

EXPLAINING THE HOUSING DEFICIT IN SAINT LUCIA

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Abstract

Providing adequate housing for the people of Saint Lucia has been a long standing policy objective of the government. It has tried to fulfill this objective through the establishment of numerous institutions and policies but these have not successfully ameliorate the housing problems which exist. Today housing is relatively more expensive in the Saint Lucia compared to other countries with relatively higher income per capita which has affected the demand for housing. Similarly the supply of housing appears to be held back by the informal nature of local contractors.

Key words: housing, cost, deficit

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Introduction

Housing is considered one of the most basic human rights and an essential component of the right to an adequate standard of living. Meen (2005) asserts that housing is the largest component of personal wealth and has a significant impact on spending power. A lack of adequate housing not only compromises development, but eventually also constitutes a security threat from the myriad of social ills that arise from poor housing or homelessness.

At the end of May 2010, the stock of housing in Saint Lucia stood at an estimated 58,891 from 47,541 in 2001 representing an increase of 23.9 percent or 11,350 during this intercensal period. Over that same period, the population grew by 7.4 percent from 157, 774 in 2001 to 165,200 in 2010 representing an increase of 11,494 persons. Similarly, the average size of the household has declined significantly over this period moving from 3.3 persons in 2001 to 2.8 persons in 2010.

Between 2010 and 2014, the population has grown by an additional 6,097 persons and at the end of June 2014, the national housing needs assessment report (2014) estimates that the housing deficit was 40 percent or 11,400 housing units. This report also indicated that 62.7 percent of households did not have one bedroom to each pair of children under the age of 10 years. However, 51 percent of the homes interviewed did not have additional bedrooms for adult household members.

These two reports may suggest that while there may have been an adequate number of houses being built between 2001 to 2010, the size of the house in terms of the number of rooms may not have been adequate. It is also possible that the number of houses constructed during 2001 and 2010 may not have been adequate to correct the household deficit which existed prior to the census year 2001.

This research paper aims to assess the contributing factors to the aforementioned housing deficit and overcrowding with a view to providing policy recommendations which may ameliorate these issues. Data from existing housing reports provide starting points for this analyses.

This paper is arranged as follows:

1. Review of policies regarding housing in Saint Lucia.
2. A review of public sector housing interventions
3. Factors affecting the demand and supply for housing
4. Summary of Findings
5. Recommendations

2.0 Literature Review

There is a myriad of studies, mostly surveys conducted on housing demand and housing needs in Saint Lucia. In 2007 the government of Saint Lucia developed and approved a National Land Policy to guide the use, management, development and administration of land resources in Saint Lucia in order to optimise the contribution of land to sustainable development.

The Saint Lucia Housing and Resettlement Policy which was developed in 2008 provides a framework for addressing housing issues in an effective and efficient manner. It also serves to consolidate the process of creating an enabling framework within which all stakeholders can coordinate their housing development efforts. This policy emphasizes the need for increased construction of multi-family housing units as a method for providing adequate and affordable housing, especially for low-income groups.

Drawing from the recommendations in the Housing and Resettlement Policy, a Multifamily Survey Report was done in 2011. This report measures the public's awareness of multi-family housing, investigates perception of multi-family housing and determines the islandwide demand for multi-family housing. The results of the survey indicated that multi family housing units were not the preferred option for a large percentage of the population.

Another report namely the Rental Housing Market study which was done in 2004 found that most persons who form part of the rental market are young, female headed-low income households who chose to rent because the land was not available and secondly their income was too low to qualify for a mortgage. The study concluded that the rental market in Saint Lucia is vibrant and may remain so as it becomes more and more difficult for individuals to build a home of their own.

The regional and international literature on housing has identified a wealth of factors within the housing market affecting the supply for housing and these include affordability, interest rates and cost and availability of land.

3.0 Housing Demand Factors

In the housing market, the law of demand and supply is prominent. If there is weak demand for housing, then supply is low and this drives up the price of housing. Similarly if demand is high, then supply is high and so house prices fall. A housing deficit of 11,400 suggests that although people need houses, there are factors in the housing market which are preventing them from meeting this need. The literature on housing suggest that the following factors can cause a mismatch between the supply and demand for housing:

1. Household income,
2. Cost of a house which is driven by the cost of financing, land, labour and materials

In the subsequent paragraphs we will evaluate these demand factors and extrapolate from the findings whether these factors may have contributed to the weak effective housing demand which currently exist. If these factors are true then the issue is that there is weak effective demand for housing which therefore makes for a very small market. This small market could explain why the cost per square foot is so high compared to international benchmarks.

3.1 Household Income

Households spend on average 25.0 percent of their income on housing services however this ratio is considerably higher for low income household who on average spend approximately 40 percent to 60 percent of their total income on housing (OFS 2009). Confirming the findings of the report mentioned above, data from the Inland Revenue Department on household income shows that 64.0 percent of employed persons earn \$40,000 annually or \$3,300 monthly. This income level is revealing and begins to explain why effective housing demand has been weak.

Assuming domestic bank ratios which stipulated that no more than 40.0 percent of income can be tied up to a mortgage this implies that the maximum monthly payments which 64 percent of

households can make on a mortgage is \$1,320. With some extrapolation this suggests that the cost of a home via a traditional 30 year mortgage at 8.0 percent interest rate that this portion of the population can afford is \$180,000. This cost is significantly below the cost of a basic low income house and can provide some insight into the housing deficit which currently exists.

A basic low income home as defined by the Saint Lucia National Housing Authority is roughly 900 square feet (3 bedrooms, one bathroom kitchen/ living room area) constructed on a 2,000 square feet lot. The cost of this basic low income house is influenced by the price of land, the cost of financing, building materials and labour. This section of the paper will attempt to simulate the cost of a typical low income home using these four factors.

3.2 Land

Land is a significant component of the cost of housing and must be carefully considered in any attempt at implementing a sustainable housing program. Land density refers to the amount of land covered by a structure or building. Low density areas refer to areas like Cap Estate and Coubaril with large housing lots while high density areas exist mostly in Castries and Gros Islet town. Ideally low to medium density is preferable for several reasons. First the impact on the infrastructure is less damaging and such developments are less prone to criminal activities. However, achieving this type of low density development makes an average lot unaffordable to the majority of potential homeowners. An alternative exist for some people with family land who may not otherwise be able to purchase land but this is in the minority.

Serviced residential lots are mostly provided by private developers who have to fully bear the cost of infrastructural services at high investment cost of provision of water, electricity and road infrastructure. It is estimated that the cost of providing fully serviced lots is roughly \$15 per square foot. However when the markup is added, this cost can range from \$16 per square foot to \$25 per square foot depending on the location.

Table 1: Composition of land in Saint Lucia

	Percentage	Square miles	Square feet
Arable land	8%	19.04	530,804,736
Permanent crops	21%	49.98	1,393,362,432
Permanent pastures	5%	11.9	331,752,960
Forests and woodland	30%	71.4	1,990,517,760
Other	36%	85.68	2,388,621,312
Total	100%	238.00	6,635,059,200

Data on land availability is weak but anecdotal evidence suggests that approximately 36 percent of the island is habitable. With limited land available it is reasonable to expect the cost of land to continue to increase and remain high. This price is further driven by the influx of international realtors whose niche market is aliens.

Some of the other challenges faced in the area of residential lots include:

1. Increasing demand for housing at a faster rate than the land can be supplied.
2. Prevalence of land intensive housing development models.
3. Aging government owned housing stock on prime development lands.
4. Rural urban shift and their adverse impact on land use and values.

3.3 Financing

In the 1980s the National Insurance Corporation (NIC) was a significant player in the mobilization of resources for home construction. NIC exercised its influence through such institutions as the Urban Development Corporation and the St. Lucia Housing Authority, the St. Lucia Mortgage Finance Company (SLMFC), National Research and Development Foundation (NRDF) and the St. Lucia Development Bank (SLDB). It may even be argued that the NIC in those years helped correct for conservative policies of the domestic commercial banking system towards mortgages.

Today most of these institutions are non existent. Institutions like SLDB and SLMFC continue to provide financing for housing but the greatest share of the housing market is financed by domestic commercial banks and to a lesser extent credit unions and personal savings. Owner

occupation is used as the dominant tenure to qualify for a mortgage from these institutions which means that mortgage financing is biased towards the employed middle and upper end of the income distribution.

The interest rates on mortgages and land acquisition have declined in the last 40 years from as high as 13.0 percent to between 8.0 percent and 10.0 percent today. The lowest interest rate recorded for mortgages was 5.99 percent for mortgage refinancing and 5.0 percent under the construction stimulus package offered between 2013 to 2014.

All financial institutions have specific eligibility criteria which can limit participation of prospective low income homeowners who do not have a steady flow of income and therefore cannot provide a salary slip or proof of steady income. However the lending criteria is more stringent at the commercial banks when compared to credit unions.

The 2011 Multifamily Survey report identifies the price of a mortgage as a major deterrent in owning a home. In addition, the National Housing Needs Assessment report (2014) shows that 28 percent of the respondents indicated that their rent/mortgage repayments exceeded 28 percent of their income. The National Rental Study Report revealed that the barriers encountered when seeking to procure a loan for the construction or purchase of a home are the main reasons why they opted to rent. However income levels in St Lucia are so low that even if interest rates were reduced, the vast majority of potential homeowners would not be able to qualify for a mortgage.

3.4 The Price of Building Materials and Labour

The key building materials are cement, steel, timber, sand and stones. All except stones are imported. The effective tax rates on key building material ranges from 21.0 percent for electrical items to 44.0 percent for plumbing accessories and fixtures. Similarly the cost of labour has increased despite the high rate of unemployment and the increase labour supply from the fall of the banana sector. Today it is estimated that labour cost accounts for 55.0 percent of the cost of construction compared to 40.0 percent in early 2000.

Table 2: Effective Tax rates on Key Construction Materials	
Material	Effective tax rate
Cement	39%
Sand	22%
Steel	30%
Woods and wood products	28%
Paints & vanishes	39%
Tiles	28%
Doors & windows	33%
Electricals	21%
Plumbing	45%
Source: Ministry of Finance Calculations	

Because labor is the single largest component of construction costs, high wage rates have the effect of making the cost of housing prohibitive. The informal nature of the construction sector (lack of organization through a contractor association and perception of contractors) have contributed to high construction cost in the housing sector.

In the preceding paragraphs, we evaluated the factors which affected the cost of housing in Saint Lucia. Using these four indicators, it is estimated that the price of a low income house is roughly \$70,000 to \$140,000 depending on whether the material used is timber or concrete¹. This does not include the cost of land acquisition and transaction cost associated with acquiring a mortgage which together can exceed \$50,000. Therefore owning a basic home costs between \$110,000 to \$190,000 depending on the material used. Research on housing demand in Saint Lucia has shown that potential home owners prefer concrete structures vis avis wooden structures. Given

¹ Using \$150 per square foot for a timber structure and \$210 per square foot for a concrete structure.
Source: Ministry of Planning

this preference and income levels in Saint Lucia, an estimated 36.0 of the labour force would qualify for a mortgage using existing commercial bank lending rates. There is clearly a mismatch between income levels and housing cost. This high cost of housing has lead to weak effective demand which may have resulted in a low supply of houses.

4.0 The Supply of Housing

The private sector supplies most of the islands owner occupied and rental housing but mostly to the upper middle class. The current pattern of housing investment by the private sector is dominated by small, individual landlord-investors, owning a combination of one, two or three bedroom rental dwellings. Based on the 2010 census report 80.4 percent of the household are undivided private homes and 16.3 percent are part of private house, flat, apartment and condos. The remaining 3.3 percent are town houses, duplex, combined business and dwelling, barracks and other.

Of the 58,920 households in country, the total number of rental units estimated by the Rental Study is 18.5 percent or 10,890. The report shows that approximately ninety percent (90%) of all the rental units are privately owned by individual landlords, with half of them being attached to a private home and the other half being detached.

There is an absence of large private investors in this sector catering for the housing demand of low and middle income owners. With roughly 5 major construction firms operating on the island, it makes it difficult for a potential homeowner to get a full package from one contractor. Very often, a potential homeowner may have to go through several companies for designing, engineering, building approval and construction which can result in higher cost. This may help explain why housing schemes in Saint Lucia have been so successful in the past as many persons prefer to buy a house rather than going through the process of designing and building.

There are about 25 small and medium contractors who build roughly 90 percent of the housing stock however because there is no contractor association information is not easily accessible. The

remaining 10 percent of the housing stock is illegally constructed housing units mostly in timber in squatter settlements and in the outer districts.

The Saint Lucia National Housing Authority (SLNHA) is the government's only major housing developer of both owner occupied and rental housing. However since the Marigot Housing project in 2008, this institution has been inactive.

The evidence suggests that there is demand for low income housing however there is not effective demand because income levels are too low. This low income earners however may be able to afford the markets low rental fees which ranges from \$500 monthly to \$2,000 depending on the locating and size of apartment, however there exist a rental market deficit.

Therefore with a deficit in both housing and rental units why have private investors not produce enough housing to satisfy this demand? These are some reasons for low investments in this area.

- i. **Rental market imperfections.** When there is high demand for housing rental rates should rise, however with income levels remaining stagnant, landlords are unable to increase rental prices without affecting vacancy rate and tenants accumulating arrears.
- ii. **Taxation system which favors small rental holdings.** The current property tax system provides an tax free allowance of \$200,000 on the market value of the properties. Properties with market values above this are subject to the payment of property taxes.
- iii. **Nature of housing where location is the dominant feature.** Location is the dominant feature when pricing a rental apartment. While there is greater demand for housing closer to the city, the land to facilitate this demand is scarce and costly. Even if investors may be willing to invest, the rent charges to compensate the investor is usually prohibitive to potential tenants.
- iv. **Maintenance and operational cost of the rental building.** Such cost involves servicing the debt for the construction of the property, insurance cost, taxes, general maintenance of building and yard and the retrofitting cost from damages.

5.0 Analysis of Demand and Supply Factors

Type of house Cost of house (\$)	Low Income			Middle Income			High Income		
	100,000	150,000	200,000	250,000	300,000	350,000	400,000	450,000	500,000
Interest rate	Percentage of the Labour Force who can afford a house								
8%	73%	52%	36%	25%	16%	11%	8%	6%	5%
5%	73%	73%	52%	36%	36%	25%	16%	11%	8%
3%	89%	89%	73%	52%	52%	36%	25%	25%	16%

In order to evaluate the demand and supply factors affecting household construction in Saint Lucia, houses were classified into low, middle and high income mirroring income levels. A low income house has a price range of \$100,000 to \$200,000, middle income house prices ranges from \$200,001 to \$350,000 while high income houses ranges \$350,001 to \$500,000. In the following paragraphs the affordability of the housing will be simulated varying cost of construction, wages and financing.

Assuming that the interest rate on mortgages remain at its peak of 8 percent, 73 per cent of the labour force will be able to afford a house costing \$100,000. However at this same interest rate, if a low cost house remains at today's existing price of \$200,000, then only 36 percent of the labour force will be able to afford a house at that cost.

On the other hand, if the cost of financing is reduced to 5 percent from 8.0 percent, but a low cost home remains at \$200,000, then 52 percent of the labour force will now be able to afford a house at this price.

This simulation shows that in order for the existing housing deficit to be reduced by 50.0 percent², house and land packages must be available at \$250,000 at an interest rate cost of 5.0 percent. Furthermore as long as the cost of financing remains at 8.0 percent and the cost per square feet at \$210 per square foot, then the housing deficit will worsen as only 11.0 percent of the labour force can afford a house at that price.

² In order for the deficit to be reduced by 50.0 percent, roughly 7,000 houses have to be built.

6.0 Summary of Findings

Housing is clearly a highly heterogeneous product due to the specific preferences of individuals regarding size, design, quality, price, location and timescales of construction. In Saint Lucia there is a clear divergence between consumers housing taste and affordability. This has led to low effective demand and therefore high unit cost. The lack of new building techniques and the lack of organization of the sector exert further upward pressure on the already high unit cost.

Secondly too many persons earn low wages due to the limited value added activity on island. It is therefore unsurprising that households have limited funds to improve the quality of their housing or qualify for a mortgage. This limits effective demand because these low income earners are not attracted to timber or duplex houses which is affordable to them but rather prefer concrete houses.

Lastly, to own a single detached home and therefore boost demand in the sector, the price of housing needs to come down or income levels need to go up. Given the income levels in the country, even if financing becomes cheaper, and taxes were removed on all building materials and land was made available to potential home owners, a vast majority of persons will still not be able to afford a single detached house. Therefore the prices of homes need to come down in order for there to be effective demand.

7.0 Policy Recommendations

- i. Provide incentives to potential contractors and developers who are willing to construct multi family homes using modern techniques such as modular homes. This will complement the existing legislation which allows the ownership of unit within an apartment building.
- ii. Formalize the rental market enforcing the existing legislation which governs rental market.
- iii. Encourage public private partnership so that there is risk sharing between private partners and government. The government can make available land to the private sector for such an initiative.
- iv. Better market information on transaction and building cost should be available to potential homeowners. This may be achieved through contractor organizations.

- v. Enforce existing legislation through urban planning controls to address squatters.
- vi. Build awareness of multifamily homes

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Appendix

Figure 1: Requirements for a Mortgage from Commercial Banks

1. Picture I.D.
2. Down Payment/Equity
3. Letter from employer stating length of service
4. Salary Slip (latest)
5. Letter from Civil Service Association or Ministry of Education
6. If self-employed – evidence of income
7. Open Bill from Supplier
8. Valuation from Reputable garage (recent)