	1 993 768

The population of Algeria has grown rapidly over the past few decades. Increase in population has been accompanied with high rates of urbanization. See table 4. As a consequence of demographic increases, Algeria have experienced fast growth in its labor forces – i.e., population between age 20 and 29 –over the years between 1990 and 2000. The rate of growth was 30% and the same trend is expected to continue in the next decade. While growth in working age population is high, unemployment is one of the most severe problems, reaching 28 % in the country. (Dhonte, Bhattacharya and Yousef, 2000), and it is down to more than 12%.

TABLE 4 - POPULATION GROWTH VERSUS URBAN DWELLERS AND HOUSING STOCK.

Date	Population	Urban pop	Housing stock	TOL
1966	12.022.000	32.4	1.950.000	6.10
1977	16.948.000	40.0	2 201 038	7.70
1987	23.038.943	49.7	3.602.146	7.61
1998	29.507.000	58.3	5.024.967	7.15
2007	33.800.000	63.5	6.279.303	5.56

Housing conditions and unemployment represent the major deficiencies of the social welfare in Algeria. The 1998 population census results show that precarious housing represent 6.95% of total housing which was 10.3% in 1966. Some sources put this aspect of the global housing stock to over 1.5 millions units as put by the former director of AADL or Housing development and Improvement Agency (Bounafaa, 2003) However data are thought to be unreliable as it excludes slum areas. Fast population growth and sluggish house delivery led to some housing overcrowding. The average house occupancy rate was 7.4 individual in 1995 [7.6 in rural and 7.1 urban areas] with the number of households per house increased from 1.06 in 1987 to 1.14 in 1995. Moreover, the number of persons per room was 2.7 in urban and rural area. The proportion of households of more than seven persons per house constituted 40 % of total households. In fact 90 % of houses are overcrowded with 1.2 households per house. Severe overcrowding [more than 3.4] presented more than 28 % in 1995.

The housing stock in Algeria is well equipped with electricity, drinking water, sanitation and natural gas. The electricity rate increased from 30.6 % in 1966 to 85 % in 1998. The proportion of houses with tap water increased as well from 37.1 % in 1966 to 71 % in 1998. The proportion of houses with sanitation facilities was 66.34 % in 1998. These figures reflect respectable levels of welfare, but hide wide differences between rural and urban regions. The housing stock is at majority owner-occupied [just 25% are public-owned] and the government policy on rents is very generous. The government policy on selling its housing stock at very low prices helped to increase this rate of owner-occupier. In fact it was found (Conseil économique et social, 1998) that housing conditions in Algeria were not significantly different between poor and non-poor. The value of Algeria's housing deficit is estimated at 25 % of GDP, yet housing loans to households represent barely 1.5 % of GDP. [African Economic Outlook, 2007].

Private houses are built on family funds, implying slow uneven completion. Multi-family units, generally developed by municipalities, are financed by the state-owned thrift, CNEP [Caisse nationale d'épargne et de prévoyance]. Starting in 1996, tenants have been allowed to purchase apartments, including

through financing from commercial banks. However, CNEP's 2002 portfolio still accounted for 97 % of housing finance.

Access to safe water ratio increased from 84 % in 70-75 to 100.0 % in 90-95 for the urban areas, and was 77 % for rural area. Access to sanitation is less than safe water [66 % in 1998].

#### 4. Dynamics of the housing sector

##### 4.1 Unemployment and capital use inefficiency

The unemployed population in 2008 numbered 1 240 841 persons, which is a total unemployment rate of 12.30 %, as against almost 30 % in 1999 (Office national des statistiques, 2008). See table 5. This improvement is due to work-generation arrangements for young people, the support given to micro-enterprise creation and the Economic Recovery Programme [PSRE]. The government aims to reduce the unemployment rate to fewer than 10 per cent by the end of 2009 through significant infrastructure creation. [African Economic Outlook, 2007].

TABLE 5 - UNEMPLOYMENT RATE

	1995	2008
Unemployment rate	28	12.3
ICOR	12,5	
Growth of population aged between 20 and 29 [%]	35	30

Unemployment is one of the major challenges of Algeria (Arab Human Development Report, UN, 2006). At present, and, in view of the coming surge in growth of the working force, it is expected to be an even bigger problem in the future. As put by experts the employment needs to rise by an astounding compound growth rate of 5.0 for the period 2000-2015 (Dhonte, Bhattacharya and Yousef, 2000). Furthermore, efficiency of capital use seems to be low as shown by the high capital output ratios. A capital-output ratio measures the amount of capital needed to produce 1 unit of output. An incremental capital-output ratio (ICOR) is a change in this ratio. It measures the percentage of capital change to obtain 1 percent increase in growth. Higher ratios reflect major productivity problems, and associated with lower growth. A typical measure of ICOR ranges from 3 or 5. This result is consistent with the findings for the housing sector, namely that the problem is not a shortage of housing capital, but rather, the capital is quite expensive. Indeed, without substantial improvement in the efficiency of capital utilization, [i.e., reduction in capital output ratio], it will be impossible to make significant progress in

improving the unemployment situation (Dhonte, Bhattacharya and Yousef, 2000). In this regard, efforts to reduce capital costs in housing production, and therefore supply more affordable housing, would contribute to job creation. For example, if the very expensive housing in Algeria could be made as affordable as it is in Egypt, we estimate that a lower capital-output ratio will result in a 10% productivity gain, which in turn could help to create 160,000 new jobs. (Deniz et al, 2008)

#### 4.2 Poverty Reduction

In his study of poverty dynamics and its trends in Algeria for the period 1966-1995 Laabas B argues that Algeria's poverty is mainly caused by growth collapse rather than income distribution deterioration. He demonstrates also that strong growth is a good device for fast reduction in poverty and claims that the big challenge for the Algerian government is how to use the oil revenues in generation growth through employment generation and consolidating the social safety net for the unable to work. (Laabas, 2001). According to the 2006 human development report of the national Economic and Social Council (CNES, 2006), poverty affected 34.5% of the population aged 15 and over, or more than 3 millions inhabitants in 1998. This figure went down to 2.6 millions inhabitants in 2008, but this is not a very significant reduction.

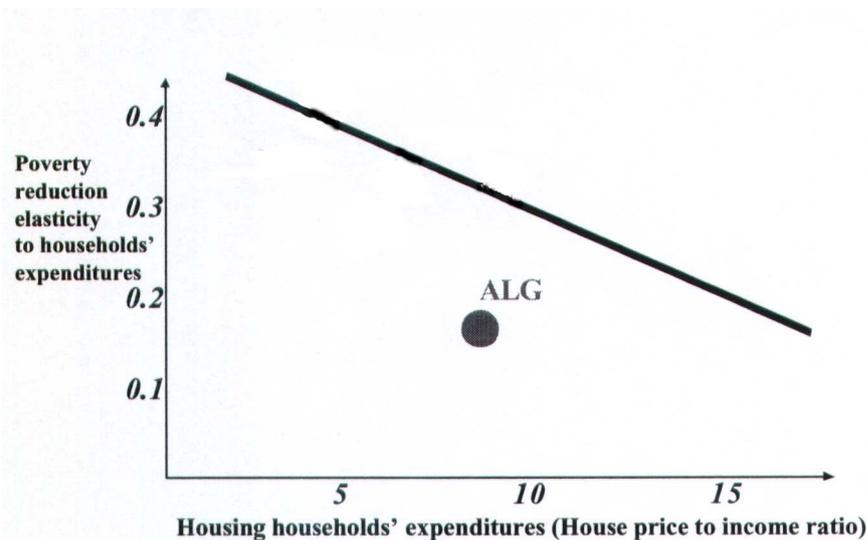


FIGURE 1 - HOUSING QUALITY AND THE CONSTRAINTS OF GROWTH  
Adapted from Adams & Page, 2001

Existing household surveys [such as the LSMS surveys] indicate that the poorest segments of the population spend between 30 and 40 % of their income on housing (Voices of the Poor, 2000); this share would often reach 50 percent. Given the high house price to income ratios (Figure 1), this result is

not surprising. Housing is not only a major consumption item in household budgets, but it is an important economic asset as well, particularly for low-income groups. These figures imply that reduction in housing costs would result in reduction in poverty. It compares the country's poverty reduction elasticity with respect to house price to income ratios. The elasticity of poverty reduction with respect to income growth is a measure of the effect that growth has on the number of people in poverty. As (Adams and Page, 2001) show, over the 1980s the MENA [Middle east and North Africa region] had one of the strongest poverty reductions performances in the world, and correspondingly, has the lowest overall poverty rate. At first glance, it may seem rather extreme to posit such a strong relationship between housing affordability and the elasticity of poverty reduction. However, considering the fact that housing is an important economic asset for the poor, and constitutes the largest consumption item, it is not surprising indeed to find such a strong positive relation between reduction in house prices and poverty.

Moreover, housing investments are largely produced by low-skill, low-income workers, i.e., also the poor. Thus, when housing demand results in increases in house prices rather than in output, it has two effects. First, it prices the poor out of the housing market, but second, and perhaps more important, it also does not let their job opportunities grow. When unemployment is at such high levels, limited job opportunities for low skill workers can have significant effects on the quality of pro-poor growth. (Adams and Page, 2001) The figure is more illustrative than definitive.

## 5. Housing Market performances

### 5.1 Supply factors:

#### 5.1.1 Land development regulations and ownership

The land development process is inherently risky, and rarely is the public sector well placed to deal with these risks. Extensive public control and ownership of land usually prevents the land supply from being demand responsive, creating land densities that are not consistent with its cost, and conveying non-transparent subsidies, often unintentionally, to middle- and upper-income households rather than the poor. Table 6 indicates that public land ownership accounts for a significant share of urban land, more than 30 percent, in Algeria. The country follows a "rigid regulatory environment" for land use. Recent analysis suggests the country has high land development costs. In conclusion, land management, including development regulations and land ownership, is one of the most important issues that Algeria needs to address as a matter of policy urgency. Both rigid regulations and extensive ownership are the urgent matters to be solved.

TABLE 6 - PUBLIC OWNERSHIP OF LAND AND REGULATORY CONTROL.

	Rigid	Being relaxed	Flexible
High Public ownership [more than 30 %]	Algeria		
Significant public ownership [between 25-30%]			
Low Public ownership [up to 20%]			

### 5.1.2 Housing Production and Ownership

Besides public roles in land development, the country also relied on the public housing production. This system of supply is even less effective than is the public land development process. At present it appears that Algeria is following this approach directly. It should be noted that this approach has been abandoned throughout the Former Soviet Union and the reforming countries of Eastern Europe.

The rationale for public ownership of housing is often to provide affordable rental housing to poor segments of the population. The implicit idea is that rents in the private sector naturally tend to be too high for the poorest households, so that without such an option, they could not be housed decently. Another popular form of intervention in the rental market takes the form of rent control.

The international experience suggests that rent control, in conjunction with a legal framework too favorable to tenants against landlords, can result in the shrinking or near death of the private rental sector, resulting in the exclusion of [formal] rental as an option to the poorest parts of the population, instead of helping them to find decent housing. In fact, rent controls work like a double-edged knife: they lower costs for sitting tenants, but they also reduce the value of rental housing as an investment. As a result, investors turn to other products, causing the number of rental units to fall. Existing units suffer from a lack of maintenance, since landlords do not have any incentive to invest in their property. Lastly, due to difficulties in expelling bad tenants or getting their dwellings back, landlords end up keeping their units vacant rather than renting them.

## 5.2 Factors impacting demand

### 5.2.1 Housing Finance

In Algeria, housing finance is currently taking off. CNEP [Caisse Nationale d'épargne et de prévoyance] remains the dominant lending institution in housing finance. Despite the high profitability of this type of lending, other banks have been slow in developing their operations in housing finance. The specialized

institutions created since 1997 to promote housing finance such as the SRH for funding with long term resources and the SGCI for mortgage insurance have thus far had only limited impact.

Providing financing for housing and overcoming the sizable housing deficit, estimated at million of units, represent a major challenge for the financial system. Mindful of the fact that it lacks the resources to eliminate the housing deficit, the government has adopted a series of measures to mobilise collective saving: modernizing the various forms of assistance designed to enable households to achieve solvency, partial replacement of the direct assumption of the cost of low-cost housing by a system of hire

Micro finance and micro credit are not well developed. The only existing programs, designed by the government in connection with social public service programs, seem unlikely to be able to serve as a sustainable source of resources. The Social Development Agency [Agence de Développement Social ADS], as well as other public institutions [ANSEJ or l'agence nationale de soutien à l'emploi de jeunes, FNRDA or les fond national de regulation et de développement agricole], were set up in response to the effects of the structural reforms implemented during the 1990s. The design of the existing instruments is inconsistent with the successful standards of micro credit encountered at the international level: interest rates are subsidized; the portfolios are not managed by dedicated institutions but rather by general public banks; they are not handled by dedicated staff with appropriate training and incentives based on portfolio growth and repayment rates; they are not supported by information and monitoring systems that are key in microfinance; they do not follow the management standards that are specific to this type of lending activity; and, finally, they are focused on new ventures and investment loans as opposed to working capital financing. In consequence, repayment rates are low by international standards; the rates of return have been disappointing [according to the BNA, the rate of arrears is 56 %], and loan authorization times are long [3-12 months], while the rejection rates for loan applications exceed 96 %. (World Bank, 2007).

### **5.2.2 Housing Subsidies**

Finance and land subsidies seem to be the two most prevalent forms of subsidies encountered in the country. Available information suggests that at least tax exemptions granted to real estate form an important part of the housing subsidy system.

Finance subsidies: Interest rate subsidies are a principal feature of housing finance policies. In many cases subsidies such as tax deduction from mortgage interest are found to be regressive, since they mostly benefit high-income groups, as is the case in Algeria. International experience suggests that this

kind of subsidy does not encourage savers, and generally results in less efficient financial intermediation as well as less provision of mortgage credit.

Land subsidies: Access by public developers to land at below market prices, and subsidies embedded in below market price of lots for households and cooperatives are common in Algeria. The *Direction des Domaines* gives a rebate of 80% on government land sold for housing. This subsidy represents a loss of revenue for the Treasury, mainly to the advantage of high- and middle-income groups. An examination of government assistance [including all the housing subsidies passed through by different public programs] showed that only 14 % of the housing assistance was going to the poorest quartile of urban households (World Bank, 2007). See Figure 2.

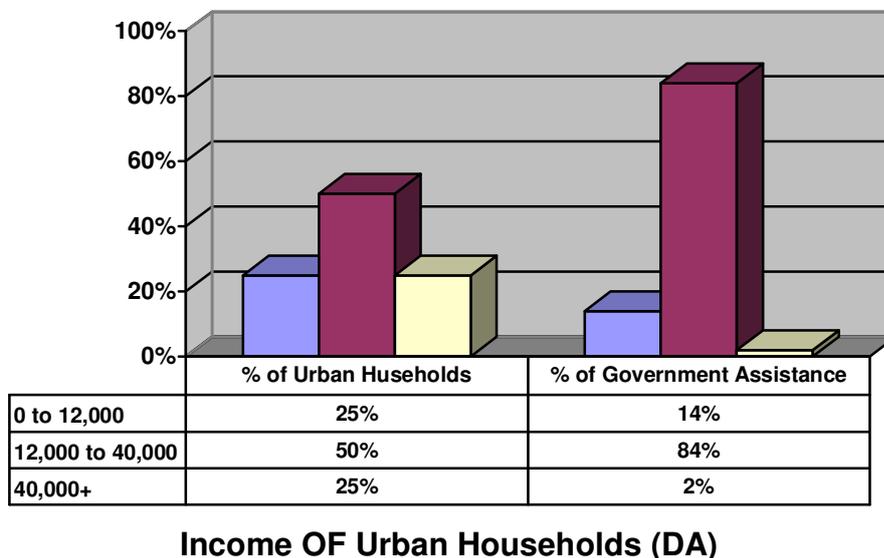


FIGURE 2 - GOVERNMENT ASSISTANCE/DIFFERENT QUARTILES OF URBAN HOUSEHOLDS ADAPTED FROM WORLD BANK, 2002.

## 6. The affordability problem

Housing affordability rather than availability of the stock is the central problem. When existing housing stock output is evaluated in terms of the housing space per capita [as an indicator of the quantity of the housing output] and service network connections [as an indicator of the quality of housing stock output], does shortage of overall availability of housing appears to be a problem. As shown by Figure 3, the housing stock in the country is relatively strong. The composite indicator suggests that the country's stock is similar to or better than what would be expected for countries at their respective development levels.

On the other hand, when affordability is examined through house prices to income ratio, we see that for Algeria the price of housing is extremely high, and affordability levels are low. Thus, the affordability problem does not appear to be driven by scarcity as a whole, but it is more likely that scarcity exist for certain segments of the housing market [low-income housing]. Further detailed analysis of qualitative data/information may confirm that there is oversupply for upper and upper-middle income groups and undersupply for lower income segments. This is largely the result of a variety of housing and land market policies which constrain the functioning of the housing markets. When these constraints are combined with the inexorable demographic demands for housing faced by the country, the result has largely been house price increases rather than increased production.

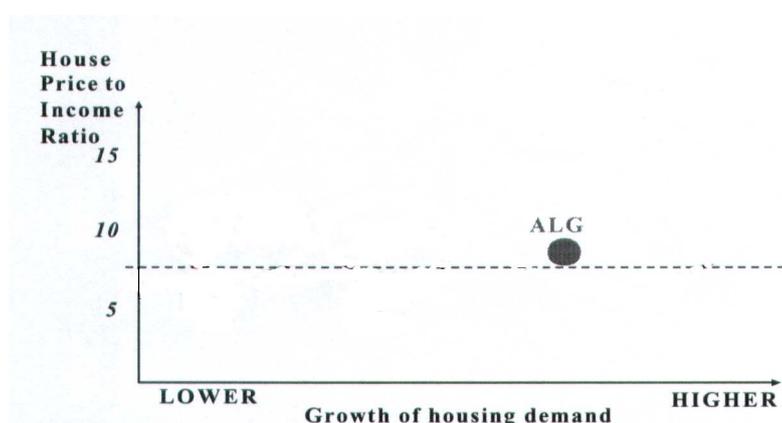


FIGURE 3 - HOUSING AFFORDABILITY AND HOUSING DEMAND ADAPTED FROM UN-HABITAT, 1998 INDICATORS

### 6.1 Low-income housing demand is left to the informal sector

Another consequence of the affordability issue is the growth of the informal housing sector. The indicators show that informal settlements remain a problem in some places, indicating that increasing housing demand is not met by formal supply. Algeria is not above the trend line when compared to other developing countries. But the numbers still show that increasing demand is not translated into formal supply. Even if below trend, the numbers remain high and there are signals that informal housing stock increases in the country. This measure of exclusion from formal housing services appears to be a concern. Here it is important to make a distinction between informal housing and slums; Informal housing is defined as the housing stock which is not in compliance with current regulations. This includes illegally occupied land as well as housing built outside the planned areas [even if land ownership is legal, and/or housing units constructed outside the construction regulations]. Slums on the other hand refer to deteriorated living conditions in terms of both social and physical dimensions. For

example, Algeria still face solving its slum problem through persistent upgrading programs [50.000 households living in 750 hectares all around the country] (World Bank, 2008)

## 7. Discussion

In none of the findings of the research stipulate that the housing problem is one of a shortage of supply of housing as a whole, although shortage may exist for certain categories of housing products [low income housing]. A composite indicator of housing conditions, which includes measures of quantity and the quality of basic services, suggests that the country's housing stock is about what would be expected for a country at its respective development level. In contrast, the price of housing is extremely high in Algeria. The indicators suggest that the affordability problem is largely the result of housing and land supply policies. In addition, inadequate housing supply relative to increasing demand and constrained flexibility with which the housing stock is used contribute to high housing prices and low levels affordability. Thus, these policies constrain the functioning of the housing market so that the inexorable demographic demands for housing already in process are reflected largely in house price increases rather than increased production. In short, the main problem by and large is not the quantity of housing production, but by whom and for whom housing is produced and how it is distributed.

Demand by low-income groups is left to the informal sector. The high cost of housing is not the only housing problem. Informal settlements are another consequence of the affordability issue. The demand by lower income groups is reflected in squatter settlements and un-serviced peripheral neighborhoods. This measure of exclusion from formal housing services appears to be a growing concern in Algeria as there are strong signals that informal settlement ratios are increasing. The ratio of informal settlements is not high when compared with other developing countries in the world.

The benefits from addressing the housing affordability problem go well beyond improving the functioning of the housing market. Housing market constraints not only affect housing conditions. They also have implications for unemployment rates which are already high before a coming surge in the growth in the labor force as well as the efficiency with which capital is used. It is not a question of a shortage of housing capital but it is, rather, that the capital is quite expensive. Indeed, a recent IMF analysis, from (Dhonte et al, 2000), suggests that without fundamental changes in the efficiency with which capital is used that it will be impossible to make significant progress in improving the unemployment situation. We examine a number of ways in which improvements in the functioning of the housing market can improve capital efficiency, and correspondingly, the economy.

The key affordability problem stems from poorly defined public and private roles in housing and land markets. The issue is how this growth can be better accommodated by both the public and private sectors. Considerably more work needs to be done to understand how these constraints operate.

The land development process is inherently risky, and rarely is the public sector well placed to assume a major share of these risks. Public control and ownership of land usually results in these risks being borne in such a way that land is supplied where there is less demand for it, the housing that is built is not responsive to the demands for land use, and the process conveys non-transparent subsidies, often unintentionally, to middle and upper income households rather than the poor. All of these problems cause land and correspondingly house prices to be higher than they otherwise would be. Public land ownership accounts for a significant share of urban land in Algeria, and land development costs are high. While the public role in land development could be improved, land use regulations are a serious problem in Algeria.

Public sector role in land development remains dominant in the country. Besides public roles in land development, the country relied on the public production of housing. This system of supply is even less effective than is the public land development process. At present it appears that Algeria is intensively following this approach. It should be noted that due largely to its inefficiency this approach has been abandoned throughout the Former Soviet Union and the reforming countries of Eastern Europe. Evidence from countries like Algeria, where public ownership is high, or rent controls extensive is that the housing stock is under-maintained and run down.

Central government support for households and/or industries to locate in particular cities has long been followed throughout the developing world, and extensive research has shown it to be ineffective. Henderson (2000), among others, indicates that these policies can be sufficiently costly that they are detrimental for growth and contribute to corruption. Algeria is still pursuing such policies to locate population in cities other than the capital. Algeria's current urbanization pattern is consistent with that of a formerly rigidly planned socialist economy. Such pattern can reduce growth. In short, locational choices for households and firms are rarely effectively made by the public sector.

## 8. Conclusion and recommendations

Research indicates that throughout the world, housing demand follows highly regular patterns. In Algeria these demand factors, particularly demographic trends, indicate that housing demand will play an important role in the economy for the foreseeable future. In addition, if housing demand patterns are very similar but outcomes are quite variable, the obvious culprit is the supply policies used. When the

housing market indicators are reviewed against the background of country circumstances, it is clear that these policies matter.

Algeria is under pressure to make up for a perceived housing shortfall. On the one hand, this pressure is understandable because there is a significant shortfall in production. However, based on the indicators, we conclude that the provision of subsidized housing and/or subsidized financing and production will not effectively address this problem. Rather, increased attention to broader policy reforms are essential if the sector is to address the housing problems of the poor, as well as the deleterious effects that the sector now has on the economy. The main policy areas suggested for improvement are as follows:

Extensive public ownership of land and public sector dominance on land development often ends up in untargeted subsidies, scarcity of serviced land, and increases in land prices. In Algeria for example, where public ownership of land is the cornerstone of housing policy, land supply is either far behind the need, and land is used inefficiently due to large and untargeted land subsidies.

Reliance on government housing agencies to develop land and housing for lower income groups had led to inefficiencies and a drain on resources from the governments' overall development efforts, and undermined the potential role of the private sector. Responsibilities and tasks of such housing agencies need to be re-aligned with the countries' objectives of promoting public-private partnership to increase the efficiency of use of public resources. Auctioning of public land and privatization of housing production companies should be high priorities in Algeria.

Subsidies need to be enshrined in broader sectoral reforms. The two most prevalent forms of subsidies in the country are interest rate subsidies and land subsidies. In general, and particularly at the level of income, neither is an effective way to deliver resources to the poor. Interest subsidies lack transparency, often do not reach the target groups, and have adverse side effects on the economy by comprising significant burdens on public resources. They have been found to be regressive. Similarly, subsidies to public developers through free access to land, or at below market prices, and subsidies embedded in below market price of lots for households and cooperatives, are common, and they are rarely effective, and generally regressive. Interest rate subsidies need to be eliminated, and replaced with targeted, upfront subsidies – such as housing allowances. By the same token, land subsidies to public developers need to be removed and only if necessary land subsidies should be provided to households in a transparent and targeted manner.

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