

# Explaining the Housing Deficit in Saint Lucia

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RESEARCH AND POLICY UNIT  
MINISTRY OF FINANCE

# Outline

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- Problem
- Objectives
- Stylized facts
- Literature Review
- Demand and Supply side factors
- Summary of Findings
- Recommendations

# Problem

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*‘The magnitude of unplanned development in both urban and rural areas as well as the negative social, environmental and economic consequences presents serious impediments to the effective and efficient development of the housing sector and limits the sector’s capacity to contribute to the economic and social development of Saint Lucia’*, **CDB appraisal report on settlement upgrading project St Lucia 2011**

# Objective

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The demand  
side factors  
affecting  
housing

The supply  
factors  
affecting  
housing

The dilemma  
between  
demand and  
supply factors

# Stylized Facts

The housing stock grew by 23.9% or 11,350 between 2001 and 2010

Rate of population growth was way below the rate of home construction at 5% between 2001 and 2010

The housing deficit stood at 40% or 11,400 housing units in 2010 with a requirement of 2,100 units per year for the next five years

The average annual rate of household formation (1,261 annually) in the inter-censal period compares unfavorably with the number of DCA approvals (606 annual average)

Surveys identified 33 informal settlements with over 6,000 households

The average size of the household has declined from 3.3 persons in 2001 to 2.8 persons in 2010.

51 percent of the homes interviewed did not have additional bedrooms for adult household members

# Stylized facts continued....

<b>CHARACTERISTICS</b>	<b>Estimated Population</b>	<b>MATERIAL</b>	<b>1980</b>	<b>1991</b>	<b>2001</b>	<b>2010</b>
Private Households	165,595	Wood	73.6	53.5	39.9	31.5
Public Hospitals, Mental Homes & Nursing Homes	142	<i>of which: Plywood</i>				12.3
Relief Houses & Poor Houses	151	Concrete/Concrete Blocks	12.4	29.7	41	51
Orphanages & Boarding Schools	32	Wood & Concrete	8.9	16	17.5	16.2
Monasteries & Nunneries	22	<i>of which: Plywood and concrete</i>				4.4
Her Majesty's Prisons	507	Stone	0.1	0.1	0.1	0.1
Homeless	77	Brick	0.3	0.5	0.3	0.1
<b>Total Resident Population</b>	<b>166,526</b>	Adobe	0.1	0	0	0
Hotels & Guest Houses	7,194	Makeshift ...		0.2	0.2	0.1
<b>Total</b>	<b>173,720</b>	Other ... ..				0.1
		Not Stated	4.6	0.1	0.9	0.9
		<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

# Stylized Facts continued

There has been a slow down in home construction since 2006

Household by year of construction	%
Before 1980	19.9
1980 - 1989	13.7
1990 - 1999	20.9
2000 - 2006	15.6
2007	2.1
2008	2.3
2009	2.2
2010	0.7
Don't know	22.6
<b>Total</b>	<b>100</b>

There is a high level of home ownership

Type	1980	1991	2001	2010
Fully Owned	64.7	72.4	74.7	74.3
<i>owned with mort</i>				8
Squatted	0.3	0.2	0.2	0.1
Rented - Private	23.4	21.2	17.1	17.6
Rented - Gov't	1.5	1.3	1	0.9
Leased	1.1	0.3	0.1	0.2
Rent Free	6.8	4	5.4	5.3
Other	0.3	0.5	0.5	0.5
Not Stated	1.9	0.7	1	1.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total Households</b>	<b>24,810</b>	<b>33,079</b>	<b>41,481</b>	<b>58,920</b>

# Stylized Facts continued

80% of household are  
undivided private homes

Gov't expenditure on housing  
has been low and volatile

TYPE	2001	2010
Undivided Private House	80.1	80.4
Part of Private House	9.3	7.5
Flat, Apartment, Condominium	6.2	8.8
Townhouse	0.5	0.2
Double House/Duplex	0.5	0.7
Combined Business & Dwelling	2	1.3
Barracks	0.4	0.2
Other	0.2	0.2
Not Stated	0.8	0.7

## CG expenditure on housing, planning and settlement





# Literature Review

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- National Land Policy (2008) guides the use, management, development and administration of land resources
- Saint Lucia Housing and Resettlement Policy developed in (2008) provides a framework for –addressing housing issues in an effective and efficient manner
- Multifamily Survey Report (2011) measures the public’s awareness of multi-family housing
- Rental Market Study (2004) found that most persons who form part of the rental market are young, female headed-low income households

## Demand for housing

Household income:  
affects one's ability to build,  
buy or rent

### Cost of a house

- Cost of land
- Cost of Financing
- Cost of building materials & labour

## Supply of housing

Number of  
Investors-Gov't,  
contractors

Demand for housing -  
mainly coming from middle  
and upper income  
households

IRD data on household income shows that income levels are relatively low with 64 percent of the labour force earning \$40,000 or less annually

Income Bracket	No. of Persons	Estimated Monthly Income	Cumulative no of persons
0-10,000	2,289	833	
10,001-20,000	3,498	1,667	27.20%
20,001-30,000	4,447	2,500	48.09%
30,001-40,000	3,409	3,333	64.11%
40,001-50,000	2,233	4,167	74.61%
50,001-60,000	2,006	5,000	84.04%
60,001-70,000	1,023	5,833	88.84%
70,001-80,000	631	6,667	91.81%
80,001-90,000	401	7,500	93.69%
90,001-10,0000	286	8,333	95.04%
over 10,0000	1,056		100.00%
<b>Total</b>	<b>21,279</b>		

*Source: Inland Revenue Department*

Approximately 36 % of the island is habitable which has existing infrastructure and prevalence of land intensive housing models

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### 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
<b>Total</b>	<b>100%</b>	<b>238</b>	<b>6,635,059,200</b>

Fees associated with mortgages amount to 4% of value of the mortgage and 6% of the value of land

<b>Mortgage Amount \$</b>	<b>200,000</b>	<b>250,000</b>	<b>300,000</b>	<b>400,000</b>	<b>450,000</b>
Commitment fee (1.5%)	3,000	3,750	4,500	6,000	6,750
Legal Fees (2.0%)	4,000	5,000	6,000	8,000	9,000
Stamp Duty (0.25%)	500	625	750	1,000	1,125
<b>Total fees</b>	<b>7,500</b>	<b>9,375</b>	<b>11,250</b>	<b>15,000</b>	<b>16,875</b>

<b>Cost of Land (\$)</b>	<b>50,000</b>	<b>60,000</b>	<b>70,000</b>	<b>80,000</b>	<b>90,000</b>	<b>100,000</b>
Commitment fee (1.5%)	750	900	1,050	1,200	1,350	1,500
Legal Fees (2.0%)	1,000	1,200	1,400	1,600	1,800	2,000
Stamp duty (2.0%)	1,000	1,200	1,400	1,600	1,800	2,000
<b>Total fees (\$)</b>	<b>2,750</b>	<b>3,300</b>	<b>3,850</b>	<b>4,400</b>	<b>4,950</b>	<b>5,500</b>

7,636 or 36 % of the LF will qualify for a \$220k which is the minimum cost of a low income home

**ASSUMING 8% INTEREST RATE & 30 YEARS REPAYMENT PERIOD**

Loan amount (in thousands \$)	200	250	300	350	400	450	500
Monthly premium (\$)	1,467	1,834	2,201	2,568	2,935	3,301	3,668
Gross monthly salary required to qualify (\$)	3,668	4,585	5,503	6,420	7,338	8,253	9,170
Gross annual salary required to qualify (\$)	44,010	55,020	66,030	77,040	88,050	99,030	110,040
Grade in Public Service	10	13	16	18	19	19	20
No of labour force participants who can qualify	7,636	5,403	3,397	2,374	1,743	1,342	1,056

If interest rates are reduced to 5 % from 8%, 15,492 or 73% of LF can qualify for a \$220,000 mortgage

**ASSUMING 5% INTEREST RATE, 30 YEARS REPAYMENT PERIOD**

<b>Loan amount (in thousands \$)</b>	<b>200</b>	<b>250</b>	<b>300</b>	<b>350</b>	<b>400</b>	<b>450</b>	<b>500</b>
Monthly premium (\$)	833	1,342	1,610	1,878	2,147	2,416	2,684
Gross monthly salary required to qualify (\$)	2,083	3,355	4,025	4,695	5,368	6,039	6,710
Gross annual salary required to qualify (\$)	24,990	40,260	48,300	56,340	64,410	72,471	80,520
Grade in public Service	5	9	11	13	15	17	19
No of labour force participants who can qualify	15,492	11,045	7,636	5,403	3,397	2,374	1,743

Cost of labour has remained relatively unchanged  
(typical mason and labourer cost \$72k, 28% typical  
home cost)

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 fixtures	45%

Average Weekly Pay

	2013	2014	2015
	\$	\$	\$
Carpenter's weekly pay	621	592	550
Mason's weekly pay	675	600	600
Labourer's weekly pay	400	483	400
Plumber's weekly pay	600	600	600
Electrician's weekly pay	558	558	600
Painter's weekly pay	606	508	550



# Summary of Demand Factors

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- IRD data suggests that only 1/3<sup>rd</sup> of working population can afford a reasonably size home at current design and cost.
- Land is scarce but policies are inconsistent with that reality
- Mortgage & land fees so high and serves to further depress effective demand.
- Neither policy re National Land Policy nor contractors/ architects have sought to adapt to the reality that a current home design and structured is beyond the reach of the average St Lucian.
- Given the numerous other responsibilities of potential home owners, their gross salary may be able to cover the mortgage payments but perhaps not their net salary.
- Taxes on building materials are relatively high.

# Supply of Housing

Who are the suppliers of housing?

- Small private contractors
- Individual landlords
- Squatters

Why is supply low?

- Effective demand is low
- Rental market imperfections
- Taxation system which favors small rental holdings
- Nature of housing where location is the dominant feature
- Maintenance and operational cost of the rental building.

What is the Result?

- High per unit cost
- Low supply

# Summary of Findings

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- Divergence between consumers housing taste and affordability
- Low income due to the limited value added activity
- Low effective demand for housing and therefore high unit cost
- The lack of new building techniques contributes to high unit cost
- High cost of financing

# Recommendations

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- Provide incentives to potential contractors and developers who are willing to construct multi family homes/condo type dwellings
- Using modern techniques such as modular homes
- Formalize the rental market enforcing the existing legislation which governs rental market.
- Encourage public private partnership so that there is risk sharing between private partners and government.

# Recommendations

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- Better market information on transaction and building cost should be available to potential homeowners.
- Enforce existing legislation through urban planning controls to address squatters.
- Build awareness of multifamily homes



Thank you