



THE NATIONAL
RESEARCH INSTITUTE
PAPUA NEW GUINEA

DISCUSSION PAPER

INFORMAL RENTAL
HOUSING MARKET IN
THE NATIONAL CAPITAL
DISTRICT: A CASE STUDY
OF ENSISI VALLEY

Lewis Iwong
Elizabeth Kopel

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Abbreviations & Acronyms

LNG - Liquefied Natural Gas

NCD – National Capital District

NHC - National Housing Commission

PNG – Papua New Guinea

Abstract

This paper is based on a case study of informal rental housing in Ensis Valley, a formally planned and built residential suburb in the National Capital District of Papua New Guinea. The study was aimed to identify factors driving informal rental housing and its challenges and opportunities. Data for the study were obtained from interviews with landlords using purposive sampling and analysed using descriptive statistics. The findings show that landlords let part or all of their homes on rent informally and that they come from diverse backgrounds with the common need for earning additional income to compliment household income and sustain livelihoods. The increasing number of occupants in dwellings that were originally planned for nuclear family units creates issues of excessive demand on utility services, and faster wear and tear that creates more regular need for maintenance. The study concludes that while the informal nature of arrangements benefits both parties, it also leaves room for abuse and exploitation and either party is not protected. These key concerns require State intervention to facilitate and provide regulatory oversight and supervision to ensure that private informal rental housing activities comply with existing regulations.

Introduction

Low-cost, affordable rental housing is essential to meet the housing needs of most citizens. However, many developing countries have adopted owner occupation housing policies to the neglect of low-cost rental housing (Mwangi, 1997; Goebel, 2007; Gilbert, 2011). In cities across the developing world, formal housing supply including affordable rental housing has not been able to keep pace with ever-increasing demand (Drakakis-Smith, 2000; Aldrich & Sandhu, 1995). This has led most citizens without appropriate housing to turn to informal housing largely in settlements (El Menshawy et al., 2016; Chiweshe, 2014; Howeidly et al., 2009; Mwangi, 1997).

Informal rental housing occurs in both settlements (both planned and unplanned) and formally planned and zoned residential suburban areas. Informal rental in this context refers to private rental housing transactions between landlord or homeowners and tenants without any legal or contractual agreements; engagement of lawyers and or real estate agents. Under formal rental housing, tenants sign legally binding contractual agreements and these agreements are countersigned by lawyers or real estate agents acting on behalf of landlords. For example, in collating outcomes from a development workshop on Angola's housing rental market, Cain (2017, p. 2) defines informal renting as ...

‘renting procedures that do not adhere to procedures stipulated by law...largely defined on an individual basis by landlord and tenant and no taxes are paid to the State. Often, owners and tenants elaborate a written contract for which they define the different clauses, but renting contracts can also be done verbally.’

The findings of Gunter and Massey's (2017) study exploring the tenant–landlord relationships within informal settlements in Gauteng, South Africa, revealed a crucial point: that informal rental housing fills a gap in the low-income housing market. Informal rental housing has been noted to play a critical role in shelter provision, by offering an option to those who cannot afford formal housing (Gunter, 2014). Informal housing also plays a vital role as a source of income and forms the central part of absorbing new immigrants and impoverished individuals into the urban fabric (Gunter, 2014).

Informal rental has become a common form of housing in many developing countries, but it has not been adequately researched. For example; in India, informal rentals account for 25 percent of the country's housing stock, yet informal rentals remain under-studied (Naik, 2014, p. 154). Goebel's (2007) study of informal housing in South Africa refers to this housing sector as a 'backyard' sector, which has informal housing in formally planned residential suburbs. Residents live in informal dwellings, but they often have access to basic services such as water and electricity. Prevalence of informal rental housing increases densities and reduces urban sprawl, but at the same time it increases pressure on infrastructure and public facilities (Lategan & Cilliers, 2013).

Using the South African context, Watson (2009, pp. 3–4) divides informal rental housing into several categories. Dwellings can be in formal or informal housing areas and include:

1. Housing self-built within formal residential premises ('backyard rentals') by:
 - a. the homeowner or leaseholder for rental occupation by extended family;
 - b. the tenant or extended family on space rented from the landlord or leaseholder.
2. Rented rooms in structures that may be formal or informal, but part of the dwelling is rented informally.
3. Rental of entire dwelling units (formally or informally built) from landlords.

4. Rental in informal settlements within the main dwelling or as an addition to the main residence.
5. Rental of buildings originally built for other purposes (tenure conversions).

The first three of Watson's informal rental housing categories listed above are relevant to the context of the current study. This study is focused on informal rentals in a formally planned and built residential area: Ensisi Valley in Port Moresby. As a designated residential area, dwelling units originally built at Ensisi Valley were subject to Planning and Building Board approval. However, alterations and extensions to the original dwellings have been done later by some homeowners to create extra rooms for rental.

What makes this study unique is that, to the best of our knowledge, there is no published paper that has focused on informal renting in planned and zoned residential areas in Papua New Guinea (PNG) and little is known or understood about it. Findings from this study will inform discussions about strategies aimed at the development of affordable rental housing as a legitimate alternative to policies on home ownership.

This study had two objectives:

- to identify the main factors that drive the growth of informal rental housing; and
- to identify the challenges and opportunities of informal renting in Port Moresby.

There are five sections to this paper, including this introduction (Section 1). Section 2 provides a brief overview of PNG's housing policy initiatives and its impact on the emergence and growth of informal rental housing. Section 3 describes the study methodology while Section 4 analyses the results and discusses the findings. Section 5 provides a summary of the findings and concludes with policy implications and recommendations for further research in this area.

Overview of Papua New Guinea's housing policy context

In PNG, housing policy interventions have been sporadic. For a long time, the State was a landlord by directly providing highly subsidised housing for its employees and so was the private sector (Kopel, 2002; Stretton, 1979). Active State intervention in housing commenced in the late 1960s when the National Housing Commission (NHC) was set up to address the housing needs of a rapidly increasing urban population (Stretton, 1979). The NHC's main function was to build houses for sale or rent; however, these houses were too expensive for most people (Stretton, 1979). The Self-Help Housing Scheme of 1973 saw the planning and upgrading of settlements and provision of sites and services that formalised many of the older informal settlements, which were mainly in the National Capital District (NCD) such as Morata (Stretton, 1979).

More interventions followed in the years after independence with various housing schemes. The Morgan recommendation (Stretton, 1979) gave effect to progressively selling off government-owned housing stock to sitting tenants with the main objective of promoting urban home ownership while saving operational costs of the NHC. The original National Home Ownership Policy was introduced in 1981 with the government obligating employers to assist their workers to acquire homes by establishing and implementing Home Ownership Schemes. Under this scheme, Air Niugini, Electricity Commission, Steamships, South Pacific Brewery, and Telikom PNG were among the major organisations to set up and operate Home Ownership Schemes (Kopel, 1989).

A major change occurred when the National Housing Corporation was formed in 1989 by the merger of the NHC and the Department of Housing. The newly acquired function of National Housing Corporation was no longer to build houses for sale or rent, but to play an enabling role by developing and selling land for urban housing to the public while at the same time continuing to sell existing government-owned houses (Kopel, 2002). Besides the establishment of the business arm of the National Housing Corporation, the years between 2000 and 2012 appear to have been lost with no documentation of developments (Webster et al., 2016). With the creation of the National Housing Corporation, the responsibility for settlements was handed to the provinces without any policy or strategic direction or resource allocation. While most provinces ignored settlements and housing completely, East New Britain and Morobe provinces took drastic measures, such as repatriating settlers and bulldozing their homes to eliminate settlements.

The government's current First Home Ownership Policy announced in 2013 in partnership with the Bank of South Pacific is yet again based on the premise that owner occupation is what everyone aspires to and wants. Past and current policy does not consider nor address the housing needs of those who have to rent because they cannot afford to enter into home ownership, or they prefer not to own a home, or they do not yet embrace the idea of owner occupation — such as new graduates entering the workforce, low income earners, and people whose lives are in transition (e.g., moving jobs, change of marital status). The rental housing sector has never been in the government's plans and has been instead left to the private sector to pursue. The most visible outcome of the failure to develop an affordable rental housing market has been the formation and growth of settlements, especially in Port Moresby. The supply of formal rental housing in Port Moresby caters for upmarket luxury accommodation, while the demand for low cost rental housing remains unmet. This has led to an increasing gap between supply and demand. A recent development in PNG has been the growth of informal rental housing where homeowners in formally planned suburban areas let whole or part of their homes to tenants under informal arrangements.

Ensis Valley suburb

The suburb of Ensis Valley (Appendix A) is one of nine recognised town areas in Port Moresby that was established by the National Capital District Commission. Exact residential zoning boundaries in the NCD are not clear and are difficult to ascertain, but Ensis Valley is uniquely set and provides an ideal study site because the hills surrounding the valley and Waigani Drive provide natural boundaries. It is difficult to identify the total

number of households and population of Ensisi Valley because official census data counts the suburb under the broader category of Waigani/University (National Statistical Office, 2014). Ensisi Valley was built in the late 1980s as a middle-income residential estate and houses were sold to individual homeowners on the open market. Residents also bought subdivided and serviced plots and built their own houses. While it has good connection to utility services, space for expansion in Ensisi Valley is limited by the high mountains surrounding the estate and the suburb lacks services and amenities such as sports and recreation facilities and shops. There is only a faith based primary school (Carr Memorial) at the entrance to the estate on Waigani Drive, which is a 5-minute walk. The nearest bus stop is also located along Waigani Drive, with buses connecting to most suburbs for access to economic activities, employment, and other services.

Methods

This was an exploratory study of informal private rental housing in a planned residential zone. The study was informed by personal experience of one of the researchers renting informally in the formal housing sector. This suburb (Ensis Valley) was purposefully selected based on local knowledge of the area and because the estate has a clear boundary (as noted above).

At the time of research design, it was decided to base the sample size on the number of identified informal rental properties at the study site. The reality was quite different. When the study area was mapped out, it was difficult to identify those households who let their properties for rent, so we used purposive sampling. Two individuals with local knowledge of Ensis Valley served as key informants. Their help was valuable in the sampling exercise where residents identified and referred the research team to neighbours in the same street who were engaged in informal letting. This process continued until a total of 30 landlords were identified in the entire estate. This was done systematically by starting at the entrance to the estate and ending when all streets were covered.

A letter explaining the purpose of the study was delivered to each of the 30 identified homeowners. Follow up was made a day after delivery of the letters. To capture landlords in full-time employment, data collection was done over four days during the Easter weekend (April 2017). The downside to conducting field data collection on a public holiday weekend was that some of the landlords were away. A few were not interested in the study and did not provide an explanation. Half of the pool of landlords (15/30) who were present and willing to participate in the study were interviewed a day after the follow-up.

Data were collected through personal interviews administered using a questionnaire instrument. Refer to copy of instrument in Appendix B. Given the small sample size, we piloted the questionnaire with only one landlord. Feedback from the pilot was used to review and improve the questions. Responses from the pilot study were not included in the final sample. Four final year students from the University of Papua New Guinea with previous training and experience in conducting interviews were engaged as research assistants. The students' prior experience helped to improve the final instrument.

Research assistants worked in pairs, with one asking questions and the other recording the responses. This process was repeated for the duration of the survey. To maintain privacy, landlords were assigned a unique code and their names were not recorded. Tenant data will be used for a different paper, although some tenant data is mentioned in this discussion.

Limitations

The approach to this study has the following limitations:

- The views of landlords who were unwilling to participate are not represented.
- The population of homeowners living in the estate is not known and the sample might not be representative of the population.
- The sample was not selected randomly, which reduces the chances of other homeowners from being drawn from the population.
- The total number of residential houses planned for and approved for construction in Ensis Valley is not known by the municipal authority. This makes it harder to identify the percentage of informal rental units out of the total planned residential housing in the suburb.

Data were entered into Microsoft Excel and used to generate basic descriptive statistics and summary tables for analysis. The next section presents results and discusses findings of the study.

Results and discussion of findings

This section presents results and discusses the findings from the interviews with 15 homeowners or landlords.

Gender and marital status

A total of 15 landlords were interviewed (Table 1) of whom 60 percent were females (n = 9) and 40 percent (n = 6) were males. Where the head of household was not available, the spouse was interviewed. Five of the women were married, two were widows, one was single, and one indicated she was separated. Without the support of a husband, the four female heads of household (widowed, separated, or single) were solely responsible for the welfare of their families. As will be seen later, the need for funds to pay for the increasing costs of maintaining livelihoods drove them to let part of their home for rent.

Table 1: Gender composition by marital status of landlords

Marital status	Gender		Total
	Male	Female	
Single	0	1	1
Married	6	5	11
Divorced	0	0	0
Separated	0	1	1
Widowed	0	2	2
Total	6	9	15

Education and employment status

Over half (8/15) of the respondents were employed (Table 2). Out of those landlords who were salaried, four had university and postgraduate level education, and three had a general education or other certificate. In contrast, seven of the homeowners indicated that they were not in employment at the time of the interview. Of the unemployed respondents, three had university education, three had not continued education beyond high school, one held a trade certificate.

Table 2: Education by employment status of landlords

Education	Employment		Total
	Yes	No	
General education (1–12)	1	3	4
Trade certificate	0	1	1
Another certificate	2	0	2
Diploma	1	0	1
Degree	3	3	6
Postgraduate	1	0	1
Total	8	7	15

Type of employment held by landlords

With regards to the type of employment, Table 3 shows that half (4/8) of the employed homeowners were in clerical jobs. Of the remaining four landlords, three held professional positions and one had a managerial position. This evidence shows that landlords who sublet their homes for rent are equally likely to be graduates as well as non-graduates on lower incomes. The fact that landlords holding professional or managerial positions

sub-let informally suggests this sub-letting arrangement offers the landlords an additional income to compliment wages.

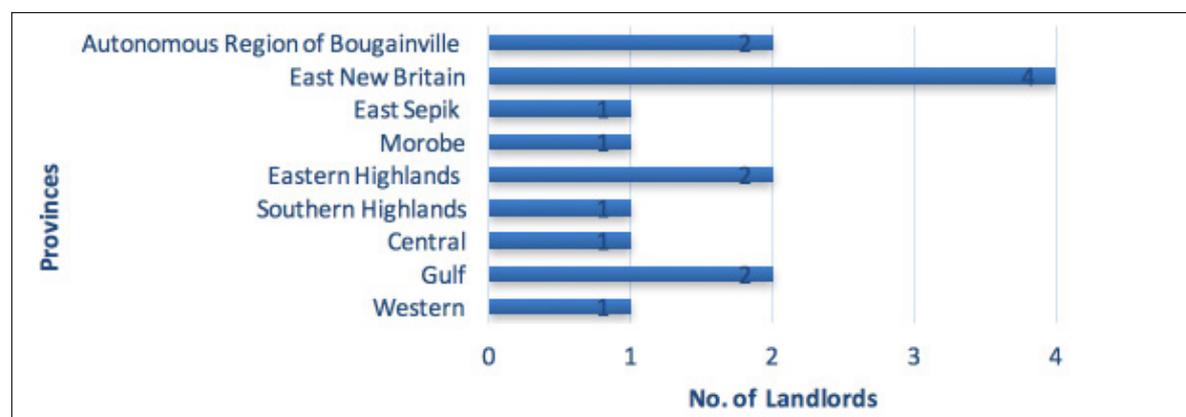
Table 3: Type of employment of landlords

Type of employment	No. of landlords
Manual labour	0
Clerical	4
Professional	3
Managerial	1
Total	8

Origin of landlords by province

As shown in Figure A, the majority (14/15) landlords have migrated from provinces outside of NCD or Central. East New Britain was the dominant province in this category with four respondents letting rooms informally. The second dominant provincial groups of landlords include: Gulf, Eastern Highlands, and Autonomous Region of Bougainville with two landlords respectively. The remaining provinces were least represented. It is not possible to conclude whether this type of housing is dominated by people from certain provinces, because of the sampling method employed in this study and the small sample size. Further, as purposive sampling was applied in which landlords were identified through referral, it is possible that homeowners and neighbours identified others from the same province as themselves who are engaged in operating informal rental housing.

Figure A: Origin of landlords and homeowners by province (n = 15)



Most of the landlords in this study are migrants from other provinces who rent out rooms to earn extra income. Previous studies have also found that migrant households in urban centres adopt innovative survival strategies to compliment household incomes. Kopel et al.'s (2017a) study of informal market vendors in Port Moresby, Koczberski and Curry's (2005) study of West New Britain oil palm block settlers, and Umezaki and Ohtsuka's (2003) study of urban migrant settlers in Port Moresby all found that households engage in a combination of income generation activities to compliment income from other formal and informal sources. Spreading the risk and diversifying economic activities extends household incomes, sustains livelihoods, and improves welfare.

Permits and building board approval

A building permit is required before any building or residential housing is constructed. To get a permit, a potential builder applies to the Building Board and building permits are issued by the board under the Building Act (1966) Chapter 301. This process ensures that the erection of a building for a specific purpose complies with building standards and urban development policies and regulations. Through issuing of building permits the state recognises and allows the purpose for which a proposed building is to be used.

Table 4: Homeowners who have obtained building board approval

Building approval	No. of landlords
Yes	14
No	1
Total	15

As shown in Table 4, almost all the respondents (n = 14/15) indicated they had obtained approval. A caveat to this is; in the absence of physical sighting of permits: some landlords may not have told the truth about obtaining approvals.

However, given that Ensisi Valley is a formally planned suburb for residential housing, all properties should initially have been issued with permits. What has changed significantly is that many dwellings that were initially intended for nuclear family units have been modified through extensions and changed to multi-occupancy dwellings. This has implications for increasing demand for utility services and overcrowding. The real concern is whether the modifications to the properties comply with existing regulations. Homeowners should in principle be required to get approval to make significant changes to the structure of the original residential building or to change its use.

Number of years of letting housing on rent

The longest period of informal rental letting is more than 10 years, which was reported by only one landlord (refer to Table 5 below). The second longest period of letting was indicated to be between the range of 6 to 10 years by four respondents. Interestingly, most respondents indicated to have commenced engaging in informal rental housing operation during the construction phase of the PNG Liquefied Natural Gas (LNG) project between 2012–2014. At that time, demand for housing in Port Moresby began to increase causing immense inflation in house and rental prices (Ezebilo et al., 2017; Endekra et al., 2015). This evidently shows that the boom in demand for informal rental housing also emerged at the time of PNG LNG project construction period.

Table 5: Number of years of letting informal rental accommodation (n = 15)

Years in operation	No. of landlords
1–5 years	10
6–10 years	4
More than 10 years	1
Total	15

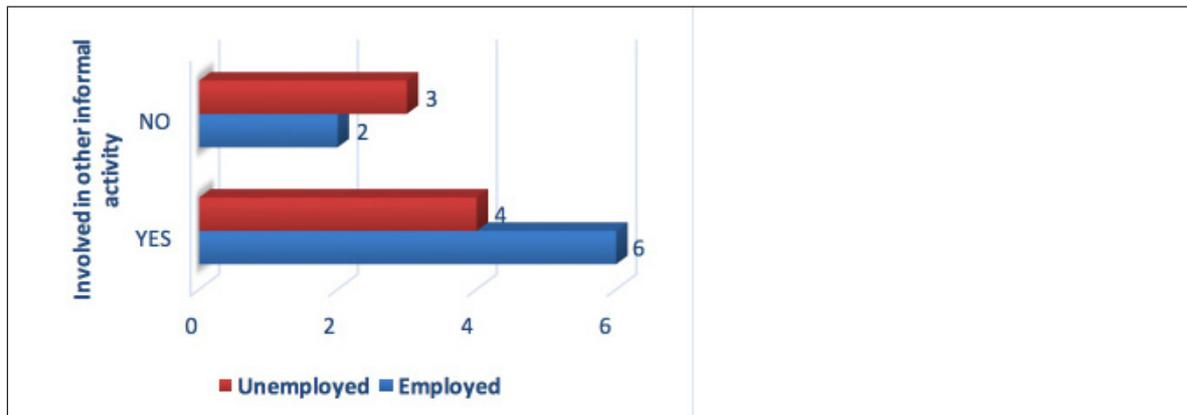
Sources of household income

Overall, 10 out of the 15 homeowners had household members engaged in other informal economic activities to earn additional income (See Figure B). This comprised 75 percent (6/8) of the landlords with formal employment and 57 percent (4/7) of the landlords who were unemployed homeowners. The remaining two employed landlords depended only on the informal rental income and their formal wage income to maintain their livelihoods. Further, three of the unemployed landlords indicated that their households depended entirely on income generated from informal rental housing.

The question is: why would someone with formal employment who sublets his or her dwelling engage in a side hustle? Consistent with Gilbert's (2011) argument, small-scale landlords supply rental accommodation, as part of their homes, to generate a regular source of income and to provide financial security. Combining income from different sources (employment, rental and informal economic activities such as table markets by the side of their homes) earns the extra cash needed to meet household needs. This also supports local studies that demonstrate urban settlers use multiple strategies for income generation to cope with urban living (Kopel et al., 2017; Rooney, 2015; Umezaki & Ohtsuka, 2003). For instance, Rooney's work (2015) at the Air Transport Squadron

(ATS) settlement in NCD found that income from informal table markets offset household expenses during the no-pay week and relieve the financial strain on the main breadwinner.

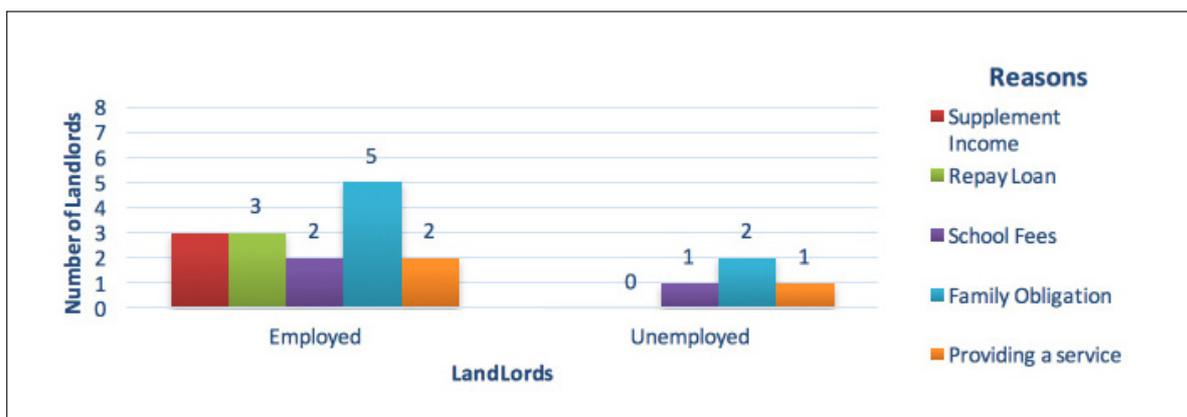
Figure B: Employment status of landlords (n = 15)



What drives homeowners to engage in informal letting?

The most common reason given by both employed and unemployed respondents (7/15) for letting their homes for rent is to earn extra income to finance family obligations (Figure C). The cost of maintaining reciprocal sociocultural relationships with family and kinship networks back in the home villages as well as the city is significantly high; these costs are offset by rental income. The need to finance children’s education was also noted to be a major factor that drives landlords to let their homes out on rent. It was interesting to find that three landlords (two employed and one unemployed) viewed themselves as providing a service to tenants by offering accommodation to those who do not have a place to live in the city. For employed landlords, informal rental income supplements wages and helps to repay their loans.

Figure C: Reasons for setting up informal rental housing by employment status (multiple responses)



Unemployed respondents essentially put up part of their homes for rent to generate an income for survival, but it was surprising that this obvious reason was not mentioned at all. Instead, financing family obligations, investing in children’s education, and providing a service to others were outlined as the main reasons for providing informal rental accommodation.

Number of tenants in each type of dwelling offered for rent by landlords

Types of accommodation offered for rental range from letting of single rooms to flats and stand-alone houses. Most properties in Ensisi Valley were built in the 1990s; as standard H60 medium-cost, three-bedroom houses on high posts. Many dwellings with more than three rooms would have been extended to cater for more occupants,

bearing in mind that many landlords also live in the same dwelling.

Table 6 shows that most tenants (26/28) rented either rooms or bedsitters. Seven of the landlords offered single rooms for rental and five offered bedsitters (self-contained rooms with a toilet, shower, and shared kitchen). Out of the remaining three, two landlords offered flats and only one landlord let an entire dwelling unit out on informal rent. Out of the remaining two tenants, one male tenant rented an entire dwelling and the female tenant rented a flat. There are more tenants (28) than landlords (15) because six of the landlords have multiple tenants.

Table 6: Number of tenants in each type of dwelling offered for rent

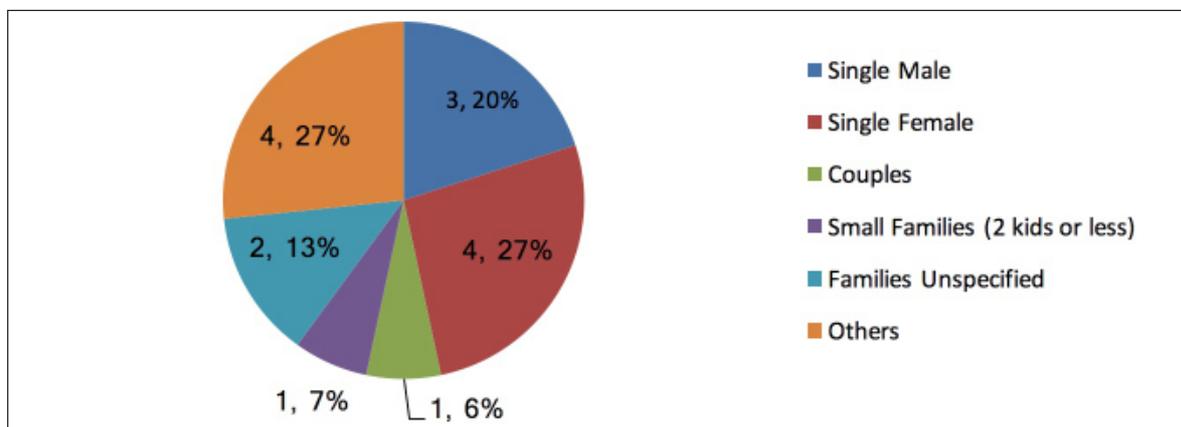
Landlord	Type of home	Tenants		Total tenants
		Male	Female	
1	Bedsitter	1	4	5
2	Single rooms	1	0	1
3	Single rooms	0	2	2
4	Single rooms	0	4	4
5	Bedsitter	1	1	2
6	Single rooms	0	3	3
7	Bedsitter	0	1	1
8	Bedsitter	1	0	1
9	Flat	0	1	1
10	Whole house	1	0	1
11	Single room	1	0	1
12	Bedsitter	0	1	1
13	Single rooms	0	3	3
14	Flat	0	1	1
15	Single rooms	1	0	1
	Total	7	21	28

The number of female tenants (n = 21) was three times higher than male tenants (n = 7). This difference may be attributed to a number of reasons: landlord preferences to have female tenants, females' lack of affordability to rent a whole dwelling, females feel safer and prefer to live in shared accommodation. This would be an interesting area for further research to explore the reasons why more women are in shared rental accommodation.

Landlords' criteria for selection of tenants

Landlords apply criteria when selecting tenants. As Figure D shows, eight of the landlords preferred tenants who were single (male or female) or couples without children. These landlords catered for a specific market of tenants whose lives are in transition, such as new graduates entering the workforce and individuals moving between jobs or relocating. However, among these would also be people on low incomes whose personal circumstances may not improve and who may become trapped in informal renting in the long term. Three landlords preferred tenants who were married with children while the remaining four landlords gave a combination of the above listed criteria for potential tenants to be eligible.

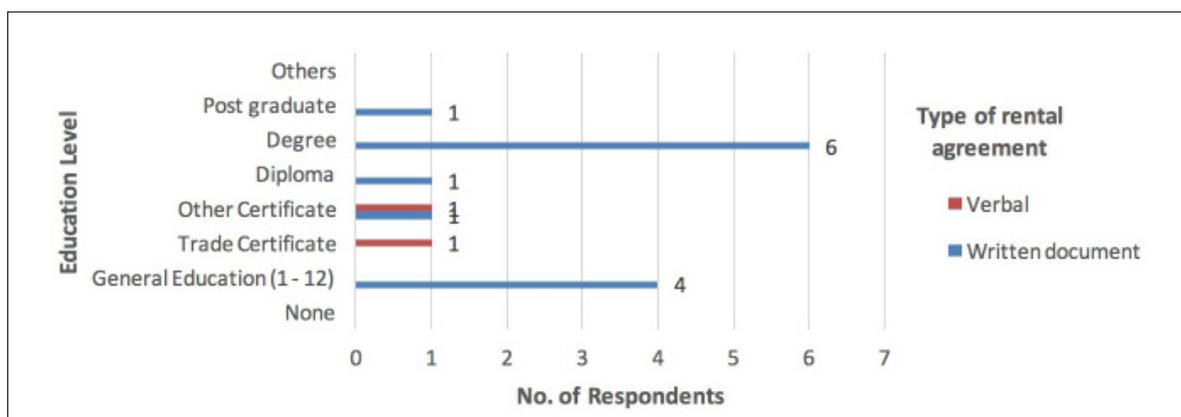
Figure D: Selection criteria for potential (n = 15) tenants



Tenancy agreements

Most (13/15) landlords stated that they have written tenancy agreements which tenants sign prior to moving in (Figure E). Only two respondents stated that verbal agreements were made between tenant and landlord. Landlords who had verbal agreements were more likely to be less educated and those with written agreements were more likely to be highly educated. Most agreements were written statements, not countersigned by lawyers nor witnessed by commissioners for oaths. In general, the tenancy in this market is informal.

Figure E: Type of rental agreement



Further, potential tenants were not systematically screened; there was no requirement for character references or letter of recommendation from previous landlords. Tenants were not bound by contractual agreements and were free to move in and out at will. This made it harder to impose penalties on defaulters, coerce tenants to pay rent on time, or to collect arrears after the property has been vacated.

Method of rental payment

Most of the landlords (11/15) reported that their tenants paid rent in cash. Three landlords were paid by cash deposit into a bank account and one landlord was paid by cheque (see Table 7). This shows that transactions of rental payments are mostly done outside the formal economy without any written record of transactions. As Ezebilo (2016) acknowledges, the State loses out on potential revenue from informal transactions. Landlords do not issue receipts; this was found to be a common characteristic of informal private renting in other settings (Hooper & Cadstedt, 2014; Gilbert, 2011).

Table 7: Method of rental payment

Method of payment	Number of landlords	
Cash payments		11
Direct deposits	Cash	3
	Cheque	1
Total		15

Monthly rates of rental payment

House rental fees are collected by landlords on a fortnightly basis following the fortnightly salary cycle in PNG; however, rents are reported below in monthly format to be consistent with formal real estate industry practices. As indicated in Table 8, the lowest monthly rent charged was PGK300 and the highest was PGK4,000. Ten landlords received between PGK300–PGK800 per month and two landlords set a monthly rent of PGK1,000. The remaining three landlords charged a significant rate of PGK3,000–PGK4,000 per month, which shows that informal letting can be a lucrative business.

Rentals rates amounting to PGK800 per month were mainly for rooms whereas higher rates are charged for flats and entire dwelling units. As landlords let mainly rooms for rent, letting multiple rooms to a number of individual brings more income.

Table 8: Rate of rental payment per month (n = 15)

Monthly rental	Number of landlords
300	1
400	2
540	1
700	2
800	4
1,000	2
3,000	1
3,200	1
4,000	1

The rents for formal rental housing in Ensisi Valley are not available to compare with the informal rental rates found in this study. However, these rates are much lower when compared with two previous studies of rental rates on the formal housing sector in Port Moresby. Using data obtained from advertised properties for sale and rent in the National newspaper from March 2015 to March 2016, Ezebilo et al. (2017) found that weekly rental prices range from PGK550–PGK8,000. This indicates that informal renting is cheaper than formal rental housing offered by the real estate industry.

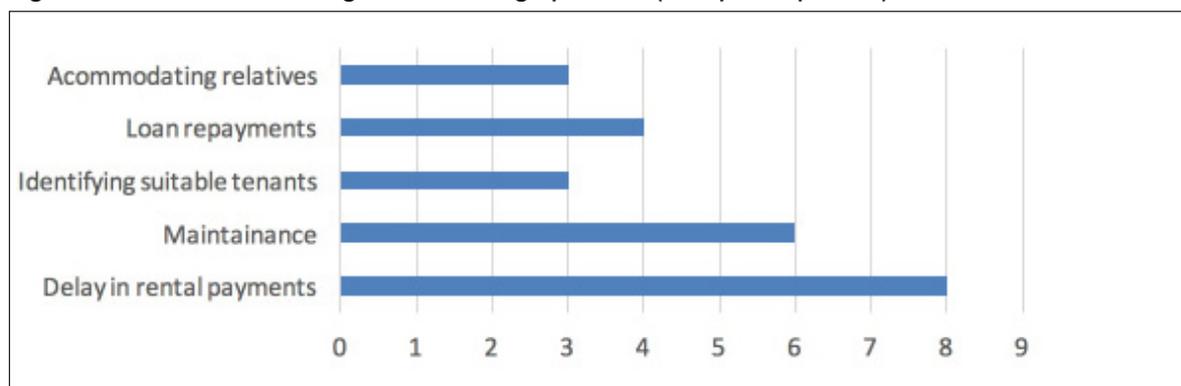
Further, Endekra et al. (2015:6) reported findings of data analysed on house sale prices and rental rates for three different residential zones in Port Moresby as advertised monthly in the National newspaper between July 2012 to July 2013. That study found that for formal rental housing weekly rent, the rates range between PGK950–PGK2,800 in medium and low cost residential suburbs that share similar characteristics with Ensisi Valley, whereas executive residences and apartments in downtown Port Moresby were being let for PGK5,000–PGK10,000 per month. On the urban periphery, the average rate of rent was PGK1,400 per week (PGK5,600 per month) for similar types of properties (units, apartments, and houses).

The higher rental rates for formal housing in Port Moresby makes informal renting a much cheaper alternative. Informal rental housing is sure to grow with the continuous mismatch between affordability for most citizens and the exorbitant rates of formal rental housing (Aleker, 2016; Kopel, 2002).

Challenges that constrain informal letting activities

Homeowners identified several factors that constrain the smooth operation of their informal rental accommodation activities (Figure F).

Figure F: Factors constraining rental housing operation (multiple responses)



Some of the major challenges highlighted in Figure F are discussed below.

Delay in rental payment and accumulation of arrears

The most common issue expressed by eight landlords was delay in rental payments and accumulation of arrears (Figure F). Any delay or inconsistency in rental payments is worrying for landlords because tenants are not bound by any contractual obligation to remain in the property and can vacate anytime. If a tenant accumulates arrears and then vacates without paying the outstanding bills, there is no avenue for the landlord to take to deal with the problem swiftly. It is hard to follow up and force tenants to pay outstanding rent. Without a formal tenancy agreement it is hard to prove in court that a tenant has outstanding rent, so this leaves the landlord vulnerable. This affects the livelihood of those landlords who depend entirely on informal rental income. These matters could be addressed at urban villages courts, but the extent to which this avenue is used is not known.

Keeping up with property maintenance

Keeping up with property maintenance requirements was considered the second biggest issue by the landlords. This is not surprising because housing built for single residential use is converted to accommodate more occupants. This extends use beyond the original purpose for which the houses were built, which increases the demand for utility services and increases waste production. Residential homes occupied by large numbers of people have increased wear and tear that necessitates frequent maintenance that landlords must finance.

Keeping up with loan repayments

Informal letting provides an opportunity for homeowners to earn extra income and this is anticipated to help them repay loans such as home mortgages. Keeping up with loan repayments becomes a challenge when tenants default on rental payments and accumulate arrears, as noted above. In other instances, rental income is absorbed by daily living expenses and keeping up with loan repayments becomes a problem.

Accommodating/letting to friends and relatives

Letting rental accommodation to friends and relatives is a challenge. As one landlord stated; 'family and relatives tend to be ignorant in following in-house rules set for an occupant'. Three landlords stated that having relatives and wantoks as tenants is problematic because they consistently break tenancy rules and do not pay rent. They constantly come up with excuses for why they cannot pay rent or pay only part of the set amount and it gets to a point where accumulated arrears are significantly huge. It is hard to evict friends and relatives or to take them to court to recoup the lost income.

Identifying reliable tenants

Another challenge expressed by landlords is the difficulty of finding reliable people who would make good tenants and keep up with rental payments. While most tenants are good, there are some who default on payments or damage property. The challenge is identifying the good tenants, and landlords rely on personal instinct to make that judgement before letting them in.

Further, a few landlords expressed disappointment that potential tenants would in most cases request for a reduced rate, usually below the asking rate. For example, when landlord A has a room to let at PGK60 per week (PGK240 per month), potential tenant B may offer to pay PGK50 per week (PGK200 per month). Some landlords allow room for negotiation and reduce rental fees, but this practice of bargaining and negotiation makes it harder for landlords who prefer to keep the rent at the asking rate.

Some tenants pay a lump sum up-front in rentals and then run out of funds and accumulate arrears. For others, their employment situation may change while they are in the property. With such tenants, it is always a worry about where the funds for their next rent will come from. Most landlords felt that rents are reasonable for the quality of accommodation provided. They also stated that the accommodation provides a good return on investment. However, one landlord expressed that it is not profitable to constantly do maintenance work and upgrade properties. The next section provides a summary and concludes with policy implications.

Summary and policy implications

Informal private rental housing plays a significant role in providing affordable housing in Ensisi Valley as would be throughout Port Moresby. Two-thirds of landlords in the study charge a monthly rent at PGK800 or less compared to formal sector rentals for similar housing throughout Port Moresby.

With respect to gender, more than half of the landlords in this study were female and 75 percent of the tenants were women. It is unclear whether female landlords are not earning sufficiently to afford their cost of living in the city, or whether female tenants' incomes are not enough to afford rentals in the formal housing market. This finding also raises the question of whether informal renting arrangements by female landlords and tenants are an outcome of safety considerations: living with other people maybe a way of addressing safety concerns in the city. It will be interesting to conduct further research into this. The dominance of female tenants largely reflects supplier preferences, because most landlords prefer single women as tenants over other categories of tenants.

Almost all landlords in this study were migrants who came from provinces outside of the NCD and Central. Most landlords had commenced engaging in informal letting with the onset of inflation and increasing house rental prices during the construction phase of the PNG LNG project from 2012 onwards. Informal letting is not confined to people with a specific level of education or income group. It is an activity that is engaged by highly educated and employed people as well as those who have an average level of education or are unemployed.

Six landlords would have extended homes that were originally intended for nuclear families; these homes now accommodate multiple tenants. This has implications of overuse of utility services and increased wear and tear to properties that necessitates continuous maintenance and future expense. Informal letting provides income for the unemployed and extra income to compliment wage incomes.

Although informal renting provides a legitimate housing option for those who are unable to obtain formal housing, this type of housing is unregulated. The system is based on personal relations and mutual trust without formal agreements. The landlord has no legal documentation to hold tenants accountable or enforce compliance for tenants entering and exiting the property, or to recover lost income from rent or from paying for damages to property.

While 13 out of 15 landlords got tenants to sign written statements as agreements for occupancy, these were far from legal contracts. Eleven out of 15 rental payments were made in cash and four out of 15 pay via direct deposits. In situations where the informal arrangement does not work and things go wrong, the landlord is left at a disadvantage. For example, in a case at Rainbow estate, a landlord was left devastated when a tenant accumulated rental arrears of PGK10,000 and vacated the room.

Some of the major challenges that constrain the activities of informal rental housing include: delays in rental payment by tenants, which impacts on keeping up with loan repayments; difficulty of finding honest and reliable tenants; and constant maintenance needs from wear and tear to property.

Policy implications

The evidence from this study raises important policy implications.

Regulatory supervision and oversight of informal private rental housing is necessary to protect the interest of landlords

Homeowners are interested in income generation by letting their properties for rent while tenants are more concerned about the quality, price, and security of the rental housing. This tenuous relationship creates an environment that is ripe for abuse. Given the complexity of relationships and issues between landlords and tenants there is a need for policy intervention to protect the interest of both landlords and tenants. Informal landlords could be required to have a minimum level of registration and membership to a regulatory mechanism for supervision to protect the interest of not only landlords but also tenants. For example, regulation would help landlords recover lost income from tenants who accumulate arrears and also safeguard tenants' bond fee

payments, which they could claim once they move out of a property as happens in formal rental housing.

Need for State intervention to formalise informal rental housing for tax purposes

Informal letting is not confined to homeowners of a specific income or educational and qualification category. Even homeowners who are highly educated with higher incomes engage in informal letting as a source of extra income. With a limited level of formalisation, those earning above a certain level of monthly income from informal letting as additional income could pay tax on earned income.

Setting minimum standards for renovation and extension to residential dwellings in planned suburbs

Dwellings in the study locality were planned and built to house nuclear family units, but over the years some properties have been extended and converted to multi-occupancy units. This has created excess demand for utility services, as well as overcrowding and increased wear and tear to properties that necessitates constant maintenance. Setting minimum standards of the quality of housing offered for private rental purposes, and close monitoring and supervision would help limit the number of occupants and improve housing conditions.

Further research on informal renting at large scale across the city

This was a small case study of informal renting in one suburb (Ensisi Valley) in Port Moresby. A comprehensive study on informal rental housing at scale could explore the dynamics of informal rental housing across the city. Particular attention could be paid to gender dynamics, as this study found that 60 percent of the landlords and 75 percent of the tenants were women. The reason is unclear and may be a characteristic of the broader informal rental housing.

Conclusion

Evidence from this study shows that suburban homeowners with diverse socioeconomic backgrounds and socioeconomic characteristics provide informal rental housing. This provision of housing is mainly based on verbal agreements and mutual trust without formal written contracts. The informal nature of arrangements benefits both parties, but it also leaves room for abuse and exploitation of one party by the other, and neither party is protected. The increasing number of occupants in extended or converted properties that were originally built for nuclear family units creates additional problems of excess demand on utility services and overcrowding, leading to further issues of property wear and tear and increasing maintenance costs. This is an important urban development issue that requires the government to intervene with policy and regulatory supervision and oversight. This intervention will ensure that new residential housing developments and extensions and renovations of existing housing for rental purposes adhere to existing policies and regulations.

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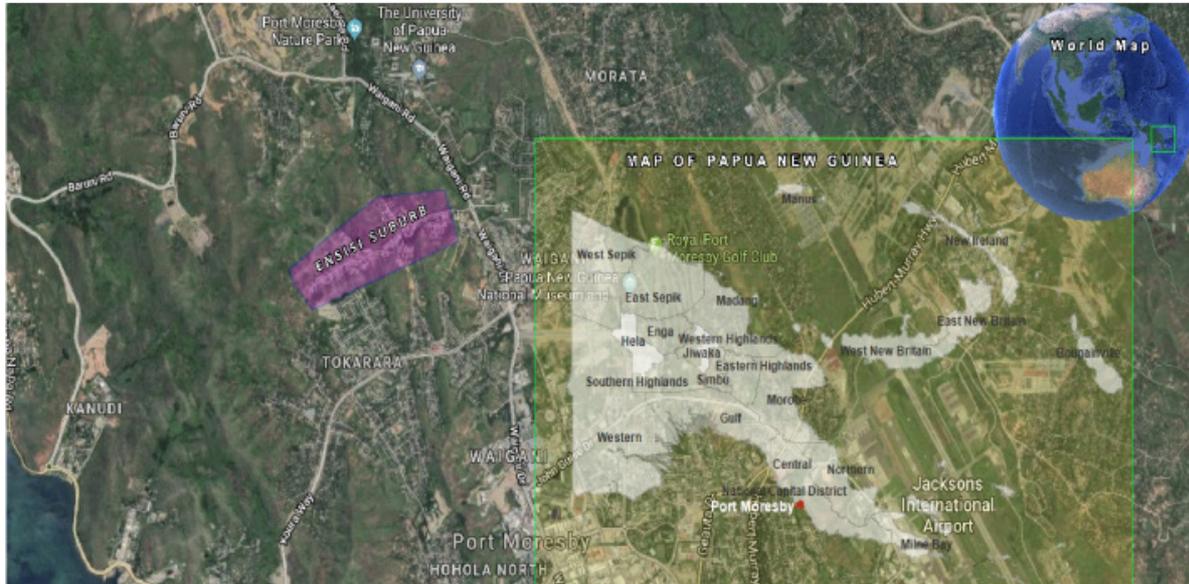
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Appendix

Appendix A: Map of Ensisi Valley suburb



Appendix B:

A Case Study

Exploring Informal Rental Housing in Ensisi Valley; Port Moresby (PNG)

Survey Research Questions for Landlord

Introduction

This survey questionnaire is for a research project conducted by Mr Lewis Iwong, NRI Research Project Officer. This project intends to analysis the dynamics between landlords and tenants of informal rental housing. A report will also be written with an aim of improving rental-housing policy and provision of affordable housing. Personal details will not be recorded and respondents will not be identified in any way with the information provided.

Instruction to respondents:

Please read the questions carefully and answer as instructed.

SECTION A: PERSONAL INFORMATION

(Write or circle the answers)

1	2	3	4	
GENDER	PROVINCE OF ORIGIN	PLACE OF BIRTH	RESIDENCY	
What is your gender?	Which province are you from?	Which province were you born?	Lived here in this province continuously since birth?	How many years have you lived in NCD?
1 = Male 2 = Female	Refer to bottom of page 1 for Provincial names and codes Code: (write the relevant code)	Refer to bottom of page 1 for Provincial names and codes Code: (write the relevant code)	1=Yes 2=No 8=Don't know	1= less than a year 2= 1-5years 3= 6-10 years 4= 11-20 years 5= More than 20 years 8= Don't Know
<u>Codes of Provinces in Papua New Guinea for Question 4</u>				
01= Western	06= Oro/Northern	11= Eastern Highlands	16= Manus	
02= Gulf	07= Southern	08= 12= Morobe	17= New Ireland	
03= Central	Enga	09= Western	13= Madang	14= 18= East New Britain
04= National	Highlands	15= West Sepik	19= West New Britain	
05= Milne Bay	10= Chimbu		20= Autonomous Region of Bougainville	
			21= Outside PNG	

5	6	7	8	9
MARITAL STATUS	CHILDREN			
What is your present Marital Status?	Do you have children?	How many children do you have?	How old are your children?	How many of your children, are currently in school?
1= Single... 2= Married 3= Divorced 4= Separated 5= Widowed (Single or no children move to question 11)	1 = Yes 2 = No			

11	12	13	14
EDUCATION			
What is your highest level of education achieved?	Which province did you complete your highest level of education?	What was the year you completed your highest level of education?	Are you thinking of furthering your education?
00 = None 01-12 = General education 13= Trade certificate 14= Other certificate 15= Diploma 16= Degree 17= Post graduate 18 = Others (Specify)		Year:	1 = Yes 2 = No

15	16	17	18	19	20
OCCUPATION					
Are you employed?	Who is your employer?	What is your current employment designation?	How long have you been employed?	Are you involved in other informal sector activity?	What is the informal activity you involve in?
1 = Yes. (Go to 16) 2 = No (Go to 19)	1 =Public sector 2 =Private sector (formal company) 3 =Informal Sector 4 =NGO/ Voluntary sector 5 = International development (eg. Aid agencies) 6 =Other (Specify).....			1 = Yes (Go to 20) 2 = No (Go to 21)	

SECTION B: HOUSING INFORMATION

(Write or circle the answers)

<p>21. What is the main reason for establishing this informal accommodation? </p>	<p>32. How is the rental agreement signed? Written document.....1 Verbal.....2 Others (Specify).....3</p>
<p>22. Would you like to expand into a more formal rental accommodation business? Yes.....1...Go to 23 <input type="checkbox"/> No.....2</p>	<p>33. Has the rental rate changed during the period of informal house rental business? Yes 1 ... Go to 34 No 2 ... Go to 36</p>
<p>23. What is the main hindrance to expanding? Capital.....1 Lack of information.....2 <input type="checkbox"/> Lack of space /land.....3 Other (Specify).....4</p>	<p>34. What is the interval period of the change in rental rates? Months <input type="checkbox"/></p>
<p>24. How long have your household been living in this building? Years <input type="checkbox"/></p>	<p>35. What is the main reason in the change of the rental rate? </p>
<p>25. How long have you being in the Informal house rental business? (If less than one year, write '00')) Years <input type="checkbox"/></p>	<p>36. What are some of the major challenges that you encounter in the business? </p>
<p>26. How many rooms are used primarily for household business or rental? Number of rooms <input type="checkbox"/></p>	<p>37. How safe is the community? Very safe.....1 Safe.....2 Not safe.....3 Not very safe.....4</p>
<p>27. Has the building been approved by building board? Yes.....1 No.....2 <input type="checkbox"/> Don't Know.....3</p>	<p>38. Is the unit close to public transport options? Yes.....1 No.....2</p>
<p>28. What criteria do you used to select tenants? Single male.....1 Single female.....2 Young couples.....3 Married couples less or 2 Kids.....4 A family.....5 Others (specific).....6</p>	<p>39. What are other services that you provide? Outdoor space.....1 TV connection.....2 Phone lines.....3 Internet.....4 Others (specify).....5</p>

29. How much is the Rental Fee charged per fortnight? Amount (K).....	40. Is the household convenient to shopping facilities (store/market)? Yes.....1 No.....2
30. How is the rental fee being paid? Cash payment.....1 Cheque payment.....2 Direct deposit3 Other (specific).....4	41. Is there any health facility in the vicinity? Yes.....1 No.....2
31. Is there any rental agreement? Yes1 ...Go to 32 No2 ...Go to 33	

42. Do you have any suggestion for the government to assist in informal rental housing provision?

SECTION C: BUILDING MATERIALS AND CONSTRUCTION (RECORD FROM OBSERVATION)

(Write or circle the answers)

43. What is the major construction material of the external walls? Brick.....1 Concrete.....2 Fibro.....3 Metal sheets/Tin.....4 Wood.....5 <input type="checkbox"/> Traditional:.....6 Other (Specify).....7	46. What is the primary material of the floor? Marble /Ceramic.....1 Floor .tile.....2 Concrete/Brick.....3 Wood.....4 Bamboo, etc.....5 Earth/sand.....6 Other (specify).....7
44. What is the major material of the roof? Concrete.....1 Metal sheets/Tin.....2 Tile.....3 Wood.....4 <input type="checkbox"/> Traditional.....5 Other(specify).....6	47. What type of dwelling is it? Traditional House.....1 Semi-permanent.....2 Small house in compound of - main house.....3 Permanent House.....4 Flat/Duplex.....5 Room in shared house.....6 Domestic/staff quarters.....7 Makeshift dwelling.....8 Other (specify).....9
45. What openings for ventilation are there? Glass louvers, windows, etc.....1 Shutters (including wooden louvers)....2 Opening which cannot be closed.....3 No openings.....4 <input type="checkbox"/> Other (specify).....5	

A Case Study

Exploring Informal Rental Housing in Ensis: Port Moresby

Survey Research Questions for tenants

Introduction

This survey questionnaire is for a research project conducted by Mr Lewis Iwong, a Research Project Officer. This project intends to analysis the dynamics between landlords and tenants of informal rental housing. A report will also be written with an aim of improving rental-housing policy and provision of affordable housing. Personal details will not be recorded and respondents will not be identified in any way with the information provided.

Instruction to respondents:

Please read the questions carefully and answer as instructed.

SECTION A: PERSONAL INFORMATION

(Write or circle the answers)

1 GENDER	2 PROVINCE OF ORIGIN	3 PLACE OF BIRTH	4 RESIDENCY	
What is your gender?	Which province are you from?	Which province were you born?	Lived here in this province continuously since birth?	How many years have you lived in NCD?
1 = Male 2 = Female	Refer to bottom of page 1 for Provincial names and codes Code: (write the relevant code)	Refer to bottom of page 1 for Provincial names and codes Code: (write the relevant code)	1=Yes 2=No 8=Don't know	1= less than a year 2= 1-5years 3= 6-10 years 4= 11-20 years 5= More than 20 years 8= Don't Know
<u>Codes of Provinces in Papua New Guinea for Question 4</u>				
01= Western	06= Oro/Northern	11= Eastern Highlands	16= Manus	
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03= Central	08= Enga	13= Madang	18= East New Britain	
04= National Capital District	09= Western Highlands	14= East Sepik	19= West New Britain	
05= Milne Bay	10= Chimbu	15= West Sepik	20= Autonomous Region of Bougainville	
			21= Outside PNG	

5	6	7	8	9	10
MARITAL STATUS	CHILDREN				EDUCATION
What is your present Marital Status?	Do you have children?	How many children do you have?	How old are your children?	How many of your children, are in school?	What is your highest level of education achieved?
1= Single 2= Married 3= Divorced 4= Separated 5= Widowed <i>(Single or no children move to question 11)</i>	1 = Yes 2 = No				00 = None 01-12 = General education 13= Trade certificate 14= Other certificate 15= Diploma 16= Degree 17= Post graduate 18 = Others (Specify)

11	12	13	14	15
EDUCATION				OCCUPATION
Which province did you complete your highest level of education?	What was the year you completed your highest level of education?	Are you thinking of furthering your education?	What is the main reason in furthering your education?	Are you employed?
	Year:.....	1 = Yes (Go to 14) 2 = No (Go to 15)	1 = Yes...(Go to 16) 2 = No...(Go to 21)

16	17	18	19	20	21
OCCUPATION					
Who is your employer?	What is your current employment designation?	How long have you been employed?	Are you involved in other informal sector activity?	What is the informal activity you involve in?	How do you obtain income for your rent?
1 =Public sector 2 =Private sector (formal company) 3 =Informal Sector 4 =NGO/ Voluntary sector 5 = International development (eg. Aid agencies) 6 =Other (Specify).....			1 = Yes (Go to 20) 2 = No (Go to 21)		

SECTION B: HOUSING INFORMATION

(Write or tick the answer in the box)

<p>22. Why do you chose to rent informal rather than renting in a formal sector?</p> <p>.....</p> <p>.....</p> <p>.....</p>	<p>30. Do you get a formal receipt for rental payments?</p> <p>Yes.....1</p> <p>No.....2</p>
<p>23. What is the main reason for choosing this Informal rental accommodation?</p> <p>.....</p> <p>.....</p> <p>.....</p>	<p>31. How much is the bond fee?</p> <p>Amount (K).....</p>
<p>24. How safe is the dwelling?</p> <p>Very safe.....1</p> <p>Safe.....2 <input type="checkbox"/></p> <p>Not safe.....3</p> <p>Not very safe.....4</p>	<p>32. From your income what percentage is paid to the rent?</p> <p>Percentage %.....</p>
<p>25. Is the unit close to public transport options?</p> <p>Yes.....1 <input type="checkbox"/></p> <p>No.....2</p>	<p>33. What are some benefits of renting informally?</p> <p>.....</p> <p>.....</p> <p>.....</p>
<p>26. Is the dwelling convenient to shopping facilities (store/ market)?</p> <p>Yes.....1 <input type="checkbox"/></p> <p>No.....2</p>	<p>34. As a tenant what are some of the challenges you encountered? (If any go to 35)</p> <p>.....</p> <p>.....</p> <p>.....</p>
<p>27. Are all utilities included in the rent?</p> <p>Yes.....1 <input type="checkbox"/></p> <p>No.....2</p>	<p>35. How do you address the challenges?</p> <p>.....</p> <p>.....</p> <p>.....</p>
<p>28. Which utilities are not included in the rent?</p> <p>Electricity.....1</p> <p>Water.....2 <input type="checkbox"/></p> <p>Others (Specify).....3</p>	<p>36. Have you ever thought of owning a house?</p> <p>Yes.....1 (Go to 38)</p> <p>No.....2 (Go to 37)</p>
<p>29. How often does the Landlord inspect the premises?</p> <p>Daily.....1</p> <p>Weekly.....2</p> <p>Monthly.....3</p> <p>Yearly.....4</p> <p>Don't Know.....5</p>	<p>37. Why have you not thought of owning a house?</p> <p>.....</p> <p>.....</p> <p>.....</p>

38. What is the main factor that hinders you to own a house?	40. How would you rate informal house rental in urban areas, addressing housing affordability? Most beneficial.....1 Beneficial.....2 No opinion.....3 Not beneficial.....4 Least Beneficial.....5
39. In how many years' time will you have a house of your own? Years.....	

41. Do you have any suggestion for the government to help people who rent informal?

SECTION C: GENERAL SERVICES AVAILABLE IN ENSISI

COMPLETE THIS TABLE BASED ON YOUR OBSERVATIONS AND INFORMATION GATHERED

Services	42. What is the distance (in kilometres) between this survey location and the nearest location with [SERVICE]?	43. How do most people of this study area get to this closest [service]? walking1 private/own vehicle2 public bus (pmv)3 other(specify)4	44. How much time does it usually take, using the most usual means of transportation, to get to [SERVICE]? (one way)
	<input type="text"/> kilometres		Hours Minutes <input type="text"/> <input type="text"/>
01 Primary School	<input type="text"/> kilometres		Hours Minutes <input type="text"/> <input type="text"/>
02 Secondary School	<input type="text"/> kilometres		Hours Minutes <input type="text"/> <input type="text"/>
03 Daily Market	<input type="text"/> kilometres		Hours Minutes <input type="text"/> <input type="text"/>
04 Weekly Market	<input type="text"/> kilometres		Hours Minutes <input type="text"/> <input type="text"/>
05 Store	<input type="text"/> kilometres		Hours Minutes <input type="text"/> <input type="text"/>
06 Post Office/Postal services	<input type="text"/> Kilometres		Hours Minutes <input type="text"/> <input type="text"/>

07 Banking services	<input type="text"/> kilometres		Hours <input type="text"/>	Minutes <input type="text"/>
08 Police station / Peace Officer	<input type="text"/> kilometres		Hours <input type="text"/>	Minutes <input type="text"/>
09 Regular public transport (PMV or Bus)	<input type="text"/> kilometres		Hours <input type="text"/>	Minutes <input type="text"/>
10 Health services (Clinics/Hospital)	<input type="text"/> kilometres		Hours <input type="text"/>	Minutes <input type="text"/>



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