

Rapid Housing Sector Assessment: Sint Maarten



**RAPID HOUSING
SECTOR ASSESSMENT**



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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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Preface

In September 2017, Hurricane Irma devastated housing on the island of Sint Maarten. Between January and March of 2019, a World Bank team consisting of Catherine Lynch (Task Team Leader and Senior Urban Specialist), Ashna Mathema (Senior Urban Specialist), and Giuliana de Mendiola (Urban Development Consultant) carried out this Rapid Housing Sector Diagnostic.

The Diagnostic is based on information gathered during a one-week mission to Sint Maarten, desk-top research, and analysis of drone- and street-view imagery gathered by the World Bank's Global Program for Resilient Housing. In the field, the team met with representatives of the government departments responsible for housing, as well as private sector players (developers, builders, engineers, banks, union representatives). The team also visited several social housing developments and informal settlements.

Because this is the first assessment undertaken in Sint Maarten since the hurricane, housing data remains scarce. The Diagnostic's findings are therefore more qualitative than quantitative. They do, however, present a broad picture of the current state of the island's housing sector, which should be viewed as the start of a dialogue on housing with the Sint Maarten government, and as a foundation for the Bank to develop a longer-term engagement in the sector.

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Executive Summary

Context

In September 2017, Hurricane Irma struck Sint Maarten (SXM), and devastated a significant portion of the island nation's building stock, including 70-80% of the housing.¹ According to the Sint Maarten National Recovery and Resilience Plan, the estimated damage to the housing sector was USD 442 million.² The tourism and commerce sectors were also debilitated. Sint Maarten has since made a tremendous recovery. However, much remains to be done in terms of repairs and reconstruction, and preparing for the next hurricane season.

This rapid assessment of Sint Maarten's housing sector was undertaken to facilitate a dialogue with the Sint Maarten government regarding housing development, reconstruction activities, and disaster preparedness under the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund. The need for more – *and* more affordable – housing has been a long-standing issue in Sint Maarten. According to the 2012 SXM Housing Vision Report, more than 500 new houses were needed yearly to fill the low- and middle-income housing demand. It is believed this number has increased significantly after Hurricane Irma, and addressing the housing gap is critical priority for recovery.

Due to the limited availability of data, this report is more qualitative than quantitative, but provides a broad overarching understanding of Sint Maarten's housing sector. It also presents policy recommendations and guidance to make the sector more resilient to disasters and more responsive to residents' needs, particularly for low- and middle-income households. It is important to note that some of the ideas presented as part of this guidance will need to be further developed and vetted with the government and relevant stakeholders.

¹ <https://www.worldbank.org/en/country/sintmaarten/overview#2>

² A proxy calculation, based on ECLAC damaged housing figures, was used to derive the housing sector's damages and losses.

Main Findings

Big picture issues related to housing

In addition to its extremely vulnerable risk profile, Sint Maarten's housing market faces several serious challenges: lack of affordability, severely constrained land markets, growing informality, limited housing insurance coverage, poor condition of much of the housing stock, and increasing vulnerability of certain social groups. Although these issues are common in many small island states, the extreme nature of the circumstances, and their pervasive negative impacts, sets Sint Maarten apart. Take, for example, the growing trend of young Sint Maarteners leaving the island. This brain drain is attributed to the lack of access to good quality higher education, well-paying jobs, and the high cost of living relative to incomes – *including housing*. The resulting gap in the labor market is being filled by foreign workers both at the upper and lower end of the market, which constrains the housing market by increasing the demand for all types of houses.

Bifurcated housing market

The island appears to have a 'bifurcated' housing market structured around two distinct demand-supply chains. One caters to the wealthy—and mostly foreign—investors buying luxury real estate. The other caters to the low- and middle-income local population, with many living in modest or substandard rental housing and informal housing.³ The former constitutes a relatively small fraction of transactions, but a significant share in terms of market value, and is also the primary target group for much of the formal construction industry. The latter constitutes modest, self-built, incrementally constructed houses and also a growing number of poor-quality structures in informal settlements that are susceptible to natural hazards.

This duality in Sint Maarten's housing market, although peculiar, is not uncommon. In fact, it is quite typical of housing markets in tourism-

³ 61% of all housing units in Sint Maarten are rental units. Rental units are mostly 1-2 bedrooms (83%), 44% are 1 BR units, and 74% of all rental units are smaller than 150m². Owner-occupied residences, on the other hand, tend to be larger: the majority (71%) of owner-occupied housing are 2-3 BR units; 64% of these units are larger than 150m², and 23% larger than 300m².

based economies on small islands. And while it is important to acknowledge the existence of broader sectoral issues that impact housing delivery and affordability, it is equally critical to acknowledge that changing them can be very difficult. Accordingly, rather than focusing on these intractable aspects of the housing sector, this report focuses on practical solutions to better serve the needs of middle- and low-income households in the short- and medium-term.

Challenges in delivery of Government-provided social rental housing

The Sint Maarten Housing Development Foundation (SMHDF) administers the government's social housing program. Since its creation in 1996, SMHDF has faced operational and financial challenges which have limited the delivery of social housing despite the country's growing needs.⁴ SMHDF's current portfolio includes 769 social rental homes and apartments targeted to low-income households, seniors, and emergency homes for people affected by disasters.

One of the SMHDF's biggest constraints is the restriction on raising rents. There are income criteria⁵ that determine eligibility for social housing, and the rent is capped at 30% of the tenant's gross household. Rent levels are typically set upon initial lease signing, and by law, cannot be increased until there is turnover in the unit. Further, the SMHDF does not have the ability to track the tenants' income over time, hampering its ability to adjust rent or terminate a lease contract if the eligibility criterion pertaining to income is not being met. In some cases, rents have not been increased for 20 years, and are therefore significantly below market rates, ranging from USD 150-630 per month. Tenants, on their part, often choose to stay for extended periods of time, given the limited affordable alternatives available in the housing market.

The social housing waitlist significantly increased after Hurricane Irma, growing from 1,500 to over 9,000 applicants. Delinquencies are high in several SMHDF developments, and tenants attribute this to the poor quality of housing and maintenance services provided by SMHDF. A roof-repair project is underway as part of the Sint Maarten Recovery,

⁴ As part of the Sint Maarten Low-Income and Affordable Housing Technical Assistance a review of SMHDF business model was conducted and finalized in October 2019.

⁵ This program targets households with monthly incomes up to USD 1,944, and who do not own a home.

Reconstruction and Resilience Trust Fund; however, many units are still in need of structural repairs. The increased number of grievances without adequate channels to address them is a major source of frustration for the tenants, many of whom have stopped paying rent.

For its part, SMHDF leadership blames its inability to carry out repairs or deliver services, in terms of quality or speed, on severe constraints on staff and budget resources⁶, as well as the questionable financial viability of its current business model. This is a vicious cycle: the dissatisfaction of tenants impairs SMHDF's inability to deliver adequate services and compromises its reputation as a social landlord, which in turn leads to more delinquencies. Additionally, there is poor coordination of responsibilities and accountability mechanisms for the provision of social housing between the SMHDF and VROMI (the Ministry of Public Housing, Spatial Planning, Environment and Infrastructure or *Ministerie van Volkshuisvesting, Ruimtelijke Ordening, Milieu & Infrastructuur*), which further impairs the effective functioning of the organization.

Constrained land market

In addition to the fact that Sint Maarten is an island, it also has a hilly terrain, much of which is not ideal for development. Of the limited amount of developable land available, there are large tracts of government-owned land under long-term leases that remain un- or underdeveloped,⁷ and also large parcels of privately-owned land with unresolved inheritance issues that cannot be developed.

Other factors that may be contributing to a highly constrained land market, include:

- Large parcel sizes mandated by Hillside Policy promoting forest preservation that encourage lower density and more spread-out developments;⁸
- Absence of any penalty or tax on privately held vacant land, which contributes to speculation by wealthy landowners, both individuals and corporations.

6 The SMHDF is managing its entire housing portfolio with a staff of 12 individuals and limited financial resources.

7 The Domain Affairs department reports that many undeveloped parcels of land on the island are not in compliance with the terms of their land leases.

8 The Hillside Policy applies to all hillside land above an altitude of 50 meters, where only residential development is allowed.

As a result, land comes at a premium in Sint Maarten and constitutes between 30-60% of the overall selling price of a property.⁹

High price of housing

Building construction in Sint Maarten is expensive. The high base cost of housing construction is attributed to several factors, including:

- Hilly terrain and hurricane exposure, both of which require much more concrete – for example, to build retaining walls and reinforced cement concrete (RCC) roofs;
- The relatively small size of most housing projects, with little to no economies of scale;
- Imported construction materials;
- Imported skilled and unskilled labor for large projects; and
- High contractor profit margins attributed to high levels of risk underlying project financing, obtaining permits, and contracting, as well as the risk arising from frequent natural disasters.

In addition to the base cost, the following factors further escalate the price of housing:

- **Closing cost:** closing costs include realtor fees of 6-8% of purchase price, notary costs of 0.4-2.0%, and transfer taxes of approximately 4%, totaling to between 10-14% of the full purchase cost.
- **Turnover tax:** A flat turnover tax of 5% is levied on the delivery of goods and all services, including housing developments. This tax is applied at multiple points in the housing supply chain, resulting in a significant cumulative impact on the cost of producing housing. It is levied on the purchase of materials, on the revenues of the construction company, and on the developers' profit upon sale of the unit.
- **House size:** The homes for sale on the market are typically larger than 100m², which explains why the cheapest houses for sale cost upwards of USD 250,000.

⁹ To provide a comparison, in a well-functioning housing market, the cost of land should be in the range of 20-30% of the overall selling price. Zoning regulations should ideally be designed to reflect land prices, with higher densities on more expensive land.

Lack of affordability and access to finance

The price point of the cheapest houses for sale in the market are USD 200,000-250,000 (2-3BR, 2-bath, 120-150 m²). There is little in the formal market for purchase or rent that is affordable to people below the 60th income percentile (monthly household income <USD 3,000). For most households earning less than the median monthly household income of USD 2,000, formal housing options are even more scarce. This scarcity affects not just informal sector workers or self-employed persons with low or irregular incomes, but also government employees with regular wages. Typically, their options are limited to renting or saving money to buy a plot of land upon which to build incrementally.

In 2017, Sint Maarten's mortgage debt-to-GDP ratio was 48% (on par with the United States and Japan). However, this may reflect mortgage debt attributed to (USD) loans to foreign buyers for luxury investment properties in a “dollarized” economy. Interviews in the field suggest that a large segment of the population cannot access loans, either because their low income precludes any borrowing, or because loan terms combined with relatively low income do not qualify them for a sum large enough to purchase any house for sale in the market.

In the early 2000s, a mortgage guarantee fund was created to support first-time homebuyers, but it is not operational currently. The National Recovery and Resilience Plan recommends the establishment of such an instrument to encourage homeownership.

Increasing informality

The Housing Vision Report highlighted an increase in the incidence of informal settlements in Sint Maarten. These are home to mostly low-income households, many of whom are migrant families, including undocumented persons. Estimates of informality vary: according to government officials, some 10,000 people, or 20-25% of the population, live in informal settlements, while the drone and street view analysis (DSVA) conducted by the Bank's Global Program for Resilient Housing (GPRH) suggests that about 15% of the residential units are informal.

According to the DSVA, roughly half of all informal housing is on land subject to private succession (inherited over generations) and, to a

smaller extent, on public land. Small subdivisions on these large land parcels are leased – mostly informally – to tenants to build a temporary shelter.¹⁰ Since Hurricane Irma, however, many tenants have taken it upon themselves to strengthen these structures using permanent materials (concrete walls and roofs). Many of these areas have thus been transformed into what might appear to be permanent settlements, but with poor construction quality and inadequate infrastructure, and without permits. Based on the DSVa analysis of the roofs, about half (52%) of this informal housing typology appears to be in poor condition.¹¹

The other half of informal housing consists of backyard dwellings. This category is similar to the first, except that in this case, landowners lease land or housing in their own back yard, which is more difficult to detect from the public right-of-way. The DSVa analysis found that about a third (34%) of the backyard dwellings are in poor condition.

Informal rental market

The majority of local low- and middle-income residents live in small rental units built by property owners to generate additional income. However, the bulk of the transactions are informal. There is very little information on the rental market, except that it is extremely expensive. The smallest decent quality units in the “formal” rental market start at USD 600-800 per month for a basic studio or a 1BR. People renting in informal settlements pay slightly less, between USD 300-600 per month for a small plot (with or without a house) depending on location and infrastructure conditions.

¹⁰ Typically, permanent construction is not permitted by the landowner to avoid litigations and liability to compensate the tenant upon termination of the lease.

¹¹ Poor condition encompasses damaged, destroyed or abandoned units.

Key Recommendations

These recommendations are intended as a starting point for discussion with the government about possible actions to improve the housing market in Sint Maarten. Some of the proposed recommendations are complex and require strong technical capacity and financial resources. Therefore, the details will need to be further discussed with the government to ensure that the design and financial sustainability are in line with the priorities of the country, and that they fit the local context.

Development of “affordable” housing

People live in in poor quality housing with inadequate infrastructure in undesirable or less desirable locations primarily because of their inability to afford housing in the formal market. While this affects all households with limited access to decent housing for purchase or for rent, those at the extremes of the demographic and income spectrums – *children, youth, elderly, as well as the more vulnerable low-income households, including women-headed households with single incomes* – are especially impacted. Some considerations towards improving housing affordability include the following:

- **Increase the supply of social housing.** It was outside the scope of the Rapid Housing Sector Assessment to quantify the exact demand for social housing in Sint Maarten. However, based on the mismatch between incomes and rent levels, it is evident that there is considerable demand. The 2012 Housing Vision Report estimated a demand of over 3,200 units of affordable housing over the 2012-20 period. Post Irma, it is likely that the demand has increased significantly.
- **Incentivize private developers to move down-market.** The private sector has a critical role to play in addressing the mismatch between housing demand and supply, and between households' income levels and house prices. Several incentives may be considered in order to pique the interest of private developers to serve the unmet needs of the 40th-60th percentile of the income distribution. Examples include: an expedited permitting process for cheaper and smaller houses, access to land at prices more favorable to the construction

of affordable housing, and the abatement of the turnover tax for housing units below a certain price threshold. Encouraging and incentivizing the construction of cheaper and smaller-format homes in denser developments could also offset the cost of land, and make prices more affordable.

- **Investigate available public land parcels for pilot housing development.** This includes reviewing parcels already slated for social housing construction to identify financially viable solutions, including pilot public-private partnerships (PPPs) for mixed-income, mixed-use higher density projects that could serve as a good practice model.
- **Make housing finance more accessible through the Mortgage Guarantee Fund.** As highlighted in the National Recovery and Resilience Plan, the mortgage guarantee fund could be activated and capitalized, as was stated in the VROMI 2015-2018 Ministry Plan. This could help expand the reach of modest- and middle-income households who are otherwise creditworthy but unable to access funding in the conventional market. Such a Fund could help increase the 'effective demand' for housing, so it is critical that it be accompanied by measures to increase housing supply. The design and administration of the Fund requires further analysis.

Establishment of a robust rental market

Enabling the development of a formal rental housing sector can help solve many of the housing needs in Sint Maarten. A healthy rental market is important for several reasons: (i) it provides a decent housing alternative for households that do not have sufficient income to buy a house or make a down-payment, or those with informal or irregular incomes who may not qualify for a conventional mortgage loan; and (ii) it allows for greater labor mobility, especially in a country with high immigration. Some recommendations to strengthen the rental market in Sint Maarten are outlined below:

- **Conduct a deeper analysis into the informal rental market.** It is likely that many of the informally rented units in Sint Maarten are not compliant with building standards. Yet, in a situation where the formal market has failed to serve the needs of the population, they

are a critical source of housing that addresses the needs of the average household. In other words, this is a market-derived solution, even if informal. It is worthy of further analysis for several reasons: (i) to better understand the needs and usage of housing space by households that could, in turn, inform the design of social housing by SMHDF;¹² (ii) to explore ways to formalize and mainstream this ‘affordable’ rental housing supply by small landlords; and (iii) to consider providing support to upgrade some of the existing settlements to enhance their disaster resilience.

- **Introduce a well-targeted rental subsidy (voucher) program.** The government could consider developing a phased rental voucher program to help eligible¹³ low-income households pay the rent on private market-rate rental units for a temporary period, thereby addressing the shortfall in SMHDF’s social housing portfolio.¹⁴ Many countries have established this type of demand-side subsidy, including Chile, the United States, and the United Kingdom. The design of the program depends on the local context. For example, Chile’s program targets low-and moderate-income young families and offers a flat-rate, time-limited subsidy, which allows a degree of administrative simplicity and payment flexibility for tenants facing income volatility. The success of such a program is very dependent on the supply of suitable rental housing, which leads to the next point, below.
- **Support small property owners and landlords in the delivery of rental housing.** This proposes legal reform and financial support (grants) to small landlords to provide a steady supply of rental housing targeted to lower income households. Legalizing Accessory Dwelling Units (ADUs)¹⁵ and small extensions can improve housing affordability while also incrementally injecting some very “gentle density”¹⁶ into otherwise low-rise, low-density family neighborhoods, without destroying their character or their infrastructural carrying

12 Many of the social houses on rent by SMHDF are 2-3 BR units larger than 100m².

13 Eligibility will need to be clearly articulated, but at a basic level, it should prioritize the most vulnerable groups, including low-income households, women-headed households with single incomes, elderly with low or no incomes, disabled persons, and young people (students, young professionals).

14 The specifics of such program would be developed as a follow-up to this technical assistance and in close consultation with the Government.

15 Backyard units, granny flats, garage apartments, mother-in-law suites – essentially different types of ADUs – are typically modest homes, often the size of a studio apartment, but with a separate entrance.

16 <https://www.strongtowns.org/journal/2019/1/23/legalizing-more-homes-it-matters-how-you-do-it>

capacity. This is already happening in Sint Maarten, so it would be a matter of legalizing the construction of new ADUs and/or improvement of current (informal) rental units to ensure that housing standards are met, and to protect both landlords and tenants. Additionally, this would need to be done within certain basic parameters of safety and health, while making sure that the process is easy and streamlined from the perspective of a non-professional prospective landlord. Once in the formal market, the owners could opt to register these units in the roster of rental units eligible under the rental subsidy scheme proposed above as a means of identifying potential renters. The details of both this and the rental subsidy program would have to be further developed in collaboration with the government and relevant stakeholders.

- **Waive income tax on rental income for small landlords.** To incentivize landlords to rent out their properties or formalize rental contracts, thereby increasing the quantity of units in the market, this tax could be waived for small landlords (those with, say, fewer than 5 units within a certain price range).

Targeted assistance to low income and vulnerable households

The following two initiatives would target the most vulnerable segments of the population:

- **Expand and scale up the financing program for roof repair.** The roof repair program supported by the Government under the Emergency Recovery Project needs to be scaled up to reach more low-income households. In addition, the Government might consider introducing new subsidies under this program for eligible low-income households to improve other aspects of their house that could improve living conditions and resilience of buildings to natural disasters. Such support could be made conditional upon households' obtaining insurance, which would increase penetration of the insurance market.
- **Carry out a pilot project for the upgrading of informal settlements.** Many low-income households currently live in informal settlements on public and private land. These settlements lack proper

infrastructure and access to services. It is recommended that the Government consider piloting a program to upgrade and legalize selected neighborhoods, starting with settlements that are easier to regularize – for example, those located on publicly owned land.

Improve technical capacity and financial resources

Field interviews with VROMI departments as well as the SMHDF revealed a need for technical capacity in building and additional human resources.

- **Domain Affairs.** It was reported that the Domain Affairs department is overseeing 3,000 land parcels under long-term leases with a staff of only three persons, including the acting head of the department. An assessment of capacity needs should be conducted to determine the appropriate staffing arrangements and skill set for the department. More specifically, the following issues falling under the purview of Domain Affairs should be considered for further analysis:
 - Development of a centralized database / inventory of public and private lands;
 - Updating land rents to reflect prevailing land values and enforcement of collection; and
 - Introduction of a vacant land tax in collaboration with other relevant government departments.
- **Permitting and Inspection.** Based on field interviews, there is lack of capacity within the permitting and inspection departments, both in terms of manpower and personnel qualifications. Inadequate staffing has created a backlog of permit requests, which was exacerbated after Hurricane Irma. An assessment of capacity needs should be conducted to determine the appropriate staffing arrangements and skill set for the departments. Furthermore, the entire permitting process is paper-based, which not only causes delays, but also is difficult to track, sometimes resulting in lost documents. It is recommended that a digitized system for handling permits requests be implemented.
- **Sint Maarten Housing Development Foundation.** SMHDF should become the engine for the development of social housing. As

part of the World Bank's support to the SMDHF, an evaluation of SMHDF's operational model was undertaken. This included lines of business, performance of existing properties, organizational structure and human resources, and financial flows. Based on this evaluation, conclusions were drawn regarding past operational performance. Recommendations for improvement were provided, including, among other things: modifications to the organizational structure, responsibilities and requirements for ongoing subsidy and collaboration with the Sint Maarten Government.

- **Housing policy and data.** There is currently no staff member within VROMI responsible for housing policy on the island. A housing expert should be appointed to serve as the single point of accountability charged with defining, coordinating, facilitating, and developing the country's housing policy. The collection and analysis of housing data would also fall under the purview of this expert.
- **Community consultation and participation.** There is no formal mechanism for soliciting community input on housing issues in Sint Maarten. This would ideally be the responsibility of the housing team within VROMI, and it is important that adequate resources be put into this aspect of policy- and decision-making.

Situation Analysis

1. Country context

Topography and island territory

Sint Maarten covers the southern part of the divided island of Saint Martin, which is part of the island arc of the Lesser Antilles within the archipelago of the West Indies. Sint Maarten has an area of 34 km². The landscape of the island is hilly, with three principal ridges. The available buildable flat land is limited; pockets of development are found in the low-lying valleys and coastal zones, such as [Philipsburg](#) (1,227 inhabitants), Lower Prince's Quarter (8,123 inhabitants), Cul de Sac (7,880 inhabitants), and Cole Bay (6,046 inhabitants).¹⁷ Sint Maarten's geographical location makes it vulnerable to major natural hazards such as tropical cyclones, hurricanes, and earthquakes. It is also particularly sensitive to the risk of torrential flooding due to its steep slopes and low valleys.

Hurricanes

Sint Maarten is part of the Atlantic hurricane belt and, on average, experiences severe hurricane conditions at least once every 4-5 years. In September 2017, Hurricane Irma hit Sint Maarten, becoming the most destructive hurricane in the island's history.¹⁸ According to the National Recovery and Resilience Plan, Hurricane Irma damaged more than 70% of the housing stock in Sint Maarten to some degree. Fewer than 50% of the affected households were insured. The hurricane's total damages and total losses are estimated at USD 1.38 billion and USD 1.35 billion, respectively; this represents 270% of GDP.¹⁹ Irma devastated Sint Maarten's tourism and commerce sectors, and the country's Gross Domestic Product (GDP) contracted by about 4.75% in 2017.

Population and demographics

Sint Maarten is the most densely populated island-nation in the Caribbean. It has a population of over 40,600²⁰ and a per capita GDP of USD 25,382.

¹⁷ Population data from 2011 Census.

¹⁸ <https://www.worldbank.org/en/country/sintmaarten/overview>

¹⁹ National Recovery and Resilience Plan, 2017.

²⁰ Population has grown from 31,000 in 1998 to 41,000 in 2018. World Bank, 2018.

Sint Maarten has a small, open, tourism-based economy. Tourism consists principally of the stay-over and cruise sectors, and accounts for the greatest contribution to Sint Maarten's GDP and employment. Before Hurricane Irma, around 1.7 million tourists visited the island on cruise ships annually, and more than half a million entered through Princess Juliana Airport.²¹ Given the dependency on tourism, Sint Maarten's economy is highly vulnerable to global events and economic developments. Most goods, including almost all food, energy, and manufactured goods, are imported.

Sint Maarten's richly diverse population has grown rapidly, increasing 33% in the last two decades. Sint Maarten's population growth rate (2.85% in 2017) is higher than that of its neighbors. By comparison Saint Lucia's growth rate is 0.5% and Aruba's is 0.4%. Legal and illegal immigration are partly responsible for Sint Maarten's rapid population growth. In 2017, the natural population increase was of 191 people, while registered immigration accounted for 964 people (see Table 1.1 for some basic statistics of Sint Maarten). According to the 2011 census, the population is diverse, with more than 118 different nationalities represented, and 7 out of every 10 persons born off the island. While population growth has contributed to the economic development of Sint Maarten, it has also increased the demand for basic services. This includes housing, especially for the lower income segments of the population.

Table 1.1 Population and migration trends in Sint Maarten

	2014	2015	2016	2017	2018
Population	37,132	38,247	39,411	40,535	40,614
Natural Increase	363	303	298	191	
Immigration	1,575	1,541	1,648	964	
Emigration	824	681	822	1,078	
Net migration	751	860	826	-114	
Total growth	1,115	1,164	1,125	79	

Source: Stat Population Factsheet, 2018

²¹ PAHO, 2015.

There is also a significant emigration trend, as young Sint Maarteners are leaving the island to seek higher education and better opportunities elsewhere. Many of them never return, partly due to the high living costs on the island, including the cost of housing. Hurricane Irma caused emigration rates to rise from 822 people in 2016 to 1,078 in 2017.

This brain drain is partly contributing to a “gap” in the labor market for both skilled and unskilled jobs. At the upper end of the market, employers are bringing in expats, including technical professionals in the hotel industry, banking sector, real estate, etc. The lower end of the job market is attracting unskilled or semi-skilled workers, especially in areas like construction, services, cooking/cleaning, and other low wage employment.²² Although data is unavailable to substantiate this in detail, the general perception among locals is that the middle class is hollowing out to make way for wealthy expats on one hand and low-income migrants on the other.

Income levels

The average GDP per capita for Moody’s-rated Caribbean islands is USD 16,000. Sint Maarten’s GDP per capita of USD 28,184 is one of the highest in the Caribbean.²³ In general, income levels have experienced an upward trend in the past few years. In 2013, 67.5% of households had an income at or below ANG 3,000 (USD 1,666)²⁴ per month; in 2018, this percentage dropped to 50%. Table 1.2 provides individual and household gross monthly income for Sint Maarten’s population, based on the 2018 Labor Force Survey. From this data, it is extrapolated that 74% of households have an income of up to USD 2,777 and the median household income is around USD 2,000. In addition, Table 1.3 shows some illustrative annual salaries for private and public sector jobs.

²² UNDP, 2011.

²³ https://www.moody.com/research/Moodys-confirms-Sint-Maartens-Baa2-issuer-rating-with-a-negative-PR_378466

²⁴ ANG = Netherlands Antillean guilder; Conversion rate: USD 1 = ANG 1.8.

Table 1.2 Individual and household gross monthly income

Individual gross income (USD)	% of population (2017)	Household gross income (USD)	% of households (2017)	% of households (2018)
278 or less	4%	1 - 555	11%	14%
278 - 555	13%	556 - 1,110	17%	22%
556 - 1,110	21%	1,111 - 1,666	16%	14%
1,111 - 1,388	9%	1,667 - 2,222	12%	13%
1,389 - 1,666	7%	2,223 - 2,777	9%	7%
1,667 - 2,777	13%	2,778 - 3,333	8%	6%
2,778 +	10%	3,334 - 3,888	4%	5%
No income	23%	3,889 - 4,444	4%	3%
		4,445 - 5,000	3%	2%
		5,001 - 5,555	2%	1%
		5,556 +	10%	9%
		No income	3%	5%

Source: STAT Labor Force, 2017

Table 1.3 Annual salaries for private and public sector jobs

Private sector jobs ²⁵	Annual salary (USD)	Public sector jobs ²⁶	Annual salary (USD)
Doctor Specialist	178,782	Ministerial level	120,000
University Professor	124,770	Secretary general	102,000
Tourism and Travel	100,565	Dept Head	66,000
Lead Administrator	67,088	Senior policy worker	60,000
Lawyer	67,011	Policy worker	39,000
Administrator	56,177	Administrator	27,000
Finance Manager	56,177	Lowest level (cleaners)	9,600
Marketing Manager	56,177		
Administrative Assistant	28,088		
Office Administrator	22,742		
<i>Philipsburg - overall avg</i>	<i>62,178</i>		

Source: Multiple sources
(field interviews; and <https://www.averagesalarysurvey.com/sint-maarten>)

There is no national poverty line for Sint Maarten, but using a UNDP benchmark for poverty based on minimum wage indicates that 27% households are poor and live on income at or below the minimum wage of approximately USD 850 per month in 2017.

Employment

According to the 2018 Labor Force Survey, the employed population consists of 20,760 persons, which represents about 51% of the total population. Of the employed, males represent 53%, and females 47%. The industries with the highest number of employed are: wholesale and retail trade (18%), accommodation and food service activities (12%), and construction (12%). Following Hurricane Irma, unemployment rate grew from 6.2% in 2017 to 9.9% in 2018.

Poverty and vulnerability²⁷

Among the most vulnerable groups with respect to housing are women-headed households with single incomes, the youth (young professionals with low starter incomes), and the elderly living on meagre pensions or no income at all.

Women-headed households. Female-headed households represent 39% of all households. Unemployment is about 6 percentage points higher for women than for men, and women represent 63% of the unemployed.²⁸ Women-headed households also typically rely on a single-income, but at the same time have more children (and sometimes elderly members) than two-parent nuclear households, which makes them more vulnerable.

Youth. 39% of the population is below the age of 30, and 27% is below 20 years. The youth cohort is the largest of all age groups at 18%, and is well above the OECD average of 13%, or that of the Netherlands and the United States at 9% each. However, there was a 6% drop in youth unemployment from 2017 to 2018. Unemployment is highest among the low-educated.

Elderly households. Some 13% percentage of the population is over the age of 60. Those over 80 are less than 1%. The 2013 report 'Sint Maarten Elderly Research', commissioned by the Ministry of Public Health, Social Development and Labor shows that the elderly are often affected by poverty, poor nutrition, lack of transportation, chronic disease and substandard housing. These issues are partly inflicted by low pensions. The maximum Old Age Pension (AOV) is USD 591, which is less than the minimum wage. 50% of the elderly reported not having enough income to pay their bills.

²⁷ <https://www.worldbank.org/en/country/sintmaarten/overview>

²⁸ http://www.stat.gov.sx/downloads/LFS/Labour_Force_Dutch_Caribbean_Islands.pdf

2. Institutional framework

Sint Maarten is a constituent country of the Kingdom of the Netherlands; its government is a representative parliamentary democracy. The parliament is composed of 15 members, each of whom is democratically elected to a four-year term. The Council of Ministers, including the Prime Minister, is appointed by a majority of the parliament. The governor, appointed by the Kingdom to a six-year term, is the head of state and represents the interests of the Dutch Kingdom. The Council of Ministers and the Governor form the executive branch. Legislative powers are exercised by both the government and the parliament. The judiciary functions independently of the other branches of government.

VROMI

Within the Government, the Ministry of Public Housing, Spatial Planning, Environment and Infrastructure (VROMI) is responsible for all matters concerning public housing, spatial planning, environment and infrastructure. VROMI's core responsibilities include: (i) advising on public housing policy, spatial planning, the environment, and infrastructure; (ii) planning and realization of public works and buildings; (iii) management of public infrastructure, spaces, land and other resources; and (iv) issuance of permits and enforcement in the areas of spatial development and the environment.

VROMI is headed by an appointed Minister. The Secretary General assists the Minister with direction and is supported by the Staff Bureau. There is also a Policy Department and five Executive Services/Departments. The Policy Department is responsible for the preparation of policy and legislation, and guidance for their implementation. It is important to note that no one within the Policy Department exercises specific oversight over housing policy or housing related matters. Policy advisors do, however, often oversee several areas, and their functions are flexible.

The Executive Services/Departments are:

- **New Projects:** provides project management support for new building, utility and civil engineering projects, ensuring their high quality.

- **Infrastructure Management:** responsible for equipping and managing public areas, ensuring the good quality of the spatial surroundings.
- **Domain Affairs:** responsible for all administrative and management issues related to domain lands.
- **Permits:** processes and issues all VROMI permits.
- **Inspection:** responsible for the inspection and control of activities within the areas of domain lands, building, environment and work safety.

VROMI has jurisdiction over extensive and challenging activities. The Ministry faces constraints due to frequent changes in leadership and limited financial and human resources. The Ministry has about 100 employees. Most departments have vacancies that have not been filled due to limited resources and/ or difficulty finding qualified personnel. The Domain Affairs department is the most affected by staffing shortages, with the Policy Department and Inspections following closely. In response to these issues, VROMI developed its strategic “Ministry Plan 2015-2018” with the objective of strengthening the organization and setting realistic targets.

Other institutions and agencies

In addition to VROMI, three other institutions oversee housing related matters.

Sint Maarten Housing Development Foundation (SMHDF). The SMHDF, a non-profit organization, was founded in 1996 with the objective of providing public housing after Hurricane Luis. Its core activities include: (i) construction and acquisition of houses and buildings, (ii) acquisition of land in ownership or lease, (iii) management and reconstruction of houses and buildings, and (iv) issuance of mortgage loans for the construction of houses.²⁹ The SMHDF has a two-tier governance structure: a supervisory board composed of 5 members and a managing board consisting of the general director and the technical director. There are currently 14 staff working in the organization (including the managing board). Staff oversees and manages 768 social housing units. For the last few years, and more significantly after Hurricane

²⁹ Based on SMHDF presentation.

Irma, SMHDF has been facing financial, technical, legal and capacity challenges which are explained in more depth in Section 3.

Rent Committee. The Rent Committee was set up as an arbitration body in the rental market to address disputes between landlords and tenants. By law, the Committee has jurisdiction over rental properties with a value of USD 138,000 or less. Its 5 members are appointed by national decree. Decisions by the Rent Committee are binding, and citizens can only appeal to the Court of First Instance after the Rent Committee has made a decision regarding the case. After Hurricane Irma, the Rent Committee has become especially instrumental in settling disputes regarding rental prices and evictions and ensuring that tenants and landlords are able to take, if necessary, such disputes to Court. Most of its cases relate to repairs, but the Rent Committee is understaffed and underequipped to deal with the rising number of complaints.³⁰

Cadaster.³¹ An efficient and effective cadastral system is fundamental to a well-functioning real estate market. The Mortgage Conservator and Land Registry, referred to as the *Kadaster* in Dutch, is the administrator and the guardian of the public registries of all immovable properties in Sint Maarten and is responsible for the registration of all title and rights (including encumbrances such as liens and mortgages) for any type of property ownership. Changes in the ownership of an immovable property are carried out by a civil law notary via an authentic/notarial deed or by a ruling of the Court. The notary³² submits the deeds or declarations for inscription within the public registries at the Mortgage Conservator and must make sure that the title of the property being transferred is free and clear of any encumbrances. The final title search is issued by the Mortgage Conservator. Upon receipt of the final title search, the civil law notary will complete the transaction and payments.

³⁰ Based on interviews with members of the Rent Committee.

³¹ The Mortgage Conservator and Land Registry was not interviewed during the first field visit. This is a priority for the team during the follow-up work.

³² There are 3 notaries in Sint Maarten. The notary fee is between a 2-3% of transaction and it is paid by the buyer.

3. Housing market

Building and housing stock

In order to better understand Sint Maarten's building and housing stock, the Bank's Global Program for Resilient Housing (GPRH) conducted a DSVa. Box 3.1 summarizes the methodology used for the study and the main figures relating to the building stock. The results of the study are presented in Table 3.1 and should be seen as complementary to the government's official figures. The results show that 90% of the total building stock in Sint Maarten is residential. Structures identified as residential are in poorer condition than others; in the category designated "poor," 92% is residential and 2% mixed use. Furthermore, 80% of the building stock consists of 1- or 2-story structures, which reflects the island's low density.

Box 3.1 DSVa Methodology

The World Bank Global Program for Resilient Housing (GPRH) partners with governments and companies to strengthen communities and entire economies – one house, one neighborhood, and one city at a time. GPRH uses advanced technology (drones, street view cameras, and machine learning techniques) to identify the physical characteristics of homes and combines it with existing social, economic, and health datasets to produce house-by-house maps of cities. These dynamic maps can be explored in a housing portal to reveal opportunities to expand, strengthen and protect existing homes.

Collecting geospatial data for the housing portal begins by outlining an area of interest (AOI) based on the client's needs and wishes, for instance concentrating on disaster-prone or informal living areas. Once a flight path is determined to cover the AOI, drones gather high resolution imagery of rooftops. On the ground, street view images are taken using a car-mounted 360-degree camera. When streets narrow, the camera may be attached to a backpack or motorcycle. Each street view image

is time-stamped and geolocated. Together, the drone and street view images capture physical characteristics of homes, which are identified by machine learning algorithms: roof and wall condition, roof and wall material, structural size and vintage, and number of windows, doors, and garages. The dynamic housing portal quantifies and visualizes houses needing better access to water and energy services, houses needing improvements to shield from hazards, and houses needing expansion to reduce overcrowding in order to make homes and neighborhoods more sustainable, more secure, and more livable.

Table 3.1 Building stock summary statistics

Stories	Count	% of stock	Roof condition ³³	Roof material
1	4,871	36%	29% poor, 39% fair, 18% good, 3% under construction, 11% destroyed or damaged	67% metal, 18% concrete, 15% mixed
2	5,922	44%	13% poor, 44% fair, 36% good, 2% under construction, 5% destroyed or damaged	67% metal, 17% concrete, 16% mixed
3	2,190	16%	3% poor, 33% fair, 59% good, 2% under construction, 3% damaged/destroyed	67% metal, 16% concrete, 17% mixed
4	351	3%	3% poor, 30% fair, 60% good, 3% under construction, 4% damaged/destroyed	68% metal, 17% concrete, 15% mixed
5 +	138	1%	5% poor, 26% fair, 66% good, 1% under construction, 2% damaged/destroyed	41% metal, 31% concrete, 28% mixed

Housing stock

Based on official estimates that there are 19,400 housing units in Sint Maarten, with a marked distinction between the low-end informal housing and the high-end formal housing.³⁴ The housing stock is divided as follows: 42% single-family detached housing, 26% apartments in multifamily buildings, and 27% apartments or houses on a parcel of land shared with another household, the majority of which are rentals. According to a recent labor force survey³⁵ (forthcoming in 2019), 61% of all housing units in Sint Maarten are rentals. Of the rental units, 83% are 1-2 bedrooms, and 44% are 1 BR units. 74% of all rental units are smaller than 150 m². Owner-occupied residences, on the other hand, tend to be larger: 71% of owner-occupied housing units have 2-3 bedrooms; 64% of these units are larger than 150 m², and 23% are larger than 300 m².

Private sector supply

Developers. Formal private-sector housing developers largely target foreign investors purchasing vacation homes or second-third homes for investment purposes. These are typically priced in the USD 1-3 million range. According to local realtors, this represents the bulk of their target market. The remaining 30% are clients looking for higher-end rental accommodation; rentals costing less than USD 1,000 per month do not usually transact through realtors.

Before Hurricane Irma, from 2012-16, an average of 170 residential building permits were requested per year. Disaggregated data on the number of dwelling units in the developments, or the size of the developments, or even their value, is not available. The permits department has the raw data, but no resources to consolidate or analyze it. It is, therefore, difficult to ascertain the market trends in terms of exactly what kind of new housing is coming into the market. In the absence of this information, this study makes use of qualitative information gathered from interviews and online research to understand the market trends as meaningfully as possible.

³⁴ The drone and street view analysis identified 13,246 units of building stock while NV GEBE, the national utility company, reports that there are currently 17,423 residential units with water hook-up representing 90 percent of consumers. That yields an estimated total of 19,359 residential units.

³⁵ Source: Data provided by the STAT office.



Photos 3.1(i) and 3.1(ii) Self-built formal housing
Source: Authors

Self-built (formal) housing. As stated above, the majority of local residents live in rental housing, mostly in small units built by property owners as annexes to generate additional income. Those who build their own homes do so incrementally over multiple years; they use their savings, or, if eligible, a construction loan from the commercial banks. See photos 3.1(i) and 3.1(ii).

Informal settlements. The increase of informal settlements has been a growing issue and was highlighted in the Housing Vision Report. Estimates of the incidence of informality vary. Government officials estimate that some 10,000 people, or 20-25% of the population, live in informal settlements. The DSVa identified 10 informal areas (see photo 3.2), and estimates that about 15% of the residential units are informal. These are home to mostly low-income households, many of whom are migrant families, including undocumented persons.



Photo 3.2 DSVa identified informal areas

According to the DSVa, roughly half of all informal housing is built over 41 hectares of land. This is mostly private ‘succession’ land (inherited and passed on over several generations) and, to a smaller extent, public

land. Much of it is located on hillsides (see photos 3.3(i) and 3.3(ii)). Small subdivisions on these large land parcels are leased – mostly informally – to tenants to build a temporary shelter.³⁶ Since Hurricane Irma, however, many tenants have taken it upon themselves to strengthen these structures using permanent materials (concrete walls and roofs). As a result, many of these areas have been transformed into what might appear to be permanent settlements, but whose buildings lack permits, are of unknown construction quality in terms of structural safety, and suffer from inadequate infrastructure. Based on the DSVa analysis of the roofs, about half (52%) of this informal housing typology appears to be in poor condition.³⁷ Some 45% is in good or fair condition, and 3% appears to be under construction.

The other half of informal housing consists of backyard dwellings. This category is similar to the first, except that in this case landowners lease land or housing in their own back yard, which is more difficult to detect from the public right-of-way. Also, the units are also smaller in size, ranging from 25m² to 75m², with about 2-4 structures per plot. Water and electricity to the tenant's house is extended, often illegally, from the landlord's utility connection. The DSVa analysis found that about a third (34%) of the backyard dwellings are in poor condition; 65% are in good or fair condition, and 1% is under construction.

³⁶ Typically, permanent construction is not permitted by the landowner to avoid litigations and liability to compensate the tenant upon termination of the lease.

³⁷ 'Poor' condition encompasses damaged, destroyed or abandoned units.



Photos 3.3(i) and 3.3(ii) Informal settlements built on hilly terrain
Source: Authors



Photos 3.4(i) and 3.4(ii) Informal settlement housing
Source: Authors

Public sector housing supply

Social Rental Housing. Social housing production and management is led by the Sint Maarten Housing Development Foundation (SMHDF). SMHDF's operating revenue comes from rent collections, management fees, an annual operating subsidy from the Sint Maarten government of ANG 300,000 (USD 166,667)³⁸ and occasional sales. SMHDF's current portfolio includes 769 social rental homes and apartments targeted to low-income households, seniors, and emergency homes for people affected by disasters (see Box 3.2). Most of its stock is concentrated in the Belvedere Project, where the SMHDF office is located. Photo 3.5 shows an aerial image of this property and the roof condition of its buildings, as determined by the DSVA. Additionally, SMHDF has several land parcels slated for development, some of which are leased, while others are owned.

Box 3.2 SMHDF Portfolio

Project Belvedere³⁹

474 Houses, 13 different types and models

Total investment: ANG 49.7 million (USD 27.6 million), of which ANG 9.5 million (USD 5.3 million) was a grant

Rents: ANG 450 – ANG 1,130 per month (USD 250 – 628)

'Emergency' Homes

200 Houses at Union Farm (105), South Reward (8), Cole Bay (24), Foga (30), and The Keys (33)

Total investment: ANG 6.6 million (USD 3.7 million)

Rents: ANG 387 per month (USD 215)

Long leased land from private owners

Hope Estate

94 apartments: 70 1- and 2-bedroom; 24 3-bedroom

³⁸ The government's contribution stays the same each year and doesn't keep up with inflation, which exacerbates SMHDF's financial burden.

³⁹ Based on the DSVA, 93% of the Belvedere buildings are in fair/good condition, 6% under construction, and 1% in poor condition.

Senior Homes

24 apartments: 12 studio's and 12 1-bedroom
Total investment: ANG 2.5 million (USD 1.4 million)
Rents: ANG 276 and ANG 376 per month
(USD 153 and USD 209)

Plantz Building

4 apartments: 1-bedroom
Total investment: ANG 500,000 (USD 277,777)
Rents: ANG 775 per month (USD 430.55)

Self-Building Program (SMHFF)

Since 2000: over 200 mortgage loans approved for
the construction of homes.
Total value: ANG 12.8 million (USD 7.1 million)

Source: data provided by SMHDF.



■ good
 ■ fair
 ■ poor/damaged/destroyed
 ■ under construction

Photo 3.5 Roof condition in Belvedere Project

Rent levels are set upon initial lease and, by law, cannot be increased until there is turnover in the unit. Thus, given that there is little tenant turnover, many rents have not been increased for 20 years, and are therefore well below market rates, ranging from USD 150-630 per month. This program targets households with monthly incomes up to ANG3,500 (USD 1,944) who do not own a home.

Based on 2017 income data, over 50% of households in Sint Maarten are eligible for social housing. The social housing waitlist significantly increased after Hurricane Irma, growing from 1,500 to over 9,000 applicants, although over half of the new applicants are not eligible because they own a home. In addition, rent is capped at 30% of the tenants' gross household income, but there is no annual review of income to verify whether current tenants remain eligible for the subsidy. Delinquencies are high in several SMHDF developments, and tenants

attribute this to the poor quality of housing and maintenance services provided by SMHDF. More than two years after Hurricane Irma, many damaged remain unrepaired, even as the tenants continue to reside there. The increased number of grievances without adequate channels to address them is a major source of frustration for the tenants, many of whom have stopped paying rent.

For its part, SMHDF leadership blames its inability to deliver services, in terms of quality, quantity, or speed, on severe constraints on staff and budget resources, as well as the questionable financial viability of its current business model. This is a vicious cycle: the dissatisfaction and delinquencies by tenants further impair SMHDF's inability to deliver adequate services and damage its reputation as a "social landlord". Furthermore, there is poor coordination of the responsibilities and obligations between SMHDF and VROMI regarding the provision of social housing, which further exacerbates the sustainability of the organization. The relationship between SMHDF and the Government is defined in the 1997 Performance Agreement; a revision of the Agreement is planned by 2020.

SMHDF was initially capitalized with commercial loans and grants from the Dutch government, with a ratio of approximately 80% debt and 20% grant. This contrasts with comparable housing agencies in Curacao and Holland, which were primarily capitalized through grants and soft loans. SMHDF's financing structure consisted of commercial loans of USD 18.6 million (6.9% for 30 years) and ANG 7.11 million (2.5% for 25 years) with NPMNA (*Nederlandse Participatie Maatschappij voor de Nederlandse Antillen*) as lender and the Ministry of the Interior and Kingdom Relations of the Netherlands (BZK) as guarantor. Due to recurrent defaults, the Dutch government required that this debt be refinanced by FirstCaribbean International Bank (FCIB) for USD 12.8 million (7.1% for 15 years). USD 7 million was written off by the Dutch government.

Algemeen Pensioenfonds Sint Maarten (APS) housing. APS is charged with the task of administering the pensions of civil servants, teachers, and employees of other government-related organizations in Sint Maarten. In order to achieve its target of investing 60% of its portfolio locally, with a 5.5% return per annum, it has recently begun to invest in local real estate, including housing developments.

APS' first housing project is ORYX Residence in Cay Hill, a 62-unit development that includes townhouses and condominiums. See Photo 3.6 for the floor plan of an apartment. Units are targeted to civil servants and will be priced between USD 200,000-215,000. APS will also provide mortgage financing (up to 100% loan-to-value (LTV), 5.75-6.25% annual interest, 20-30 years), which will be administered through a commercial bank. According to reports, more than 500 people have put their names in to be considered for a unit in ORYX Residence in the initial stages, highlighting the massive demand for housing in this price range.⁴⁰



Photo 3.6 Floor plan of ORYX Residence 2-bedroom unit

Source: <http://keymls.com/properties/oryx-hill-apartments/>

The 11,000 m² site has a 60-year lease from the government at a nominal rate. The negligible land cost enables APS to offer lower sales prices than the open market. While seen as a good initiative by a public

⁴⁰ <https://thedailyherald.sz/islands/90707-high-interest-in-oryx-residences-underscores-need-for-more-housing>

agency to boost housing supply for government employees, several aspects of the ORYX Residence project deserve more scrutiny:

- Buyers will have a resale restriction of 2 years, but the project has no specific income-targeting. Preference is for participants of the Pension Fund, but others can apply too. In other words, the targeting mechanism is rather weak – both in terms of the income levels as well as the sub-group of beneficiaries.
- The units are relatively large, ranging from one to three bedrooms, and include condominiums and (expandable) townhomes. On 140-150 m² plots, the built-up space measures about 70-110 m². Given the scarcity of good, flat buildable land in the public domain, this land may have been better suited to a higher density development with a larger number of smaller size units.
- The sale price sets an unhealthy precedent by not including the full land value in the sale price. The provision of housing at below-market prices may be unsustainable, in that it will make it difficult to recover real costs in future public-sector driven developments. If the intent is to increase housing supply for middle-income government employees, then it would be prudent to reflect the land value in the house sale price. The subsidy would be better designed as a separate element determined by the income of the buyer and offered as a flat amount upfront, or over time.

4. Housing finance

Most commercial banks in Sint Maarten offer mortgage finance, home improvement loans, and home construction loans to individuals and to builders/ developers. Three of the largest lenders are Windward Islands Bank, First Caribbean, and Orco Bank.⁴¹

Mortgage loans

One bank reported that the most common size of mortgage loans in Sint Maarten is USD 250,000. The majority of housing lending is to registered residents (87%);⁴² the bulk of lending is for housing units for resale, as opposed to new construction.

Most mortgages conform to the following terms:⁴³

- **Interest rate:** Fixed rate 5.5-6.0%
- **Currency:** Customers can choose between USD and ANG, but the majority of loans are taken in USD (typically in the currency of the borrower's earnings).
- **Term:** Up to 30 years, but term is limited to date of retirement (e.g. with a retirement age of 65, a 40-year old would only qualify for a 25-year loan).
- **Loan-to-Value (LTV) Ratio:** Most loans are 80% LTV, but banks state that they will loan existing customers with an LTV up to 100% with primary mortgage insurance above 80% LTV. Value is based on the lower of sale price or appraisal value.
- **Debt-to-Income Ratio:** 37% (regulated by the Central Bank)
- **Non-Performing Loan (NPL) Rate:** Banks reported NPLs of 5-10%, with a marked spike after Hurricane Irma.
- **Insurance:** Banks require borrowers to obtain hazard and life insurance.

⁴¹ The regulated banking sector in Sint Maarten that provides consumer mortgages or housing finance comprises three local banks (namely, The Windward Islands Bank Ltd., Banco di Caribe N.V. and Orco Bank NV), one subsidiary of a foreign bank (RBC Royal Bank N.V. branch office), three branches of foreign banks (The Bank of Nova Scotia, FirstCaribbean International Bank (Cayman) Limited and Banque Européenne du Crédit Mutuel), one savings bank (PSB Bank N.V. branch office) and one non-consolidated international bank (The Windward Islands Bank International N.V.).

⁴² Central Bank, November 2018.

⁴³ Interviews with First Caribbean and WIB.

Between 2015 and 2016, mortgage lending witnessed a significant increase in Sint Maarten, going from ANG 662 million to ANG 876 million. In 2017, outstanding mortgage loans totaled ANG 884.2 million representing approximately 48% of GDP (on par with the United States and Japan). Even after Hurricane Irma, mortgage lending remained quite stable with loans totaling ANG 866 million by the end of 2018.⁴⁴ That said, it is not self-evident that these figures – which, under other circumstances, would signify high mortgage penetration – is an indication of average Sint Maartener's access to mortgage finance. Interviews in the field suggest that a large segment of the population cannot access loans, either because of their generally low levels of income (see example of Orco Bank below), or because the terms of the loan together with their income levels do not qualify them to borrow a sum large enough to purchase any house in the market. The high GDP-to-Mortgage debt ratio may well be a reflection of mortgage debt attributed to (USD) loans to foreign buyers for luxury investment properties in a “dollarized” economy.

A deeper analysis is required to understand this better, and the following questions could serve as starting points:

- What percentage of mortgage loans are slated for primary homes and what percentage for investment homes? What percentage of borrowers are Sint Maarten citizens? This will explain who the current borrowers are.
- What percentage of primary mortgage loans are for house construction versus home purchase? What is the average loan size for each? This will shed light on the income levels of the borrowers.
- What is the breakdown of the loan sizes – i.e. what percentage of loans are less than USD 100,000, USD 200,000, USD 300,000, and so on, and what percentage is larger than USD 1 million? This will shed light on whether or not large mortgage loans (>USD 3-5 million) to a relatively small number of wealthy investors constitutes a disproportionately high fraction of the total mortgage debt, and is a major contributing factor for the high GDP-to-Mortgage debt ratio.

44 Figures from Central Bank: <https://www.centralbank.cw/statistics/monetary-and-financial/monetary-union/new-series-from-july-2016>

It was reported by VROMI that a Mortgage Guarantee Fund was established in 2000 in Sint Maarten and a board was appointed. However, it appears the fund was never operational. In fact, the banks interviewed were unaware of the instrument. Typically, mortgage guarantee funds are designed to provide an incentive for banks to provide services to the low-income population by eliminating a degree of credit risk on mortgages. The National Mortgage Guarantee (Nationale Hypotheek-garantie, NHG) was created in the Netherlands in 1995. It offers protection to lenders from any residual debt owed after the forced sale of a house. The NHG is fully funded by mortgage borrowers, and receives an explicit public guarantee. This is a likely model for the Mortgage Guarantee Fund in Sint Maarten, but further analysis is required. The National Recovery and Resilience Plan recommends the establishment of such an instrument to encourage homeownership.

Home improvement loans

Home improvement loans are available at rates of 5-6% and terms of 3-10 years. Some banks typically have a minimum income to qualify for personal loans. For example, Orco Bank requires a minimum income of ANG 4,500 (USD 2,500) per month and has a maximum loan limit of ANG 5,000.

Impact of Hurricane Irma

Following Hurricane Irma, there was a spike in both mortgage defaults and demand for home improvement loans. In the case of the former, banks typically provided deferment of payments for 3-6 months with a re-amortization of the loan balance. Some banks even offered a special post-hurricane loan product – up to USD 10,000 (unsecured) at fixed 4% interest rate for 5 years.

Developer/ construction finance

Commercial banks offer developer finance for well-conceived development projects. Construction loans are considered high-risk by the banks and generally have the following terms:

- **Interest rate:** 5.5-6%
- **Equity:** 30-35% equity contribution in the form of cash or land value
- **Presales:** Presales to cover 100-125% of loan amount

- **Disbursement:** Loan funds are disbursed based on works completed
- **Repayment:** Bank receives 100% of sale proceeds towards loan repayment until loan is repaid.

5. Land

Land supply and the management of serviced land are key issues for housing provision. Given Sint Maarten's small size and its topography, there is limited availability of land. Much of the nation's land is not fit for housing development. Additionally, several institutional constraints have affected land management. These have caused a mismatch between the supply and demand for land, leading to high prices for lots and houses, as well as high rents. As a result, land comes at a premium in Sint Maarten and constitutes between 30-60% of the overall selling price of a property.

Domain Lands

Government land typically comes into private use through long leases. These typically have a term of 60 years but are sometimes shorter. Currently, approximately 4.3 million m² (5% of Sint Maarten's total land) is held under 2,400 of these long leases, averaging USD 1,120 per year per contract.⁴⁵ Box 5.1 explains the different types of property ownership in Sint Maarten. The underlying intention of long leases (as opposed to freehold sale) in Sint Maarten is to regulate land use: for example, to encourage house-building by persons who cannot otherwise afford to buy land in the market, and to ensure a guaranteed annual revenue through land rents.⁴⁶

Box 5.1 Property ownership in Sint Maarten

Long-term land lease (erfpacht)

A long-term land lease, also known as a long lease, is the right to hold and use someone else's land for a fixed or unlimited time, usually against an (annual) payment. These arrangements are usually made for a period spanning several decades, in which the lessee is allowed to use the land as if (s)he was the owner (although some limitations are usually stated in the contract). Different to a normal lease, long lease is a proprietary

⁴⁵ VROMI Ministry Plan 2015-2018.

⁴⁶ <https://www.doingbusinessdutchcaribbean.com/st-maarten/real-estate-construction-law-sxm/private-property-ownership-long-term-land-lease-short-term-land-lease-sxm/>

right, thus it can be mortgaged as security for a monetary claim. The long lease can also be transferred (sometimes subject to owner's approval) and the same conditions as for the transfer of full ownership apply. Generally, the long lease buyer pays the former holder of the long lease a transfer sum (selling price).

The lease can typically be terminated by the lessee (except if stated differently in the deed creating the long lease). The lessor can only do so if the payment, if any, is not paid for two consecutive years or with other severe breach of contractual obligations e.g. if the land is not developed as required. If a long lease is terminated, the lessor is required (unless otherwise agreed in the deed of long lease) to pay a compensation to the lessee if for example buildings are built on the land.

Short-term land lease

For short-term land leases, land is typically owned by the government and is leased out for a short period of time (e.g. between one and five years), to third parties for agricultural or recreational purposes. This lease type specifies restricted uses of the land and can be more easily terminated by the lessor. Building on short-term land lease land is generally not permitted so there is no need for the lessor to compensate the lessee.

Private property ownership (eigendom)

A private individual or a legal entity can own property in Sint Maarten and if they do so, they are entitled to the absolute right to that property (i.e. have the right to freely enjoy and dispose of that property). Property can also be jointly owned. In such cases, common regulations may be established or already in place, which provide rules for the use and obligations of the individual owners. The owner must adhere to the property's zoning plan and the civil code.

Ownership of property in Sint Maarten must be recorded in the public register, also known as the land registry (kadaster). The land registry keeps record of property encumbrances, mortgages and liens (if any). To complete the transfer of

ownership of property, the civil law notary that executes the transfer deed has to register the new ownership of property in the public register.

Source: Doing Business in Dutch Caribbean

The Department faces several challenges in the way that domain land is being managed, thus affecting the supply of land for development:

1. The lease contracts have not been very effective, either in strategically directing the use of the land or in enforcing the clauses that were agreed upon. Instead, much of the land has been captured by opportunistic investors and speculators.
2. There are many domain land parcels on long leases that have not been developed for decades. In some cases, this is due to genuine monetary constraints, but in others the cause is speculation. The lease contracts stipulate that development must occur within 1 year of the contract date, breach of which could result in the government terminating the lease and revoking the land. The Department of Domain Affairs, however, has struggled to enforce these stipulations, in part due to its lack of staff capacity,⁴⁷ and in part because of political decisions that fall outside its sphere of control.
3. These rents were set in the past and have not been updated to reflect the current land value. In many cases, even the nominal rents have not been paid for years, with no penalty effectively enforced on the lessee. The Government is collecting a fraction of what it would if the land rent could be adjusted to reflect the market value.
4. A lessee with a long lease may use the property and dispose of it as if (s)he were the owner of such real estate (e.g. sell it, or establish a right of mortgage), subject to any applicable restrictions in the terms of the lease. A lessee, whether a corporation or an individual, who has obtained a long lease with low, government-set rent, can then transfer – effectively “sell” – the lease to another buyer for the full market-value of the land. In effect, the lessee can capture the full market value through this transfer, instead of the agency.

⁴⁷ The capacity of Domain Lands to update rents and enforce their collection is weak. The department has a total staff of 4 to oversee the entire state of affairs of all public lands, with very little ability to review or consolidate data.

5. Today, most of the government land (exact percentage share not available) has been leased out to individuals and to private companies on long term leases. It is unclear what percentage has gone to lower income individuals, or even what amount remains under government control.

Private land holdings

There is little data on private land holdings, but two trends seem to be affecting the market. First, some large landowners keep their land undeveloped, letting its value appreciate. Second, private succession land that has been passed down for generations is today the subject of litigation due to the absence of adequate inheritance documents. Many of these plots are either lying vacant or have been subdivided into small parcels and rented out informally (see section 3 on Informal Settlements).

6. Building construction industry

Cost of construction

The construction industry plays a key role in Sint Maarten's overall economy and in the delivery of housing. After Hurricane Irma, while almost every economic sector experienced a negative turnaround or fast contraction, the construction sector accelerated 5% during the first quarter of 2018 compared to the first quarter of 2017.⁴⁸ This was driven mainly by repair and reconstruction activity.

The cost of construction is a key factor driving up housing prices in many Caribbean countries, including Sint Maarten. Table 6.1 shows the increase in construction costs in terms of basic materials, labor and plant units. An average increase of 28% in construction costs was observed from 2016 to 2018, with the biggest increase in medium quality housing. This can be partly explained by the reconstruction boom in the aftermath of Hurricane Irma that resulted in increased demand for materials and labor, and corresponding price hikes.⁴⁹ Field interviews suggest that there has been no scaling back of these prices since.

Table 6.1 Construction costs

Cost per sq.mt	2012		2014		2016		2018	
Residential construction	low	high	low	high	low	high	low	high
Modest quality	1,076	1,722	861	2,476	969	1,507	1,291	1,938
Medium quality	1,507	2,476	1,184	1,830	1,184	1,938	1,614	2,475
High quality	1,938	3,122	1,938	3,230	2,045	3,444	2,582	4,196

Source: BCQS Construction Market Trend Reports

⁴⁸ Estimates by the Centrale Bank van Curaçao en Sint Maarten.

⁴⁹ The government does not regulate the prices of construction materials.

The construction cost in Sint Maarten, although on the lower side in comparison with other Caribbean island nations⁵⁰, is quite high overall. Table 6.2 shows the construction cost in Sint Maarten compared to Colombia, Brazil, and the United States.

Table 6.2 Construction costs (USD per sq.mt.)

Cost per sq.mt	Sint Maarten (2018)		Colombia (2018)		Brazil (2018)		US (2018)
Residential construction	low	high	low	high	low	high	average
Modest quality	1,291	1,938	573	828	647	1,078	1,345
Medium quality	1,614	2,475	669	955	782	1,267	1,614
High quality	2,582	4,196	1,051	1,465	1,267	2,129	2,313

Source: Latin American and Caribbean Construction, 2018 MarketTrend Report, BCQS International, 2018.

In Sint Maarten most construction materials are imported as the local market is very small. There is no import duty on construction materials; still, importing supplies from the U.S., Europe or other Caribbean countries can have significant impacts on everything from basic construction schedules and labor projections, to the ability to keep a project's cash flow positive. Big construction companies import the materials themselves to be more cost effective, but smaller contractors often must buy products locally, which is more expensive.

Costs for local labor in Sint Maarten are generally lower than in other countries in the region, including the U.S. However, there is high demand for labor for reconstruction purposes, which has led to an influx of construction labor from the other Caribbean Islands. For these workers the Government has provided expedited reconstruction work permits. Skilled labor—such as HVAC technicians, electronics installers, and engineers—is limited in the local market and has high demand. Thus, especially for big projects, contractors often import labor from other islands or countries, which significantly increases the construction cost.

⁵⁰ This is in part because it is the only island in the Caribbean which is a Duty Free port, where no taxes are levied on imported materials.

Construction equipment for large developments, such as large excavators or cranes, is scarce and often transported from island to island according to project demand. This can cause schedule uncertainty and delays, and is an underlying financial risk that needs to be factored into the project's cost.

Building hurricane proof houses, which usually involves concrete structures, is costlier. While the concrete structure is stronger than a typical wood frame, it can add up to 50% to the construction costs.⁵¹

Additionally, many houses in Sint Maarten are being built on hillsides due to the scarcity of available flat land. Building on sloping land is more complex and requires more work in terms of excavation, foundations and retaining walls, thus making it more expensive.

Contractors and developers

There are many small developers and contractors in Sint Maarten with good technical knowhow but low capacity. Among other things, small contractors do not have the capacity or strength of balance sheet to: attract equity investment or debt finance, acquire equipment and machines, buy materials in bulk, organize labor according to their best productive use, and support research and development.

LICCOM is the only local construction company with the capacity to build housing “at scale”, which in Sint Maarten means anything larger than 50-200 housing units. LICCOM usually acts as the prime contractor and the main go-between between smaller subcontractors and the developer. LICCOM has the capacity to take on 3 big projects at a time. LICCOM is the construction company on the ORYX project and has previously worked on social housing projects.

As a result, most of the large residential and commercial projects are built by foreign companies with significant expertise and capacity, while individual housing and small repairs are left to smaller contractors.

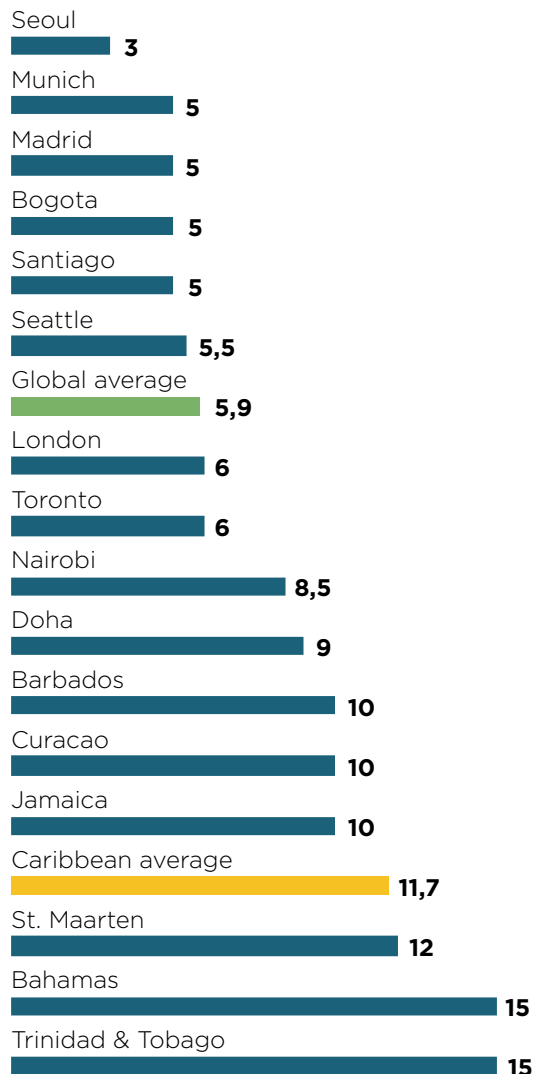
Construction companies must bear high levels of financial, occupational, contractual, and natural-disaster related risk, which drives profits

⁵¹ According to interviews with real estate developers and construction companies.

margins up. The average margin in Sint Maarten is 12%, which is comparable to other countries in the Caribbean, but much higher than the global average of 5.9%.⁵² Figure 6.1 compares average profit margins in different markets around the world.

Figure 6.1 Construction margins in various markets

Construction profit margin (%)



Source: BCQS, 2018 and Turner and Townsend, 2017.

⁵² BCQS, 2018. Note: The average overhead and profit margin percentages are typical for projects ranging from \$1M to \$5M in construction cost.

Given the high profit margins and lower risk associated with high-end luxury housing right through the value chain – for the developer, contractor, and the realtor – there is very little development of low- and middle-income housing.

7. Relevant regulations and procedures

Permitting process

The Building and Housing Ordinance of Sint Maarten is the main legislation for housing construction and design. Pursuant to this ordinance, every construction project must obtain a building permit before the work begins. Building permit applications must be submitted in writing to the Permits Department within VROMI and cost a flat fee of ANG 200. Permit applications are evaluated for compliance with the building ordinance, zoning ordinance and/or applicable spatial development policies. Box 7.1 details the permit process and building permit fees.

While the permit process is supposed to take around 6 weeks, the actual turn-around time is much longer. The lengthy and uncertain permitting process was a sticking point for many of the stakeholders interviewed for this study. They reported that for a single home, the process can take up to 6 months, and for larger and more complex projects anywhere between 10-18 months. The Permits Department faces many challenges:

First, the permits and inspections departments lack capacity, both in terms of manpower and personnel qualifications. These insufficiencies have created a backlog of permit requests, which have only increased since Hurricane Irma. Further, the agency has no structural engineers on-site, so for complex projects outside experts must be hired, which adds to the time and cost.

Second, there is no differentiation based on level of complexity; thus all projects, from a simple house to a complex project, must go through the same process. Only after Hurricane Irma was a special expedited application for roof repairs created, which takes between 3-4 weeks to process.

Finally, the entire process is paper-based, which not only causes delays (to print and physically transport documents from one department to

another), but also is difficult to track (there is no systematic storage or filing system). Every now and then documents get lost.

Given these conditions, it is not unusual for people to start construction without permit approval, especially when it is a repair or an addition to a current structure. As the permits and inspections departments are already overburdened with work, there is little control over these informal construction projects. Yet, some stakeholders mentioned that this lack of regulation has allowed for rapid reconstruction after the hurricane.

Box 7.1 Building permit process

The Building and Housing Ordinance provides the rules for construction and design to ensure safety and public health. All construction works require a building permit from the government. Applications must be submitted in writing and include the names of the applicant, his profession and his place of residence. The application usually also requires:

- A copy of proof of ownership of the real estate property or the long-term lease;
- Drawings of the building, which should include, among other things:
 - the dimension and height, thickness and structure of the walls;
 - the calculations and details of structure, strength and stability;
 - the accessibility of light and ventilation;
 - the name of architect and/or builder;
- planning permits;
- subdivision plan;
- foundation plan;
- site plans;
- structural drawings;
- electrical plans;
- plumbing plans; and
- floor plans.

Permit applications require consultation with different departments within government, such as the local fire department to ensure fire prevention

requirements and inspections. Building permits for factories, hotels and condo/apartments have additional legal requirements.

Depending on the type of construction, the government may ask for additional information, and the applicant is obligated to provide it. In such a case, the applicant is notified by letter and has 4 weeks to make the necessary adjustments. A building permit may be refused if the building plans do not comply with the pertinent requirements. The government's reasons for refusal must be clearly stated and explained. If the applicant disagrees with the decision, he or she can file an appeal with the government. If the government's decision is unsatisfactory or takes too long, the appellant is entitled to file an action in Court.

After the evaluation of the application is completed, the draft permit is prepared and sent to the Minister for approval. Once approved, an invoice is issued for a permit fee. The amount of the Building Permit Fee depends on the estimated cost of construction based on the *legesverordening: A.B. 1994 nr. 22*.

The Building Permit Fee is calculated based on:

Construction value	Fixed amount	Plus a per mille for every USD 556 of the construction value
up to and including USD 27,777	USD 111	
USD 27,778 - USD 277,777	USD 389	9 per mille (9/1000)
USD 277,778 - USD 555,555	USD 2,639	8 per mille (8/1000)
USD 555,556 and more	USD 4,861	7 per mille (7/1000)

Source: <https://www.doingbusinessdutchcaribbean.com/st-maarten/real-estate-construction-law-sxm/construction-regulations-sxm/> and VROMI Permits Brochure.

Building code

Sint Maarten's building ordinance was drafted in 1935 and has not been updated since, and does not cover hurricane or earthquake risk. According to the Head of Permits, the Florida Building Code is being used as a guideline for hurricane- and earthquake-resistant building construction, but this is not enough in terms of ensuring and enforcing proper standards. There are current efforts to update the building ordinance and the building code. The new building ordinance will form part of a larger legislative reform package for VROMI.

It is not only important to have a strong building code on paper, but also to ensure that it is properly enforced. This underlines the issue of the departments for Permits and for Inspection's lack of capacity.

Hillside Policy

The Hillside Policy concerns all hillside lands located above an elevation of 50 meters, where only residential development is allowed. The objective of the policy is to conserve the green hillsides, limit erosion and water run-off. The policy delineates guidelines for development (density, lot size, ground cover, number of floors etc.) – see Table 7.1.

Table 7.1 Building guidelines on hillsides

Slope	0-10°	10-20°	20-30°	30-40°
Between 50-100 mt altitude				
Min. lot size	400 m ²	800 m ²	1,200 m ²	2,000 m ²
Ground cover	35%	30%	25%	15%
Max. # floors	2	2	3	3
Between 100-200 mt altitude				
Min. lot size	800 m ²	1,200 m ²	2,000 m ²	3,000 m ²
Ground cover	30%	25%	15%	10%
Max. # floors	2	2	2	2

Source: <http://www.dcnanature.org/wp-content/uploads/2012/09/D7A-SXM-HillsidePolicyExtended.pdf>

While well intended, it appears that zoning such large lots of land for relatively low-density development might result not only in much higher infrastructure costs (resulting from more spread-out developments), but might also put large amounts of available vacant public land into private use.

Regulations pertaining to gated communities

When selling a property, developers can incorporate their own building regulations and rules in the deed of transfer. This is typical for wealthy gated communities, and is done to ensure that all the houses within the community are consistent in quality and design, and to reassure buyers that their property (and surrounding subdivisions, if they are designated as part of the community) will not be “devalued” by potentially “unsightly” or undesired developments in the future. This is done in the form of third-party and perpetual clauses that can stipulate, among other things, that an owner must obtain prior written approval of the developer for any building plans. Such restrictions are legally enforceable.⁵³

To understand more clearly, it is helpful to consider the following scenario: a large tract of land is subdivided by a master-developer into multiple parcels; one parcel is developed into a gated community, and the rest are sold to other individuals. In such a case, the master developer can impose regulations on not just the gated community development, but also on all the surrounding (as yet undeveloped) parcels with respect to their future development. This has been a common occurrence in Sint Maarten for generations, as a result of which many land parcels are designated for exclusive high-end development. This may partly explain the prevalence of so much luxury and super-luxury housing as opposed to the more affordable and high-demand middle- and lower-income housing on smaller subdivisions.

Property tax

There is a Real Estate Property tax (grondbelasting). This annual tax of 0.3% is supposed to be levied on the value of both unimproved property

⁵³ <https://www.doingbusinessdutchcaribbean.com/st-maarten/real-estate-construction-law-sxm/construction-regulations-sxm/>

and improved land with structures, and is charged to the owner of the property.^{54, 55} However, field interviews revealed a lack of awareness of the tax – or its enforcement. This needs further review, but the property tax could be a valuable source of revenue for the Government, to use towards the development of public infrastructure. In addition, the lack of enforcement of the tax means that owners or lessees of vacant land are not penalized for hoarding land, and this may explain some of the speculative behavior prevalent on the island.

Hazard insurance

The insurance market in Sint Maarten comprises five large companies: Ennia, Fatum, Gulf, Island Heritage, and Nagico, which are supervised and regulated by the Central Bank of Curaçao and Sint Maarten (CBCS). All local insurance companies are part of the Sint Maarten Insurance Association (SMIA). Insurance companies offer a wide variety of products but are primarily focused on indemnity products (properties and cars).

Life insurance and property insurance are a requirement to obtain a mortgage. A hazard insurance policy tends to cost between 1-2% of reconstruction cost. Homeowners are advised to revalue their property every three years and insure accordingly, but this is an uncommon practice. Further, houses built outside of the banking system tend to be uninsured.

Insurance claims played an important part in the reconstruction efforts in Sint Maarten. After Hurricane Irma, insurance companies received 6,100 claims for a total value of over USD 667 million. Four months after the hurricane, around 80% of the claims had been settled, with a total payout of over USD 303 million (46% of all claimed damages).⁵⁶ As the numbers suggest, payouts were substantial, but also significantly lower than the original claim amounts. This is attributed to a combination of factors: contractors inflating estimates for reconstruction, the high incidence of owners having under-insured their properties, and/ or owners being unaware of their own liabilities.

⁵⁴ <https://www.doingbusinessdutchcaribbean.com/st-maarten/tax-sxm/>

⁵⁵ https://decentrale.regelgeving.overheid.nl/cvdr/xhtmloutput/Historie/Sint%20Maarten/448776/448776_1.html

⁵⁶ <https://stmaartennews.com/parliament/post-irma-insurance-premiums-go-30-60-percent/>

Faced with declining profits and solvency issues post Hurricane Irma, insurance premiums are expected to increase between 30-60%, becoming unaffordable for many.⁵⁷

⁵⁷ <https://stmaartennews.com/parliament/post-irma-insurance-premiums-go-30-60-percent/>

8. Housing affordability

House prices

According to the field research, the price point for the cheapest houses for sale in the market is USD 200,000-250,000 (2-3BR, 2-bath, 120-150 m²). Rentals in the formal housing market start at USD 600-800 for a studio or a 1BR. People renting in informal settlements pay between USD 300-600 for a small plot (with or without a house) depending on location and infrastructure conditions.

Defining “housing affordability”

As a conventional rule-of-thumb, a ‘non-poor’⁵⁸ household can typically afford to spend approximately 25-30% of gross monthly household income on housing-related expenditures (rent, mortgage, maintenance, property tax, etc.). Poor households, on the other hand, spend a disproportionate percentage of their income on food and other basic consumables, and therefore, it may be presumed that they can allocate smaller fractions of their income on housing – anywhere from 0-20%.

Another indicator of housing affordability often used at the aggregate level – for example, regional, city, or neighborhood level – is the Median Multiple, which is the ratio of median house price to median household income. Normatively, a Median Multiple of 3.0 or less signifies ‘affordable’, with higher thresholds defined as ‘moderately’, ‘seriously’ and ‘severely’ unaffordable (see Box 9.1).⁵⁹

⁵⁸ Poor households are defined here as those earning less than the poverty line, who are likely to be in the lowest quintile of the income distribution.

⁵⁹ Source: <http://www.newgeography.com/content/006201-15th-annual-demographia-international-housing-affordability-survey-2019>

Box 9.1. Understanding the Price Income Ratio

The *Demographia International Housing Affordability Survey* defines middle-income housing affordability using the “Median Multiple,” which equals the median house price divided by the median household income. The Median Multiple is a common indicator used to understand the health of housing markets and compare housing affordability in a transparent way. It also offers a foundation to evaluate structural policy options to achieve housing affordability in the local housing markets.

Housing Affordability Ratings	Median Multiple
Affordable	3.0 & Under
Moderately Unaffordable	3.1 to 4.0
Seriously Unaffordable	4.1 to 5.0
Severely Unaffordable	5.1 & Over

Median multiple: Median house price divided by median household income

A very high Median Multiple would not help determine what is wrong with the housing market, but it serves as an indicator that something is not working properly in the real estate supply system. While a high Median Multiple always reflects a divergence between housing supply and housing demand, a low Median Multiple doesn't necessarily mean that the housing market is healthy. Thus, the Median Multiple should always be related to demographic and economic growth.

If a city or country presents a very high Median Multiple, it is important to evaluate the market in depth, as this can have significant social and economic impacts. As a city or small country like Sint Maarten grows, the need for more urban floor space for housing and for the provision of services also grows. The delivery of the additional floor space is possible only if a city or country can expand out and up quickly enough to accommodate the new demand without creating real estate price inflation. However, this process is often hindered by inadequate land management policies and arbitrary land use regulations, and by the lack of mechanisms to finance new infrastructure. Sint Maarten faces the additional challenge in terms of land given its topography and the fact that it is an island.

Source: <http://www.newgeography.com/content/006201-15th-annual-demographia-international-housing-affordability-survey-2019>

Housing affordability without formal finance. For people with no formal bank financing (or otherwise significant savings to purchase in cash), rental housing is the only option in Sint Maarten, and even that is limited. As shown in Table 9.1, even households with two USD 1,500 incomes (i.e. a monthly household income of USD 3,000, or an annual income of USD 36,000, which is higher than the median income household) have very limited choices. This is the first marker of an unaffordable housing market in Sint Maarten.

Table 9.1 Housing affordability based on sliding ratio scale of affordability

Monthly Individual income (USD)	Monthly HH income, assuming avg 2 earners (USD)	Annual HH income (USD)	% of monthly HH income for housing deemed affordable*	monthly housing expenditure deemed affordable (USD)	Current housing options available for rental
300	600	7,200	10	60	none
500	1,000	12,000	15	150	none
900	1,800	21,600	20	360	Social rental housing
1,200	2,400	28,800	25	600	Social rental housing
1,500	3,000	36,000	30	900	1.5BR rental in less desirable location
2,500	5,000	60,000	30	1,500	2BR rental in desirable location
4,000	8,000	96,000	30	2,400	2-3BR rental in desirable location
7,000	14,000	168,000	37	5,180	3BR rental in good location
10,000	20,000	240,000	37	7,400	Luxury villa or condo in good location

Note (*): the percentage of income a household can comfortably afford to spend on housing is presented here as a sliding scale, increasing with household income.

Housing affordability with mortgage finance. A second marker is affordability based on the availability of mortgage finance and the ability of prospective homeowners to access it. Tables 9.2(i) and (ii) illustrate what households with different incomes can afford with mortgage financing with two different LTV ratios. As an illustration, let us consider a household with a gross annual income of USD 36,000.

Assuming a 30-year loan @ 7% APR⁶⁰, this household can qualify for a loan of USD 166,841.

- With an LTV of 80:20, this household will qualify for a house priced at USD 208,552, but have a steep upfront cost of about USD 66,737 (20% down payment plus 12% closing costs).
- With a 95:5 LTV, the household can qualify for a house priced at USD 175,623, with a much lower – but still high – upfront cost of about USD 29,856 (5% down payment plus 12% closing costs).

Table 9.2(i) Housing affordability based on access to mortgage loan (LTV 80:20)

Gross monthly individual income (USD)	300	500	900	1,200	1,500	2,500	4,000	7,000	10,000
Gross monthly HH income (USD)	600	1,000	1,800	2,400	3,000	5,000	8,000	14,000	20,000
Gross annual HH income (USD)	7,200	12,000	21,600	28,800	36,000	60,000	96,000	168,000	240,000
Debt service ceiling (37% of annual gross income), assuming no other debt	222	370	666	888	1,110	1,850	2,960	5,180	7,400
Qualifying Loan Amount: Principle (80:20 LTV) (USD)	33,368	55,614	100,105	133,473	166,841	278,069	444,910	778,593	1,112,276
Down payment, 20% of house sale price (USD) (A)	8,342	13,903	25,026	33,368	41,710	69,517	111,228	194,648	278,069
Total house sale price (USD) (B)	41,710	69,517	125,131	166,841	208,552	347,586	556,138	973,242	1,390,345
Transaction cost at closing (registration, transfer etc) (USD) (C)	5,005	8,342	15,016	20,021	25,026	41,710	66,737	116,789	166,841
Upfront cost to buyer (down + closing) (USD) (A+C)	13,347	22,246	40,042	53,389	66,737	111,228	177,964	311,437	444,910
Actual house cost = sale price + 12% transaction cost (USD) (A+B+C)	46,716	77,859	140,147	186,862	233,578	389,297	622,875	1,090,030	1,557,186
Current housing inventory	none	none	Very little	Some	Some	Available	Available	Available	Available

⁶⁰ For ease of calculation, the interest rate of 6% is rounded off to an annual percentage rate (APR) of 7% to include additional costs like application fees, appraisal, mortgage insurance, hazard insurance etc.

Table 9.2(ii) Housing affordability based on access to mortgage loan (LTV 95:5)

Gross monthly individual income (USD)	300	500	900	1,200	1,500	2,500	4,000	7,000	10,000	20,000
Gross monthly HH income (USD)	600	1,000	1,800	2,400	3,000	5,000	8,000	14,000	20,000	40,000
Gross annual HH income (USD)	7,200	12,000	21,600	28,800	36,000	60,000	96,000	168,000	240,000	480,000
Debt service ceiling (37% of annual gross income), assuming no other debt	222	370	666	888	1,110	1,850	2,960	5,180	7,400	14,800
Qualifying Loan Amount: Principle (@95% LTV) (USD)	33,368	55,614	100,105	133,473	166,841	278,069	444,910	778,593	1,112,276	2,224,552
Down payment, 5% of house sale price (USD) (A)	1,756	2,927	5,269	7,025	8,781	14,635	23,416	40,979	58,541	117,082
Total house sale price (USD) (B)	35,125	58,541	105,374	140,498	175,623	292,704	468,327	819,572	1,170,817	2,341,634
Transaction cost at closing (registration, transfer etc) (USD) (C)	4,215	7,025	12,645	16,860	21,075	35,125	56,199	98,349	140,498	280,996
Upfront cost to buyer (down + closing) (USD) (A+C)	5,971	9,952	17,913	23,885	29,856	49,760	79,616	139,327	199,039	398,078
Actual house cost = sale price + 12% transaction cost (USD) (A+B+C)	39,339	65,566	118,018	157,358	196,697	327,829	524,526	917,920	1,311,315	2,622,630
Current housing inventory	None	None	Very little	Some	Some	Available	Available	Available	Available	Available

There are several important takeaways from this analysis. First, the market inventory has a very limited stock of housing available in the USD 150,000-200,000 range. Even if financing were available, it would not imply that one can find a house that is suitable *and* affordable. Second, even if housing is available, and monthly mortgage payments affordable, often the upfront costs pose a significant burden to households in this income segment. Last, but most importantly, for the majority of households earning less than Sint Maarten's median household income of approximately USD 2,000 per month, options to purchase a house in the market are scarce to non-existent. This

includes not just informal sector workers or self-employed persons, but also government employees with regular wages. As a result, most are forced to rent or to save money to buy a plot of land and then build incrementally.

9. Why housing is unaffordable in Sint Maarten

This section presents the various components of housing that have a direct bearing on its market price and value.

Land

In addition to the fact that Sint Martin is an island, it also has a hilly terrain, much of which is not suitable for development. Of the limited amount of developable land available, there are large tracts of government-owned land under long-term leases that remain un- or underdeveloped,⁶¹ and also large parcels of privately-owned land with unresolved inheritance issues that cannot be developed.

Other factors that may be contributing to a highly constrained land market, include:

- Large parcel sizes mandated by Hillside Policy promoting forest preservation that encourage lower density and more spread-out developments; and⁶²
- Absence of any penalty or tax on privately held vacant land, which contributes to speculation by wealthy landowners, both individuals and corporations.

As a result, land comes at a premium in Sint Maarten. It can range anywhere between 30-60% of the overall selling price of a property. By contrast, in a well-functioning housing market, the cost of land should be in the range of 20-30% of the overall selling price.

Construction cost

Virtually all components of the construction process contribute to the high base cost of construction in Sint Maarten:

⁶¹ The Domain Affairs department reports that many undeveloped parcels of land on the island are not in compliance with the terms of their land leases.

⁶² The Hillside Policy applies to all hillside land above an altitude of 50 meters, where only residential development is allowed.

- Hilly terrain and the hurricane exposure, both of which require more concrete – for example, to build retaining walls and RCC roofs;
- Imported construction materials;
- Imported labor for large projects;
- No economies of scale for small housing projects; and
- High contractor profit margins due to elevated levels of financial, occupational, contractual, and natural-disaster related risk.

Building permits

Time is money for a developer; delays and uncertainty in the current permitting process add risk to the development of real estate and housing. Delays in obtaining inspections and permits have an opportunity cost, as developer capital is tied up in non-productive use. Developers may also have to pay interest on borrowed funds while waiting for approval. Further, outdated building codes add to the cost of housing and create vulnerabilities in the housing market. This is factored into the pricing, which is passed on to the buyer.

Closing costs on house sale/purchase

Realtor fees. Realtors charge anywhere between 6-8% of the property value for house sales. These fees are typically paid by the seller.

Property transfer costs. Title to real property, or a long-term land lease, may be transferred by means of a transfer deed, which must be executed before a civil law notary. After effectuation of the transfer, the civil law notary registers a copy of the executed deed of transfer in the public registers. The notarial costs involved with the transfer of a real estate property are fixed and are dependent on the purchase price of the property, varying from approximately 2% for properties up to USD 50,000 to approximately 0.4% for properties of USD 1,000,000 and more.⁶³

Transfer taxes are approximately 4% of the purchase price (or the registered value, if this value is higher). The transfer tax is paid to the civil law notary, who is responsible for the payment of the transfer tax to

⁶³ <https://www.doingbusinessdutchcaribbean.com/st-maarten/real-estate-construction-law-sxm/transfer-of-real-estate-sxm/>

the local tax authorities in Sint Maarten.⁶⁴ A search for liens, recordings and registrations costs approximately USD 265.

Turnover tax. A flat turnover tax of 5% is levied on the delivery of all goods and services rendered ‘within the territory’ by resident or non-resident entrepreneurs within the scope of their business. This applies to all housing developments, regardless of price-point or whether the target market is low-income or luxury housing.⁶⁵

House size

Sint Maarteners have a culture of living in single family homes. While this aspiration is not necessarily negative, it could mean the difference between accessing a decent house and not. The homes for sale on the market, in addition to many of the social houses for rent by SMHDF, are 2-3 BR units with footprints of more than 100 m². It is little wonder that these houses cost upwards of USD 250,000.

In the meanwhile, middle- and low-income Sint Maarteners must make do with less than adequate living conditions. As stated in the Housing Supply section, the majority of locals live in rental accommodation. Many of these are smaller 1-2 BR units, typically attached to a landlord-occupied main unit. This stock of housing should be analyzed in order to address the real housing needs of lower income households.

Utilities

Sint Maarten has one of the highest energy consumption rates in the region, with the average customer consuming around 1,500 kWh monthly.⁶⁶ Thus, the average electricity bill for domestic consumers is between USD 250-300, representing a significant portion of housing expenditure.⁶⁷

⁶⁴ <https://www.doingbusinessdutchcaribbean.com/st-maarten/real-estate-construction-law-sxm/transfer-of-real-estate-sxm/>

⁶⁵ <https://www.doingbusinessdutchcaribbean.com/st-maarten/tax-sxm/>

⁶⁶ Government of Sint Maarten, National Energy Policy, 2014.

⁶⁷ Electrical energy and water in Sint Maarten are supplied by N.V. GEBE, a fully owned government company. The company's infrastructure and energy distribution system suffered severe damages after Hurricane Irma, and according to media coverage the company has been struggling financially. The electricity tariffs consist of a base rate (set by Government at ANG 0.25-0.29 per kWh) and an adjustable fuel surcharge which varies month-to-month.

Table 10.1 shows that electricity prices in Sint Maarten are much higher than those in the United States, but comparable to regional peers.⁶⁸ Electricity prices tend to be high in the Caribbean for several reasons, including: (i) dependence on imported fuels, (ii) small economies of scale, (iii) the energy industry is dominated by monopolies as each island has an isolated grid, and (iv) limited renewable and alternative energy projects.

Table 10.1 Average electricity prices (2013)

	USD/kWh
Surinam	0.05 – 0.11
Orlando, FL	0.11
Nevis	0.21
Haiti	0.28
St Lucia	0.35
Sint Maarten	0.35-0.36
St Vincent	0.36
Barbados	0.38
Curacao	0.42
Bahamas	0.42

Source: Government of Sint Maarten, National Energy Policy, 2014.

⁶⁸ Since this 2013 data many of the Caribbean islands including Aruba, Curacao and Bonaire have implemented Renewable Energy sources which are supposed to bring costs down.

Guidance and Recommendations

As presented in the Situation Analysis, housing has become unaffordable for many Sint Maarteners and has led to the expansion of informal settlements and overcrowding. This section outlines recommendations that could help address the gaps in the housing sector. While the recommendations are organized by themes, Table 11.1 prioritizes the actions for the short (0-3 years) and medium term (3-5 years). The short-term recommendations are considered actions/investments that the Government can start to implement with greater facility and that can have important effects on the housing sector. The medium-term recommendations may require more time to develop and/or be more complex to implement.

It is important that these recommendations are viewed as guidance to help start a dialogue with the Government regarding possible investments and policy action. They will need to be further developed and discussed with the Government and relevant stakeholders to make them actionable.

1. Promote the development of “affordable” housing

Unaffordable housing in the formal market is one of the key reasons for people living in inadequate conditions – in poor quality housing with inadequate infrastructure, and in undesirable or less desirable locations. While this affects all households with limited access to decent housing for purchase or for rent, those at the extremes of the demographic and income spectrums – children, youth, elderly, as well as the more vulnerable low-income households, including women-headed households with single incomes – are especially impacted.

Increase the supply of social housing

It was outside the scope of this study to quantify the exact demand for social housing in Sint Maarten, but the mismatch between incomes and rent levels clearly demonstrates the demand for social housing. Assuming no formal bank financing, there are few affordable options in the formal market for people in the 60th income percentile and below (those that earn USD 1500 a month or less). The 2012 Housing Vision estimated a demand of over 3,200 units of affordable housing over the 2012-20 period. Post Irma, it is likely that the demand has increased.

As is highlighted in the recommendations relating to institutional building capacity, the SMHDF should be supported to become the engine for the development of social housing in Sint Maarten. Its operational and financial structures need to be strengthened to ensure its sustainability, as well as its ability to meet the housing needs of low-and middle-income households. Currently, the World Bank is supporting these efforts through the development of a new business plan for the organization.

Incentivize private developers

Private developers could be incentivized to move down market through a combination of actions including abatement of the turnover tax, an expedited permitting process, and, on a limited basis, access to land at a subsidized price.

Currently, the 5% turnover tax is applied at multiple points in the housing supply chain, resulting in a significant cumulative impact on the cost of producing housing. It is levied on the purchase of materials, on the revenues of the construction company, and on the developers' profit upon sale of the unit. This flat rate is applied regardless of home price. There is an opportunity to differentiate the application of the tax based on the value of the property or income group. For example, the lower the property value, the lower the tax rate. Additionally, the tax could be waived for all housing units below a certain price threshold (i.e. USD 250,000). Aruba has recently implemented a tax reform following these principles, and their experience can be taken into consideration.⁶⁹

Another incentive that could be offered to developers is an expedited permitting process. Currently, all building permits follow the same review process regardless of construction type or design complexity. Delays in approvals result in uncertainty for the developer and increased financing costs. Housing developments with sale or rental prices below a specified price point or unit size could be fast-tracked through the permitting process. This fast track would place affordable housing projects at the front of the permit approval line. This approach would not only reduce the cost of affordable developments but would also increase the cost of luxury developments as the wait for this would increase accordingly. A scheme for reduced permitting fees might also be evaluated for affordable housing projects.

The Government of Sint Maarten could also incentivize the development of affordable housing by selectively providing land at a subsidized long lease rate, with sale or rental prices below a specified price point or unit size.

Encourage smaller homes in denser developments

Due to its scarcity in Sint Maarten, developable land represents a significant portion of the total development cost of housing. The promotion of denser housing developments with smaller and higher numbers of units would help to drive down the per unit cost. A shift from stand-alone, single family housing to townhomes or garden-style walk-up condominiums could help address affordability by increasing

⁶⁹ <https://taxinsights.ey.com/archive/archive-news/aruba-enacts-2019-tax-reform.aspx>

the quantity of housing available in the market, as well as reducing the per unit purchase price. In addition, higher density developments make more efficient use of existing trunk infrastructure as well as spreading the cost of new networks among a greater number of housing units. Thus, a better expansion model can release significant financial resources that can be used for other public-interest uses.

To promote denser developments, especially in underutilized infill sites and areas that already have access to roads and other basic infrastructure, the following instruments can be applied: flexible and mixed-used zoning, up-zoning, or allowing greater floor-area ratio (FAR).

Introduce progressive property tax policy for housing

A progressive property tax for housing could be introduced targeting high value properties. For housing priced less than USD 100,000-200,000, a tax write-off at all levels (turnover tax, property tax, income tax) could be considered, as it would stimulate the development of housing in that price range. A tax write-off should be seen only as a market-correction measure and should contain a sunset clause.

Make mortgage financing more accessible through the Mortgage Guarantee Fund

As highlighted in the National Recovery and Resilience Plan, the Mortgage Guarantee Fund could enable households to more easily access housing finance. The Netherlands, the United States, as well as some developing countries such as Morocco have established successful mortgage guarantee funds, which could be adapted to fit the local context of Sint Maarten.

2. Improve land supply

Review and update the Hillside Policy

Rather than dispersing hillside development with large plots, the same proportion of built-up area could be achieved through smaller subdivisions (say, plots of 200 m² in elevations of 50-100 meters altitude and plots of 300-400 m² in elevations of 100-200 meters, with careful consideration of the slope/ topography), and tighter building regulations. This approach would concentrate the development in a smaller area of the hillside, allowing the rest to be conserved as forest land. Smaller plots would also be more efficient for the provision of infrastructure. They would also allow for more effective management of land supply, with the Government retaining large tracts and releasing plots for development in a phased manner, as needed.

Identify ways to unlock “frozen” succession lands

Succession lands embroiled in legal disputes represent an unknown portion of land on the island but are assumed to constitute some of the largest tracts of undeveloped (or informally developed) land. Based on field interviews, it is legally required to have full agreement from all presumed heirs in order to sell or develop a piece of succession land. Disagreement on what to do with the land parcels has therefore resulted in “frozen” assets. It may be possible to craft a majority-rule approach for determining the use of the properties, thereby overcoming this legal hurdle. Another alternative is to establish a special arbitration entity for these cases. But clearly, this issue needs further investigation to arrive at feasible solutions.

3. Improve land management

Develop a centralized inventory of public and private lands

Currently, all long lease land is tracked by Domain Affairs using an excel file. Alternatively, to access data held by the cadaster, a request must be made on a parcel-by-parcel basis. This cumbersome process does not allow for easy analysis of the overall portfolio of land. It would serve the government well to establish a centralized database of public and private land that links information currently housed in the Domain Affairs excel file with the property data held by the cadaster.

Accelerate efforts to update the building code

It was been pointed out by VROMI officials that the new building ordinance is expected to be approved by Parliament by December 2019. The importance of getting this new building code enacted cannot be understated. Additionally, the Organization of Eastern Caribbean States (OECS) commission is working with the Eastern Caribbean countries to update their building codes, which might open an opportunity for cross-collaboration.

Update land rents to reflect prevailing land values

According to Domain Affairs, long lease land rents are currently based on a price table of unknown origins. The rates currently charged are well below market levels, thereby providing a windfall to the lease holder upon sale of the property. Land rents should be updated to reflect prevailing land values in order to maximize income to the Government, rather than to the leaseholder. To do this, a comprehensive analysis of land and property values on the island is needed. Additional resources could be used to fund public infrastructure projects.

Enforce collection of land rents on domain land

An analysis of the inventory of land held under long leases is needed to determine which leaseholders are in arrears. Enforcement of land rent collection would increase revenue to the Government. It could also allow for the clawing back of land that is in arrears or has remained

undeveloped past its 2-year limit. Bringing back long-leased public land under these circumstances is already written into the law; the problem is enforcement. Enforcing this could solve two problems: first, it would bring more developable land back into government control so that it can be put to more effective use; and two, it would increase revenue collection, assuming that the ground rents are adjusted to better reflect market values.

Introduce vacant land tax

Currently, there is no disincentive to holding vacant land, either privately owned or on long lease from the Government. The Government might consider the introduction of a vacant land tax to dissuade owners from speculating on land value appreciation, while at the same time promoting development and boosting housing supply. For example, in Yucatán, Mexico vacant land is taxed 2.5 times the rate of built property; Puerto Alegre, Brazil has implemented a system of 'progressive' vacant property taxes in which tax rates on urban plots are periodically updated by the Government. If such approaches are politically unfeasible in Sint Maarten, then consideration should be given to enforcing the property tax on the *real* value of the land.

4. Make the rental housing market more robust

Support and enhance the existing rental market

Enabling the development of a formal rental housing sector could help solve many of the housing needs in Sint Maarten. A healthy rental market is important for several reasons: (i) it provides a decent housing alternative for households that do not have sufficient income to purchase a home or make a down-payment, or for those with informal incomes that do not qualify for a mortgage loan; (ii) it allows for greater labor mobility, especially in a country with high immigration; and (iii) enables more compact developments.

Many of the rented units in Sint Maarten are informal and not compliant with building standards. However, they are a critical source of housing that addresses the needs of the average household. Thus, it is worthwhile to conduct a deeper analysis into the informal rental market for several reasons: (i) to better understand the actual usage of housing space and the needs of tenants, which can inform future development of social housing by SMHDF⁷⁰; (ii) to explore the possibility of mainstreaming this type of small-landlord housing supply; and (iii) to consider providing support to upgrade some of the existing settlements to enhance their disaster resilience.

Additionally, the Government should craft laws and regulations to ensure that the rights of landlords and tenants are balanced and that properties are safe and habitable. Important aspects to consider are: (i) the standardization of rental contracts, (ii) the development of guidelines for the duration and termination of contracts, and (iii) the enforcement of effective and fair processes to resolve conflicts and deal with evictions.

⁷⁰ Many of the social houses offered for rent by SMHDF are 2-3 BR units larger than 100m².

Introduce a well-targeted rental subsidy (voucher) program

The government could consider developing a voucher program to help eligible⁷¹ low-income households pay the rent on private market-rate rental unit for a temporary period, thereby addressing the shortfall in SMHDF's social housing portfolio.⁷² Many countries have established this type of demand-side subsidy, including the United States, the United Kingdom, and most recently, Chile. The design of the program depends on the local context. For example, Chile's program targets low-and moderate-income young families and offers a flat-rate, time-limited subsidy, which allows a degree of administrative simplicity and payment flexibility for tenants facing income volatility. The success of such a program is very dependent on the supply of suitable rental housing, which leads to the next point, below.

Support small property owners to build rental housing

This proposes legal reform and financial support (grants) to small landlords to provide a steady supply of rental housing targeted to lower income households. Formalizing Accessory Dwelling Units (ADUs)⁷³ and small extensions promises to improve affordability while incrementally injecting “gentle density”⁷⁴ into otherwise low-rise, low-density family neighborhoods, without destroying their character or their infrastructural carrying capacity. ADUs can be a win-win: an inexpensive, flexible way for more people to live in in-demand neighborhoods and for small landlords to make some additional income.⁷⁵ In order to protect landlords and tenants, existing ADUs would have to be improved – and new ADUs constructed – pursuant to formalized building standards. Basic parameters of health and safety

71 Eligibility would need to be clearly articulated, but at a basic level, it should prioritize the most vulnerable groups, including possibly low-income households, women-headed households with single incomes, elderly with low or no incomes, disabled persons, and young people (students, young professionals).

72 The specifics of such program would be developed as a follow-up to this technical assistance and in close consultation with the Government.

73 Backyard units, granny flats, garage apartments, mother-in-law suites – all different types of ADUs – are typically modest homes, often the size of a studio apartment, but with a separate entrance.

74 <https://www.strongtowns.org/journal/2019/1/23/legalizing-more-homes-it-matters-how-you-do-it>

75 Starting in 2009, Vancouver allowed ADUs nearly citywide, on what totaled more than 65,000 lots. No additional parking was required, no public hearing or approval from neighbors, and no expensive or cumbersome design requirements. One could build an ADU on just about any residential lot in Vancouver, behind just about any style of house. The result? The city is adding more than 1,000 of these small, affordable homes every year, and the total share of single-family houses with legal ADUs is up to a staggering 35%. (Source: <https://www.strongtowns.org/journal/2018/9/11/if-youre-going-to-allow-adus-dont-make-it-so-hard-to-build-one>)

would have to be observed. The permitting process should be easy and streamlined for prospective, non-professional landlords. Once in the formal market, new landlords could choose to make their units eligible for the rental subsidy scheme proposed above.

Waive income tax on rental income for small landlords

During field interviews, it was reported that landlords must pay income tax on rental income. To incentivize landlords to rent out their properties or formalize rental contracts, this tax could be waived for small landlords (those, say, with < 5 units within a certain price range) to reduce their cost of operation. This would increase the quantity of units in the market.

5. Provide targeted assistance to low-income and vulnerable households

Expand and scale-up financing for roof repair

Roof repair programs supported by the Government (i.e. through the Emergency Recovery Project) could be scaled up to reach more low-income households.

Financing program for incremental house construction/improvement

In addition to a targeted roof repair program, a subsidy program to help low-income households improve other aspects of their homes would help to improve living conditions and resilience to natural disasters.

Implement pilot project for informal settlement upgrading

Many low-income households currently live in informal settlements on public and private land. Settlements often lack proper infrastructure and access to services. Therefore, the Government should consider piloting a program to retrofit selected neighborhoods. Such a program would typically feature the following: participatory planning and development, strengthening of tenure security for residents, and provision of infrastructure and basic services such as roads, water, sanitation, and electricity. International experience has shown that settlement upgrading can incentivize private investment in housing and improve the quality of life of settlement residents.⁷⁶

⁷⁶ Imparato, Ivo; Ruster, Jeff. 2003. Slum Upgrading and Participation: Lessons from Latin America. Directions in Development. Washington, DC: World Bank. World Bank.

6. Improve technical and financial capacity of government institutions

Field interviews with VROMI departments as well as the SMHDF revealed a need to build technical capacity and to increase human resources.

Domain Affairs

It was reported that the Domain Affairs department currently oversees 3,000 long-lease land parcels with a staff of only 5, including the acting head of department. An assessment of capacity needs should be conducted to determine the appropriate staffing arrangements and skill set for the department.

Permitting and Inspection

Based on field interviews, the permits and inspections departments lack capacity, both in terms of manpower and personnel qualifications. Insufficient human resources have created a backlog of permit requests, which has grown since Hurricane Irma. An assessment of capacity needs should be conducted to determine the appropriate staffing arrangements and skill set for the permits and inspections departments.

Furthermore, the entire permitting process is paper-based, which not only causes delays, but is also difficult to track and sometimes results in lost documents. It is recommended that a digitized system for handling permits requests be implemented.

Housing policy

There is currently no staff member within VROMI responsible for housing policy on the island. A housing expert, supported by a core housing team, should be appointed to serve as the single point of accountability charged with defining, coordinating, facilitating, enabling and implementing the country's housing policy. The collection and analysis of housing sector data, as described below, would also fall under the purview of the housing expert.

Sint Maarten Housing Development Foundation

SMHDF should be strengthened to become the engine for the delivery of social housing in Sint Maarten. It manages a portfolio of almost 800 housing units with a staff of only 14 individuals, and it lacks the financial and human resources to sustain its operations. As part of the World Bank's support to the SMDHF, an evaluation of its operational model is being undertaken. This includes review of the organization's lines of business, the performance of its existing properties, as well as its organizational structures, human resources, and financial flows. Past operational performance will be assessed based on this evaluation, and recommendations for modifications to the organizational structure and requirements for ongoing subsidy from the Government of Sint Maarten will be provided.

Strengthen the role of Rent Committee

The Rent Committee could play an important role in arbitrating disputes between landlords and tenants, but should initially only handle cases in which the monthly rent is less than USD 800 or for properties that are valued less than ANG 250,000. These limits would restrict the committee's jurisdiction to the lowest income segment. Should this be successful, increasing the monthly rental ceiling to include middle-income renters could be considered. The capacity of the Committee would need to be accordingly increased to handle more cases.

Community consultation and participation

There is no formal mechanism for community consultation and participation regarding housing issues in Sint Maarten. Such mechanisms are needed to keep the community informed and involved in important decisions, as well as to sensitize people to key topics such as the benefits of higher density housing and housing insurance. This should be the responsibility of the housing team within VROMI, and it is important that adequate resources be put into this aspect of policy- and decision-making.

7. Improve data collection

Data on incomes, house prices, housing inventory, housing demand

Currently, data on the housing sector is limited and derived from disparate sources. The most comprehensive source of information on housing quality and quantity is the 2011 Census. This information is very useful for policy development, but the periodicity limits the accuracy of the data. The Labour Force Survey, conducted more frequently, provides data on incomes as well as data on household tenure and unit sizes. The Household Budget Survey provides some useful information on housing expenditures. The Statistical Yearbook provides data on population growth and residential permits. Finally, aggregate mortgage finance data is available from the Central Bank. However, there is a need for a more comprehensive and frequent collection of housing-related data (house prices, household incomes, mortgage data, etc.) disaggregated to a level that can meaningfully inform policy making and budgeting. Some of these data points could be obtained through the permitting and inspections process. Additionally, it is recommended that a bi-annual housing survey instrument be introduced on the island, to be implemented by the Stats Department.

Housing indicators

A set of standard housing indicators to track the status of the housing sector in Sint Maarten is highly recommended. As an example, the following indicators may be considered for inclusion in the bi-annual survey proposed above: number of households, household size, household composition, tenure, unit size, key unit attributes, housing expenditures, and household income. In addition, these indicators could include data related to the housing market, such as: construction costs, mortgage issuance, home construction starts, and home sales.

Table 11 Summary of recommendations

	Recommendations and Actions	Responsibility
Short-term (0-3 years)	Development of “affordable” housing: <ul style="list-style-type: none">-Increase the supply of social housing-Incentivize private developers in the development of affordable housing (smaller units, multifamily versus single family configuration)-Encourage smaller homes in denser developments - review and reform zoning/ building/ planning standards-Make homeownership more accessible through the Mortgage Guarantee Fund	VROMI
	Improve land management: <ul style="list-style-type: none">-Improve land management - development of a centralized database/inventory of public and private lands-Continue efforts to update building code	Domain Affairs, VROMI
	Strengthen institutional framework: <ul style="list-style-type: none">-Develop a housing policy-Improve capacity of Domain Affairs, and Permits and Inspections departments (technology, staffing, funding)-Improve technical and financial capacity of SMHDF and Rent Committee-Establish channels for community consultation and participation in policy- and decision-making	VROMI, SMHDF, Rent Committee
	Data collection and management: <ul style="list-style-type: none">-Improve systems for data collection – data on incomes, housing prices, housing inventory, housing demand-Develop housing indicators	STAT, VROMI
	Support the development of a rental housing market: <ul style="list-style-type: none">-Conduct study to understand informal rental market and support policies to develop a robust rental market-Support small property owners to build rental housing-Waive income tax on rental income for small landlords	Government of SM, Rent Committee
	Provide targeted assistance to low income and vulnerable households: <ul style="list-style-type: none">-Scale-up financing for roof repair program	Government of SM

	Recommendations and Actions	Responsibility
	Address informality: -Conduct mapping of informal settlements -Develop pilot informal settlement upgrading project	Government of SM, VROMI
Medium-term (3-5 years)	Address housing informality and rental markets: -Carry out pilot project for informal settlement upgrading -Introduce a well-targeted rental subsidy (voucher) program	Government of SM, VROMI
	Improve land supply: -Review and reform Hillside Policy -Review and reform policy on succession lands	VROMI
	Improve land management: -Update land rents to reflect real land values -Enforce termination of long lease contract for holding undeveloped land after 1 year, and for non-payment of rent	Domain Affairs, VROMI
	Review and reform taxation structure: -Introduce progressive property tax policy for housing -Reform property tax to discourage speculation and hoarding of land	Government of SM, VROMI



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