



Spotlight with NRI

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The need for a National Strategy to overcome the acute housing shortage situation

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Introduction

There is an acute urban housing shortage in Papua New Guinea. This has led to excessive rental rates and housing prices, as households 'out-bid' each other for the limited number of available houses and units.

The shortage of formal housing has also contributed to the expansion of urban settlements. With the commencement of large-scale mineral and petroleum sector developments in the foreseeable future, this situation is likely to worsen in 2009.

Despite the worsening housing situation, the Government has failed to develop a coordinated and comprehensive National Housing Policy that identifies strategies to address the housing shortage.

The Government must implement reforms to increase the availability of land for housing and implement strategies to improve, and attract, private sector investment and construction of housing.

These strategies include ensuring that appropriate infrastructure is available, and developing a regulatory, institutional, and administrative environment that encourages and facilitates private sector investment in housing.

Key principles for a National Housing Policy

In 2007, the National Research Institute (NRI) was engaged as a strategic adviser to the National Housing Policy Taskforce, which was tasked with developing a National Housing Policy. NRI worked with the taskforce to develop a strategic framework that would guide the development of a National Housing Policy. This framework was based on a detailed analysis of past and current interventions, together with stakeholder consultations.

The taskforce recognised that, to create a long-term, effective solution to the housing situation, the housing policy must — unlike past and proposed interventions — address the causes of the shortage and not treat only the symptoms (see Box 1).

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Box 1: The Failures of Past Government Interventions in the Housing Market

Past government responses to rising housing prices have been narrow and have involved direct interventions in the market, such as constructing, renting, or selling housing. These interventions have been costly, unsustainable, and often inequitable, and in the past, have generally failed to have any widespread effect because they have not addressed the underlying causes. For example:

- Government schemes to build more houses will only meet the needs of a small number of households (usually public servants) and are unlikely to have an impact on overall rental rates or housing prices. Where the Government retains ownership of these houses, ongoing maintenance and administration costs must be considered.
- Government housing sale schemes, where government housing is sold (often to existing tenants), will simply transfer ownership from the Government to the individual, without adding to the housing stock. Where such houses are sold at a discounted rate, this does not represent a sound return on government investment, or an equitable distribution of government funds.
- Government home-ownership schemes will only meet the needs of a small number of households (usually public servants), and will usually involve subsidies that are inefficient and costly to the Government.
- Increases in rental assistance (for public servants), without any additional available housing, may just increase rents further, as landlords respond to the additional money that households are receiving. Such an increase would be felt across the entire housing market, leaving public servant recipients no better off and non-recipients even worse off.

The taskforce has been waiting since January 2008 for the National Executive Council (NEC) to endorse the strategy. This strategy was designed to establish a common position on the framework within Government, including the roles for the Government, individual households, and businesses, so that more specific implementation strategies can be developed.

In the absence of a coordinated and endorsed policy, the government's responses will continue to be ad hoc and ineffective.

Unlike past responses, where the Government has directly intervened in the market, the proposed strategic framework differs in that the key principle of the framework is that the government's role should be one of a regulator and facilitator of the private housing market, rather than a direct provider. The focus of the policy should shift to developing the private sector.

Greater involvement of the private sector

Private sector investment in housing is needed to address the housing shortage, simply because the problem is bigger than the Government can deal with alone. Greater involvement of the private sector will free up government resources and enable it to concentrate on core functions, such as health, education, and law and order.

The National Housing Policy needs to outline strategies that will encourage, facilitate, and assist individual households, companies, and property developers to build and purchase houses. With rental rates and housing prices so high, the housing sector would seem to be an attractive area in which to invest, with opportunities for high returns. However, there are underlying problems that prevent or deter investment. These problems need to be examined so that strategies can be developed to address them.

Land reforms must be implemented

The first step in generating more private sector involvement in housing is to implement land reforms and increase the amount of available land on which to build new housing. Development in Papua New Guinea is crippled by the inability to access customary land, the absence of effective urban planning and land allocation systems, poor administration of land titling, and a growing number of unresolved land disputes.

Customary land development

It is well known that nearly all land in Papua New Guinea is owned under customary title. The traditional landowners need to be given the opportunity to profit from their land in order to improve their own standard of living and foster national development. Amendments are needed to the *Land Group Incorporation Act* and the *Land Registration (Customary Land) Act* to enable traditional landowners to voluntarily register their land and enter into agreements for its development. These reforms must be accompanied by a strengthening of land title administration to ensure security of title over customary land, together with improved processes for resolving land disputes.

Urban planning systems and land allocation

New housing subdivisions can only proceed when they are incorporated into the relevant urban plans. These plans identify land that is available for development and ensure that new subdivisions have appropriate road access and infrastructure, such as water, electricity and sewerage systems. The allocation of land must also be a transparent and equitable process to ensure that each portion of land is put to its most efficient and productive use.

Administration of land titling

The land titling system needs to be improved to enable investors and current and potential homeowners to secure credit from financial institutions. Security of title provides investors and financiers with a level of certainty that their investment will be protected from competing claims over the property.

Currently, security of title in Papua New Guinea has been undermined by poor administration and record keeping, which has led to duplicate titles being issued, and titles being lost or falsely issued. In addition, security of property rights in relation to customary land is even more uncertain under the present system.

Land dispute resolution

An accessible and efficient process for resolving land disputes is necessary to support the registration of customary land and the security of land titles. Any disputes between landowners regarding ownership of titles need to be resolved quickly, transparently, and in a consistent manner to maintain confidence in the land system. Alternative dispute resolution mechanisms need to be examined.

The National Land Development Program

The preceding issues were all identified in the National Land Development Taskforce report, which was released in November 2006. A program of reforms to address these issues was subsequently developed and endorsed by the Government in the form of the National Land Development Program. However, despite the government's public commitment to these land reforms, their implementation has been slow, partly because of the non-commitment of some of the key government agencies involved.

Additional impediments to private sector investment in housing

Although the availability of land is a major factor preventing private sector investment in housing, there are other factors that affect investment decisions. For example:

- availability of finance;
- insurance costs;
- access to affordable infrastructure; and
- appropriateness, efficiency, and enforcement of regulation.

More research and consultation with stakeholders needs to be undertaken to determine to what

extent these factors deter private sector investment in housing and to examine what the Government can do to alleviate the situation in its role as facilitator and regulator of the housing market.

Availability of finance

The private sector requires finance to develop land and property and construct housing. Finance could be obtained from a range of sources, including financial institutions, insurance companies, superannuation bodies, and international investors. Investment decisions will be influenced by the attractiveness of housing compared to alternative investment options, and by the security of land titles.

Insurance costs

The cost and availability of building insurance will be a determinant of private sector investment in housing. Insurance is necessary to protect investments and may be a condition of obtaining finance. Insurance rates will be high where there are substantial risks of loss, for example, as a result of a fire destroying the development, or because of criminal activity, such as theft or vandalism.

Through the provision of public goods, such as water (to fight fires) and police (to prevent criminal activity), the Government may be able to reduce the risks of investing in housing, thereby reducing the costs of insurance. The level of competition in the insurance market will also affect the cost of insurance.

Access to affordable infrastructure

Housing development and construction requires infrastructure, including electricity, sewerage systems, water, drainage, and roads. The ability to access such infrastructure and its affordability will influence the cost of housing construction and development.

In addition, access to telecommunications, public transport, and social infrastructure, such as schools, hospitals, police, parks, public spaces, and shops will influence the attractiveness of housing development to private investors.

This is because the housing that is constructed will be more attractive to prospective purchasers, and therefore, the returns on investment are likely to be higher or more certain.

Urban planning processes are important in ensuring that appropriate infrastructure is accessible.

Appropriateness, efficiency, and enforcement of regulation

There are many types of regulations that affect the building industry, including planning, building, and credit regulations. Inappropriate regulation imposes unnecessary costs on the building industry in the form of compliance costs and adverse impacts on competition, which can be passed on to consumers through higher prices. Poorly administered and unclear regulations can impose unnecessary costs and potentially undermine the whole regulatory system, as they can lead to uncertainty, delays, corruption and inequity. Regulations that are not enforced can also undermine the effectiveness of the regulatory framework.

Introducing new regulations that further deter investment in housing should be avoided. For example, recent media articles have suggested that legislation should be introduced to place a cap on rents. However, rental caps would lower the returns for investors which, in turn, would act as a disincentive to contribute to new building projects and investments, further exacerbating the housing shortage.

The way forward

If the Government wants to make housing more affordable and reduce the expansion of urban settlements, then it needs to develop a housing policy that will address the formal housing shortage. Ad hoc and short-term responses will not address the underlying issues that have generated the current housing shortage, nor will they be a sustainable or effective use of limited resources.

Improving the housing situation in Papua New Guinea requires coordination and a consistency of approach among all stakeholders — Ministers, government departments, and the private sector. Only a broad approach to housing that considers the role and reform of vari-

ous sectors will have a lasting impact on the availability and affordability of housing.

To overcome the problems relating to land, the Government needs to act urgently to implement the reforms under the National Land Development Program. To increase the construction of houses, the Government needs to focus on creating an environment that is conducive to private sector investment and construction of housing. This can be achieved by improving access to private sector finance, providing public goods and infrastructure, and ensuring that appropriate regulatory, administrative, and institutional arrangements are in place.

Recommendations

The following are recommendations for developing a National Housing Policy:

- The Government needs to develop a comprehensive policy to ensure a long-term solution to the housing situation.
- The housing policy should be based on the strategic framework developed by the National Research Institute and the National Housing Policy Taskforce and should focus on strategies that encourage and facilitate private sector investment in housing.
- The Government needs to ensure that the reforms under the National Land Development Program are implemented.
- The deterrents to private sector investment need to be further examined and research should be undertaken to determine how these deterrents can be alleviated. This research should be part of the housing policy development process.

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