

## Housing Real Estate Sector in Bangladesh Present Status and Policies Implications

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### Abstract

*The real estate sector is the growth centre for the development of an economy. Bangladesh, being one of the densely populated nations in the world, has been experiencing severe of houses shortage for its citizens. Although majority of the population is segmented into the middle and the low income groups, still housing for all<sup>1</sup> has been a fallacy in Bangladesh. The private sector housing real estate developers have met a small proportion of the national housing demand in the last more than twenty years. The gap between demand and supply is still joy wide. Despite inadequate policy preparations, these real estate developers have been successfully making business although the middle and the low income households are still untapped. With the larger proportion of people living in this income group, the private housing real estate sector has a huge scope to grow in this country. The positive notion is supported by many key indicators such as increasing house rent, inadequate and costly land, easier financing availability and more. To pave the way for the organic development of the industry, the problem of long existent inadequate financing availability at lower burden of terms and costs must have to be removed immediately, and wider scope has to be created for Non-Resident Bangladeshis. With many other issues, this study attempts to identify the current status of the private housing real estate in Bangladesh, presents deeper insights of the critical factors for increasing its coverage, and thus finally recommends some immediate policy measures.*

**Keywords:** housing, real estate, housing finance, urbanization, real economy, housing market, real estate apartment, Non Resident Bangladeshis, population, density, inadequate housing.

### Introduction

The real estate sector is one of the fastest growing and thrusting sectors in Bangladesh. Infrastructural development is highly important for a country to rise as a developed nation and to ensure housing facilities for the citizens of the country. But in spite of compared to the importance of this sector, there have been studies which are far below the required number on the real estate sector and its accessibility to financing. Islam M. S. and Hossain A. (2008) conducted an extensive study on the depth of the housing industry with focus on the supply chain, and Sarker M. M. R. and Siddiquee (2008) conducted another similar study on the real estate sector. Sarker M. M. R. and Siddiquee (2008) focused on the availability of and accessibility to financing

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for the stakeholders of this sector and concluded with some important policy recommendations. Due to less studies on this sector, it is necessary to have extensive studies to find out the future potentiality, problems and solutions of the real estate sector and the availability of financing in this respect. This study is exploratory in nature and may work as the basis of knowing the present scenario and indicating any future study.

### **Objective of the Study**

The objective of the study is to find out the current condition, growth, market structure, financing condition and future potentiality of the real estate sector in Bangladesh. The study also aims to identify policy measures that should be addressed immediately to ensure an organic growth of the private housing real estate in Bangladesh.

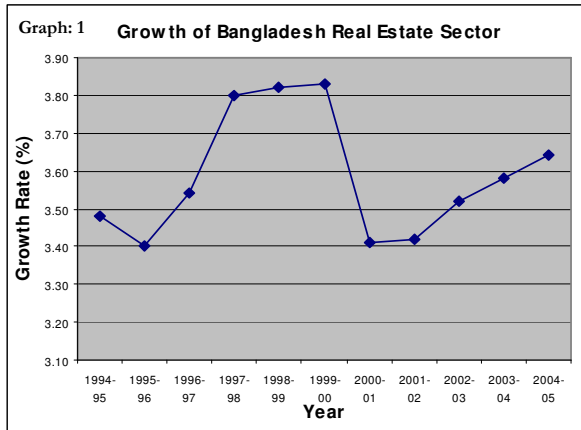
### **Methodology**

An exploratory research has been conducted in preparing this paper. Pure basic research approach has been used along with this where theoretical and practical studies have been incorporated. Data have been collected through face-to-face and telephone interview. Questionnaire has been used in gathering primary information from real estate participants. Information has been used from different secondary sources – internet, Newspapers, annual reports, online and printed articles, journals and previous research papers on real estate sector. Opinions have been collected from experts and participants in the real estate sector, which have been very useful in analyzing the data and information and to reach a conclusion. Numerical data have been analyzed and interpreted with concentration and relation to the main issue. Data and information collected from different sources were compared critically and there was no mismatching. Theoretical analysis along with numerical evidence has been used to substantiate the findings of the study. The analysis has been presented first and then findings have been drawn.

### **Real Estate Sector at a Glance**

Real estate sector is one of the most attractive sectors of investment now in Bangladesh. Rapid urbanization has become an acute problem for the country. The rate of urbanization is estimated to be 5-6% annually for Bangladesh (REHAB, 2004). About 25% of the people of Bangladesh is now living in urban areas and 34% will be living by 2015 (REHAB, 2004) and 50% by 2025 (Singha D., 2001). There is acute shortage of housing supply in all urban areas and it's increasing with current demand of 600,000 to 800,000 units all over the country. Particularly in Dhaka this demand is estimated to be 60,000 units of real estate apartments combined with 200,000 units of replacement plus backlogs (REHAB, 2004). Dhaka is currently growing very fast compared to other cities in Bangladesh.

Thus there exists a high demand of plot and flat units. This huge and unfulfilled demand is highly attractive for the investors. The Real Estate and Housing Association of Bangladesh (REHAB) is the sole organization of the real estate agents, developers and builders. It had more than 450 members registered in 2009. Moreover, around 350 non-registered real estate developers are doing business in this sector (Amin S., 2008). According to REHAB they are currently supplying

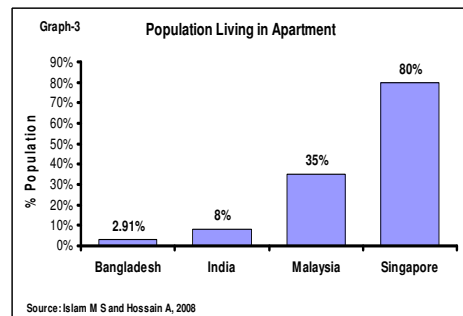
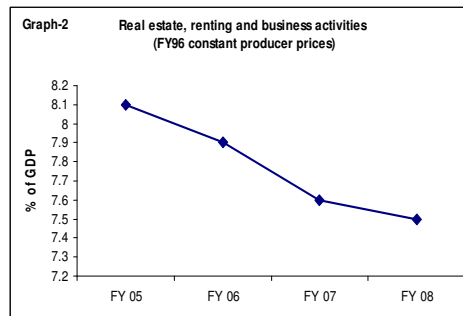


sector fell to 5.93% from 7.01% of 2006-07 (Amin S., 2008). It drastically dropped from the previous years (Graph-1) (REHAB, 2004).

### Real Estate to Real Economy in Bangladesh

From 1994-95, over the last 10 years, Bangladesh real estate sector grew at an average of 3.64% reaching the peak at 3.83% in 1999-00. Though it had a fall in 2000-01, there was recovery in 2001-02. For the last 5 years this sector grew impressively and showed a smooth rising trend. The comparative scenario of GDP shows a steady 6% growth for Bangladesh. According to the real estate experts, as GDP of Bangladesh is still below that of other South Asian Countries, Bangladesh has more to grow which can be fostered by continuous increase in the share and growth of real estate sector in the country. This contribution of real estate and construction in GDP of Bangladesh was 16.20% in 1994-95, which became 16.69% in 2000-01 and 17.22% in 2004-05. This share slowed down to around 8% in FY 2008 (Graph-2). It was probably due to the high price barrier for larger portion of population to buy real estate apartments. It was also almost saturation of the already existing high end population market.

only around 8,000 to 10,000 units of housing apartments against the above-mentioned huge demand'. The approximate turnover in the real estate sector has been Tk. 20 billion, which contributes revenue of around Tk. 2 billion a year to the government. The real estate developers and builders have already supplied approximately 60,000 units to this sector market in the past 20 years. The sector now employs about 2 million people, which consists of architects, engineers, management officials, direct and indirect labors. The average contribution to GDP of this sector in the last five years was 12-14%. In 2007-08 . The growth rate of this



The housing real estate business's untapped potential is quite evident from the real estate apartment penetration in the neighboring countries of Bangladesh (Graph-3).

Islam M. S. and Hossain A. (2008) depicted the value addition of the overall housing sector inclusive of the real estates falls in different areas. As explained by Islam M. S. and Hossain A. (2008), among the 21 subsectors under the housing industry, Steel (29%), Work Force Labor (20%) and Cement (11%) are the highest contributing subsectors. Thus the real estate being the most crucial housing facilitating private channel is extremely vital and it has to have a large backward supply chain for its sustenance.

## A Positive Notion for Bangladesh Market

The positive trend of global expansion in the real estate sector in the neighboring countries also shows a possibility of such growth Bangladesh. According to the above graph and past record of INDIA and USA, we see that the real estate sector market experiences an average annual rise of 5-10% if it starts once. In Bangladesh, before 1985, people in Dhaka city never thought of buying an apartment for living. Before 1995, people thought twice before buying an apartment. But in the last couple of years, interest in buying apartment has increased rapidly. The boom in Bangladesh real estate market took place between 1988 and 1991. But it faced fall in 1991-1992 gaining rise again in 1993-1994. From 1995-1998 there has been not so high growth but the market was stable. From 1999 to 2004 it has been growing rapidly caused by huge household demand, lack of enough land, rapid urbanization etc. in Dhaka City. The present rate of urbanization is 5-6% annually. About 25% of the people of Bangladesh is now living in urban areas and 34% will be living by 2015. Only 40% of the people of Dhaka city have standard or below standard<sup>ii</sup> housing facilities. Thus from the comparative analysis, experts assume that according in the trend of the global market and in the neighboring countries, the growth of housing demand will stay for the next couple of years. The main reasons for positive expectation have been presented evidently in the following points.

### Increasing Urbanization

Statistics & studies show that in 2000-2015, urban growth rate is expected to be at an average of 3.7% for Bangladesh. India, one of the most attractive markets of global real estate, is expecting 4.9% growth of urbanization. Moreover which India is estimated to have 36% people living in urban areas by 2015, Bangladesh is expected to have 34%. The scenario is further evident by the per square kilometer population density growth in Graph-4. Thus in South Asia, Bangladesh holds the second position in terms of urbanization rate and proportion of urban population. This scenario tells that, as India is a rapidly growing real estate market in the world, Bangladesh also may attract more real estate than before.

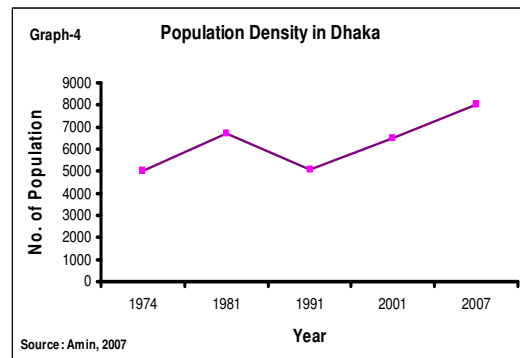


Table-1: Urban growth Rate Projection (%)	Population Growth (million)			Projected Annual Average Growth (%)
	1975	2000	2015	2000-2015
Bangladesh	9	25	34	3.7
India	21	28	36	2.7
Nepal	5	12	18	4.9
Sri Lanka	22	24	32	3.1

Source: Making Cities Work, Urban Fact Sheet, USAID

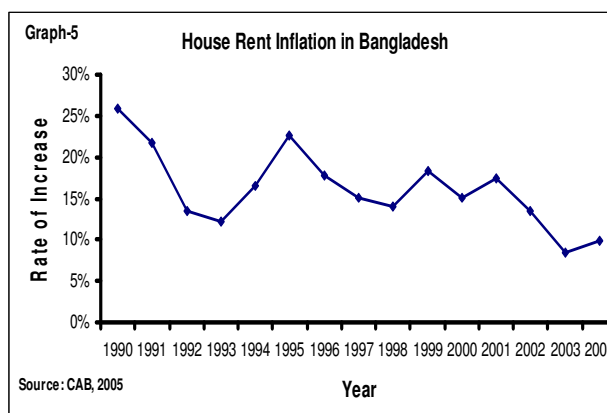
	1970	1980	1990	2000	2010	2020	
Urban Population	5,059	12,713	21,750	34,354	52,223	74,432	
% Urban	7.6	14.9	19.8	25.0	31.1	37.7	
<b>Urban Annual Growth Rate</b>	<b>7.8</b>	<b>5.8</b>	<b>4.7</b>	<b>4.3</b>	<b>3.7</b>	<b>3.0</b>	
Area Based	Dhaka	1,474	3,257	6,621	12,519	19,393	N/A
	Chittagong	693	1,332	2,265	3,651	5,389	N/A
	Khulna	325	632	973	1,442	2,081	N/A
	Rajshahi	108	238	517	1,035	1,676	N/A*

Source: Rural and Urban Development Case Study- Bangladesh, Oxford Policy Management, June 2004

By 2010, Dhaka is estimated to have about 20 million people that show about 55% growth from 2000 (Table-2). With this amount of people Dhaka is estimated to be the 5<sup>th</sup> largest city in the world by 2015. This fast urbanization needs enough accommodation and housing supply, which is expected to create a huge market for the real estate sector in Bangladesh.

### High Rate of House Rent Inflation

House rent has been increasing in Bangladesh since 1990 at a high rate. Although inflation rate is declining in the long term (Graph-5), the rate of increase in house rent is still higher when compared with the real income growth especially of the middle income group in Bangladesh. In 1990 and 1995 the inflation rate in house rent was around 25%. The declining inflation rate in house rent can be the result of increased supply by the private real estate suppliers, government initiatives, and self housing schemes. Though in the recent times this inflation has been a little bit lower, still in 2004, statistics shows an increase of house rent at about 10% in the country (Graph-5).



According to the real estate participants, the inflation in the house rent is encouraging people to buy apartments not bearing the increasing expenditure of house rent. A recent study conducted by Consumers Association of Bangladesh (CAB) shows that house rentals in Dhaka have more than doubled (249.62 percent) in the last 17 years. The rentals in Dhaka witnessed a jump in 1991 by over 23% and it continued for some years, finds the study. The increase was around 17% in 2007 and 16% in 2006<sup>iii</sup>. Recent estimates indicate that over 70% of housing is rented in Dhaka and there is requirement of over 60,000 new homes per annum (Karnad R. S., 2004). Tenants who are from upper middle, middle, lower middle and lower income groups are the worst victims of the rising trend of house rentals. This section of the population spends nearly 50% of their monthly income in house rentals alone.

### **Growing Easy and Available Financing**

Financing the apartment purchase for individual has become easier more and available. In 1952 Bangladesh House Building Finance Corporation (BHBFC), the first of its kind was established a government organization to finance the middle-income household civil servants. Now there are a number of private specialized housing finance institutions, financial institutions and banks, which provide housing finance facility up to 70% to 80% of the value of the house or apartment. Interest rate is competitive ranging from 12% to 16%. Maximum amount that can be financed is BDT 5 million to 6 million with maximum 20 years repayment option, which varies with the different financing institutions. Loans can be taken to buy apartments or for construction purpose in any part of the country.

### **Inadequate and costly land**

Researches indicate that only 30% population in Dhaka city has occupied already more than 80% of residential areas with human settlements and supportive infrastructure<sup>iv</sup>. Economists and real estate experts state it as highly significant because in this way land is becoming increasingly inadequate to provide individual housing solutions. Moreover, land is quite unavailable in Dhaka at suitable location for individual housing fulfillment. For huge demand and inadequacy of land, price of land is very high in the urban area according to the real estate participants. This is making more people inclined to build and share apartments.

### **Targeting the middle class**

Studies reveal, only in Dhaka city 5% of the population belongs to the high-income group. Thus 45% of the total population falls into the middle-income group and the rest 50% in the low-income group<sup>v</sup>. Economists and real estate participants see the middle-income group as a huge market for the real estate sector. Builders have started building apartments for middle-income class of 600-900 sft<sup>vi</sup>. The large unsatisfied middle-income class is expected to be boosting market for the real estate business.

### **Encouraging Remittance Flow**

The Government of Bangladesh has declared the foreign remittance inflow through banking sector as tax-free and any purchase of fixed assets by Non-Resident Bangladeshis will not require producing any Tax Identification Number or TIN. It increased remittance inflow to Bangladesh in the recent years. According to the economists, non-resident Bangladeshis are vital investors for the real estate sector in Bangladesh as they are continuously supporting it.

### **Other Issues**

There are hazards which customers face in purchasing lands, which encourages them to buy apartments rather than lands. Construction and maintenance of buildings require spending huge time and energy, which make the people reluctant to build houses on their own. The influence of western culture and housing design is attracting people more to buy apartments. These reasons are contributing to the decision of individuals to buy apartments.

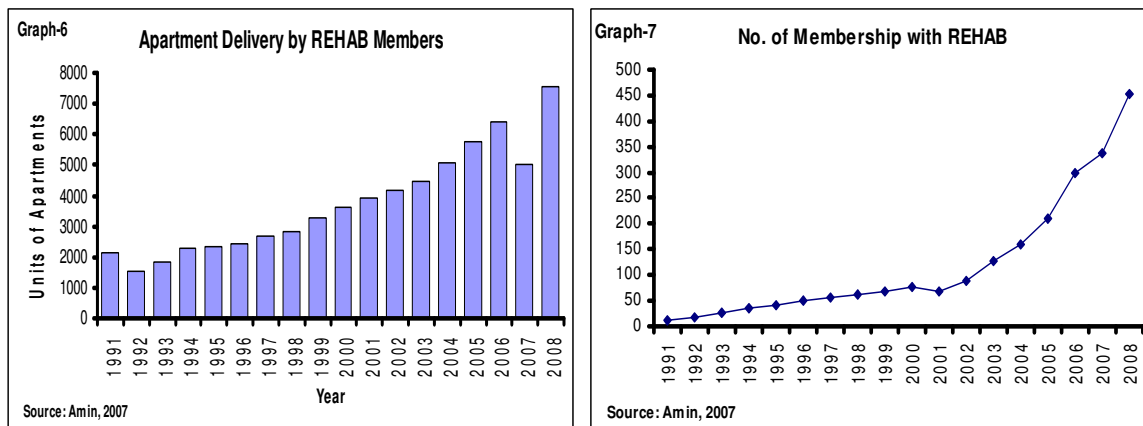
### Demand Analysis

Now in Bangladesh the demand for residential real estate unit is rapidly increasing. The current urbanization rate is 5-6% and 50% people will be living in the cities by 2025, according to experts. In the Dhaka City from 1991 to 2004 the urban population density has increased by about 79%. It was 4795 persons/sq.km in 1991 and 8573 persons/sq.km in 2004 (Amin S. A. I. M. U., 2002). Population is increasing rapidly in Bangladesh. The population in Dhaka, the mega city, is increasing very fast. This rapidly increasing people need more housing facilities. More and more increase in house rent implies that people would become less interested to stay in rented house and would try or tend to buy home. This is also increasing the demand of apartments in Bangladesh especially for the middle or upper middle class people in the society. This huge lift in the urban density and rush of the people to Dhaka city has created great demand of accommodation and housing services. Moreover the real estate developers have started targeting the middle-income groups in the last few years to sell apartments.

As the major portion of the society belongs to the middle-income group, its demand is essentially high. According to REHAB there is a demand of about 60000 residential units plus 200000 units of backlogs and replacements every year. But REHAB members can supply only 8000 to 10000 units each year. Now in this intense situation of rapidly growing demand the existing no. of developers cannot satisfy the current demand. This scenario ensures us a higher demand in future as the gap between demand and supply is increasing.

### Supply Analysis

Certainly the supply of apartments in the residential sector is increasing everyday with high pace. REHAB at the time of its inception had only 11 members who were developers & builders. In 1988 the number grew to 42. In 2004 it was 200 and now about 450 REHAB members and more than 350 non-members are there in the market.



The huge demand gap has lured a steady growth in the number of real estate developers in the market (Graph-7). Therefore supply also increased at a good rate though it is far below the

demand level. In the last 18 years apartments supplied by REHAB members show a steady growth in supply in Graph -6.

Currently REHAB members are supplying 5000-6000 units of apartments and 4000-5000 units of plots on an average per year against huge demand of housing. In the last 20 years REHAB members have supplied 50000 apartments approximately which is much less than the demand in the market. The large unsatisfied demand is partially satisfied by real estate developers who are not the members of REHAB. REHAB could supply only 6000 against demand of 8000-10000 which is approximately 10% of the demand. Thus 90% of demand is supplied by the independent developers and the consumers. That's why it is expected that there is a vast opportunity to sell apartments & plots in the market. It presents an attractively growing scenario for the market players. REHAB is expecting to supply 20000 to 25000 additional units of apartment from the next year if all environments are favorable. Currently, according to REHAB statistics, in Dhaka city there are 2240 dwelling units under construction, which includes 49703 apartments. Outside Dhaka city, around 80 projects are currently under construction, which can supply merely 2663 apartment units (REHAB, 2004).

### **Some Critical Factors**

**Product:** The main products in the real estate sector in Bangladesh include 3 types – commercial units, residential units and a mix of the two. Commercial units are shopping malls, shops, and office buildings, which are used for commercial purpose. Residential units include two segments – plot units and apartment units. Plots are segment of a land area with certain boundary where the land is developed by the real estate developers and builders. Apartments are buildings with flats of different sizes to live in. Mixed units include buildings which are used both for living and commercial purposes. Generally the downside floors of a project are rented for commercial purpose leaving the upside to sell as apartment. In the recent period the real estate developers have introduced new diversified products. Model towns, which are built with the structure of a small town including all facilities for people, like offices, shopping mall, houses, schools, swimming pools, gymnasium, banks, power plant etc. Projects that include some important swimming pool, gymnasium, shopping malls etc. in one building are also diversified products supplied by the real estate agents in Bangladesh. All these products wrapped with diversification have great demand in the market.

**Price:** There is no common strategy for pricing in the market. Pricing strategy depends upon the cost of land development, market condition, location etc. Developers and builders charge price based on their individual choice. But there has been a standard of pricing practice in the market depending on the size & location of the residential or commercial projects. For an apartment the average price per square feet is Tk. 2300 with varying price range from Tk. 2,500 to 12,000 in Dhaka city, Tk. 2,800 to 5,500 in Chittagong city varying with importance of location (REHAB, 2008). The price is rising rapidly in response to shortage of land and increase in building material price. Real estate prices in Dhaka continue to remain high and house price to income ratio is estimated to be over 16 times.



**Market Intensity & Profitability:** Still the real estate sector is one of the most attractive sectors for the investors to have high profitability. Gross margin in this sector was as high as 30% - 40% in 1999 (Aims, 1999). In REHAB Fair 2005 the member organizations stated that they were then are earning on an average at 10-15% as the market has become highly competitive<sup>vii</sup>. But with the increase of number of players in the market, this profitability has gone down. REHAB registered only 11 members at the time of its inception where now it has more than 450 members. Besides, there are more than 350 independent developers who are not members of REHAB, according to REHAB. In the last 5 years the number of market players has increased rapidly. According to REHAB real estate sector still has good profitability and it is expected to exist till 2010<sup>viii</sup>.

**Major Players:** Major market players in the Bangladesh real estate market has been historically Eastern Housing Limited, Shinepukur Holdings Limited, Bashundhara, BTI and Sheltech. This market share has not changed much during the last few years<sup>ix</sup>. Eastern Housing occupies 35% and Shinepukur 35% as these are the two major market shareholders. The other companies share the rest 30%. Eastern Housing has been earning annually on an average of Tk. 62 million approximately with net turnover of around Tk. 450 million. Shinepukur is earning an average of Tk. 41 million with turnover of around Tk. 337 million (Aims, 1999). As the data show the status of the last decade, a detailed survey is badly needed to examine the profitability of this sector. Therefore a recent statistics could not be generated and this may be an area of fresh interesting insights and further research.

**Regulatory Environment:** Before 2004 there were no mandatory building regulations or laws in Bangladesh. There is “Bangladesh National Building Construction Code 1993”, which is not mandatory and well enforced by the government. The government has taken initiative to make it mandatory. According to newspapers, many developers do not follow the codes, which put the customers in risk. In 2004 “Land Development Act for Private Residential Project 2004” has been passed which is mandatory to be complied by the developers. Government amended The Building Construction Act of 1952 in February 2006. The Bangladesh National Building Code (BNBC) of 1993 came into effect on November 15, making it mandatory to comply with in any building construction under The Building Construction Act of 1952 and to ensure accountability in the management of overall building construction and safety of the buildings. Developers also have to comply with the Dhaka Metropolitan Building Rules of 2008 to ensure safe building constructions. To protect the interest and ensuring safe investment of the buyers, the Government of Bangladesh has designed the Real Estate Management Ordinance 2008 but it is yet to be approved by the Govt. or passed lay the Parliament.

**Market for Raw Materials:** Price of the basic raw materials for building development - steel, rod, and cement is increasing along with increasing demand of flats. With the rapid urbanization and increase in real estate business, price and demand for rod, cement and steel – three basics of building construction materials are increasing. According to REHAB, there had been average increase of 15%-18% in overall prices of building construction materials in 2005 than that in 2004. REHAB and industry experts estimate amplification of this price trend in the long run. Again from 2003 till now the price of rod has been increased by a devastating 100% approximately. As imported items, price for electrical wire has gone up by 50% recently. The

price scenario with large jumps for basic raw materials has been shown below up to 2005 in Table-3 and Table-4.

Time	Cement (Tk/Per Bag)	MS Rod (60 Grade) (Tk/Per ton)	MS Rod (40 Grade) (Tk/Per ton)
January '03 - June '03	191	22,000	20,000
July '03 - December '03	222	29,000	27,500
January '04 - June '04	222	36,500	34,500
July '04 - December '04	222	26,500	34,500
January '05 – March '05	270	41,000	38,500

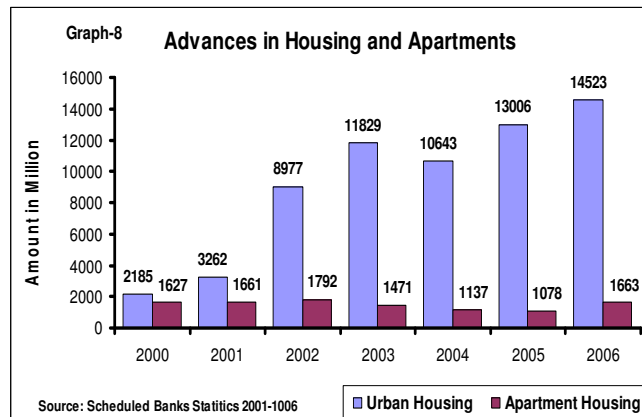
Basic Raw Material	Average Price (Taka)
Brick (per thousand)	6,900 – 8,100
Cement (per bag)	325 – 350
MS Rod (60 Grade)	65,000
MS Rod (40 Grade)	54,000

**Cost Structure:** It is estimated that transfer taxes add 30% to the cost of property acquisition. Though tax rates are lower compared to other South Asian counterparts, there is no tax exemption on housing loans. Real estate prices in Dhaka continue to remain high and house price to income ratio is estimated at over 16 times. The mortgage market currently targets the middle and the upper income segments. In addition to the price of the apartments, customers need to pay some charges & fees. These costs are added to the total value of the apartments along with the installments payable by the customers. Though volatile and vary with location and other factors, a snapshot of additional minimum charges and fees are shown in Table-5:

Cost Item	Amount (in taka)
Parking (Annual)	200,000 – 250,000
Utility Connection (Once)	60,000 – 70,000
Society Registration (Once)	5000
Govt. Registration (Once)	Varies with the individual apartment
Additional	Based on any particular service provided
<b>Source: Direct interview with real estate developers</b>	

### Financing Market in Bangladesh

Dhaka is the prime market for housing finance. Recent estimates indicate that over 70% of the houses is rented in Dhaka and there is an annual requirement of over 60,000 new homes. Financial intermediation in the housing sector is not found adequate because of high interest rates and limited sources of funds (Bhattacharya D., 2003). This is true both for the financing of the developers and the purchasers. More than 16 private non-bank financial institutions are there including the privately established Delta Brac Housing Company. Bangladesh is still experiencing a weak financial system that hinders savings and investments, hence economic development. The housing sector, which is highly financing dependent, is particularly affected. The ambitious banking system cannot provide wholesale or individual long-term funds at an efficient rate for housing finance to the lower end of the population (Hoek-Smit M. C., 1998). Debt markets are almost non-existent and dominated by government, eliminating another potential source of housing funds. Graph-8 shows the trend of advances given by



all banks including Nationalized Commercial Banks, Private Commercial Banks, Foreign Commercial Banks, Specialized Banks, and Foreign Commercial Banks. Total advances have essentially grown over the time which also indicate the consistent rising demand for housing, and thus loans for availing those by individuals and institutions. The growth rate for total urban advances over the last seven years has been around 37%. But unfortunately the real estate apartments got very low rate of growth which has been only around 9% that once again validates that though housing sector as a whole is getting the nod, the real estate apartment buyers and sellers are still in severe crisis for adequate financing.

The state-owned Bangladesh House Building Finance Corporation (BHBFC) is burdened with bad loans, and loan disbursement has tended to be low in recent years. Delta-BRAC Housing came into this market as private-NGO collaboration, but its interest rate is as high as 16 per cent which is higher than even that of BHBFC by one per cent. The major financing organizations for housing are BHBFC and the Commercial Banks. Financing by other organizations like Delta-BRAC, National Housing and Microcredit lenders are insignificant. In 2000, total outstanding housing loans were about Tk. 31 billion (USD 515 million), with the public sector dominating a market share of over 80%. The government owned specialized housing finance company, Bangladesh House Building Finance Corporation (BHBFC) is the market leader with a share of 52%. BHBFC, reputed to be not very market savvy compared to existing private sector players, is now plagued with high defaults of over 30% and no additional funding from the government (Karnad R. S., 2004). Private sector players like Delta-Brac Housing Finance Corporation (DBH), National Housing Finance and Investment Limited (NHFC), Industrial Development Leasing

Company (IDLC) and private sector commercial banks are fast gaining ground on fresh disbursements. The interest rate structure of the leading housing finance corporations has been shown below<sup>x</sup>.

		Dhaka & Chittagong		Other Districts
BHBFC	Below 1,500,000	Above 1,500,000	Any Amount	
	13%	15%	10%	

DBH	Any District		IDLC	Any District & Any Amount
	Below 200,000	Above 200,000		
	15.25%	15.75%	NHFC	14%
				15%

It is estimated that transfer taxes add 30% to the cost of property acquisition and though tax rates are lower compared to other South Asian counterparts, there are no tax exemptions on housing loans. The mortgage market currently targets the middle and the upper income segments.

### Govt. Approach to Housing Finance Availability

According to International Law, adequate housing should include at least the elements of security of tenure, availability/access to services such as safe drinking water, energy for cooking, lighting, sanitation and waste facilities, adequate space and protection, access to employment and various social services, affordability, and accessibility of the disadvantaged, etc (Khanam S., 2004). In FY 2002 - 2003 budget, the government provided a number of incentives to boost the real estate sector of the country. These measures include exemption of registration fees on land development, land sale and apartment transfer which is expected to bring down the overall tax in this sector to the level of 13.5 per cent, waiving of registration fees in cases where the apartment is resold within 5 years of buying and halving of property transfer tax at source. Estimates show that these measures have saved an average buyer about Tk 5 lakh on a Tk 45 lakh worth apartment. If tax is paid at a flat rate for per square feet of apartment, unaccounted for funds can be mainstreamed (Bhattacharya D., 2003).

Reflecting on the response of the sector to these new measures after a protracted slump, these have been able to infuse new hope. Real estate participants appreciated the reduced registration cost and other related costs, which resulted in the recent increase in the number of apartments which were registered. Estimates showed that in the first six months of Fiscal Year 2003 budget, 1,500 apartments were registered over and above the normal number. Though these apartments were purchased earlier, many of the buyers did not get them registered because of the high cost involved. Thanks to the increase in apartment registration, the government could mobilize an extra amount of about Tk 41 crore as non-NBR tax (Bhattacharya D., 2003). Evidently the government is encouraging more unaccounted money to be invested in this sector.

## **Some Critical Observations and Policies**

### **LOANS: Should It Be for Individuals or Developers**

The practice by the financial institutions that finance this sector does not seem to be proper. The FIs are more interested to lend to individuals under the personal loan schemes to individual apartment buyers. This type of loans related to an individual's personal wealth (as collateral), certainly bears the default risk. Moreover, verifying the individuals' creditworthiness is far a more complex and time consuming process. Against this trend, a better approach may be lending to the real estate developers or firms rather than individual buyers from which a consumer is interested to purchase a real estate apartment. As an advantage, assessing an institution's creditworthiness is far easier and less time consuming. Buyers will pay the apartment value to the developers inclusive of the value of loan which the developer in turn uses for the repayment of the loaned amount. On the part of the financial institutions, lending institutions have been evidently less risky than individuals.

### **Proper Channels for the NRBs**

Among the potential consumers of the real estate sector, a significant proportion is covered by the Non-Residential Bangladeshis (NRBs). But for being an actual consumer from the potential, they have to face some problems. The major problem is sending the money through proper channels. It is found more expensive to send money from abroad through proper channel compared to the improper/ illegal ways. It is against the money laundering act. So the NRBs face the dilemma in sending money to buy the real estate in Bangladesh. Secondly, even though they are maintaining the proper channel, they send the money to their relatives. A handsome proportion of that money is spent outside the real estate especially to meet the family emergency. In that case the NRBs become reluctant to continue the process of purchasing apartment or flat. To encourage the NRBs, our local banks can open branches in cities abroad where NRBs are huge in numbers. Payments can be made through these banks to the developers in our country. This will create very easy avenue for the NRBs to buy real estate properties in Bangladesh and pay while staying there.

### **Product development**

In order to get a better response from the potential consumers of real estate sectors, appropriate policies should be taken immediately. As severe housing inadequacy has become acute for Bangladesh, especially in the big cities like Dhaka, policy generation as well as policy implementation require integration of all socially responsible groups and/or individuals. Such groups are engineers, environment analysts, bankers, and media representatives, both from print media and electronic media. An effective combined coordination body may contribute in a synergistic way for the sector's organic growth.

### **Findings & Conclusion**

The real estate sector is growing and shows tendency of future growth. The GDP share and growth of real estate and construction is growing. This indicates a hopeful future for this sector. Rise in house rent, increasing demand for housing, getting easy financing facility, rapid urbanization, inadequacy of land and many other factors are creating huge scope for this sector to grow. As a result aggregate demand for housing and apartments has shown increasing trend and is expected to increase further. Though inadequate, supply of apartments with the number of real estate developers also has shown rising trend and suggests future growth. Regulatory environment has been helpful for the sector to grow except the recent Real Estate Management Ordinance 2008 which is yet to be passed and is likely to be very important for protecting buyers' interest. Financing market for the real estate sector has become easier and more available than ever before. Private sector housing finance is available at competitive interest rate for flexible period but still the amount of loans given is very low compared with loans in other sectors. Strengthening the regulatory and supervisory system for the financial sector and improving and expanding debt markets are of particular concern for the housing finance sector. Cost for apartment has increased varying with different locations and size. Additional cost for additional facilities is required. On the whole, this study finds a very promising and positive tone of growth, provided this sector is given proper attention and facilities. It has certainly become very necessary to satisfy the increasing housing demand and minimize the supply gap in the country.

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## Endnotes

<sup>i</sup> Reported by the REHAB officials during the direct interview

<sup>ii</sup> Housing facility is not the same as private housing real estates. Housing facility includes all types of housing available by government and private sector to every class of people of the country.

\* N/A indicates not available

<sup>iii</sup> Reported by CAB officials during the direct interview

<sup>iv</sup> Fukuoka Conference Declaration, 2000

<sup>v</sup> Fukuoka Conference Declaration, 2000

<sup>vi</sup> Authors' Estimation

<sup>vii</sup> Authors conducted a direct in-depth interview during the REHAB Fair with participating real estate firms.

<sup>viii</sup> Reported by REHAB officials during direct interview.

<sup>ix</sup> Authors' estimation by direct interviewing the developers and regulators.

<sup>x</sup> Source: Direct interview with the institution authority