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HOW MUCH WOULD PEOPLE PAY FOR A THREE-BEDROOM HOUSE IN PORT MORESBY?

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Key Points

- Willingness to pay for a three-bedroom house in Port Moresby was explored.
- Port Moresby residents would pay an average of K145,000 for a three-bedroom house, which is far below its current market price.
- Most Port Moresby residents might find it difficult to buy their own houses especially in properly serviced areas.
- In order to improve housing affordability, relevant government agencies should provide conducive environment for the construction of houses and encourage Public-Private Partnerships in housing delivery.
- Construction of high-rise multi-family apartments should be encouraged to maximise the utilisation of available land.

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HOW MUCH WOULD PEOPLE PAY FOR A THREE-BEDROOM HOUSE IN PORT MORESBY?

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This paper focuses on one of the findings from the survey of access to housing, infrastructure and services in Port Moresby that was conducted by Ezebilo and others in 2017. The survey revealed that access to housing is strongly linked to the location of a house, household income and household size. The current paper focuses on the amount of money that Port Moresby residents would pay for the purchase of a three-bedroom house in the city. Considering their income and expenditure, residents would pay approximately K145,000, with a median of K65,000. They have an average annual household disposable income (that is, income after tax deductions) of K39,000 with a median of K19,526. The findings reveal that, currently, most residents in Port Moresby may not be able to buy their own houses. If the intention is for residents to buy their own houses, there is a need to increase the supply of low-cost houses, and promote local production of house construction materials by encouraging Small and Medium Enterprises (SMEs) to produce them. A financial entity, such as a national mortgage bank that provides housing loans to house buyers and large scale private developers at low interest rates, should be established. The long-standing issue regarding access to customary land with proper titles for development should be resolved. Considering that not all households will be able to buy a house in the short-term, it is necessary for an affordable housing scheme to focus on both home ownership and a house rental scheme.

It is important to note that there are other factors that influence willingness to pay for a house, such as location, condition of the house, income, household size, age of the house and neighbourhood characteristics. However, these were excluded from the analysis in this paper.

What do the Willingness To Pay (WTP) and income value indicate?

One of the roles of the State is to provide its citizens with access to quality, affordable and adequate housing. However, the Port Moresby residents' average WTP for a three-bed house revealed that they may find it difficult to access housing that meets these requirements. For example, the lowest sales price for a three-bedroom house in properly serviced areas of the city ranges from K300,000 to K400,000 (Ezebilo, 2017). This suggests that an average Port Moresby resident cannot afford it.

The huge difference between the average (K39,000) and the median (K19,526) household disposable income revealed that there is a wide gap between income groups in Port Moresby. Households that earn the average income have the potential to pay around K300,000 for a three-bedroom house through the First Home Ownership Scheme (FHOS). However, considering that the household has other necessities to meet, such as food, clothing, health care and education, they may not be able to afford the house loan.

For example, for the FHOS, a household is required to pay 10 percent of the house price in advance (equity) and repay the loan over an agreed period of time. Assuming that the house price is K300,000, the household pays K30,000 as equity. They will pay K620 each fortnight for a period of 40 years. A household that has an annual disposable income of K39,000 (that is, K1,500 per fortnight) will be left with K880 each fortnight after paying the K620. The K880 might not be enough to pay for other necessities.

Necessary policy interventions

In an attempt to address problems associated with accessibility to affordable housing, we could target the supply side, demand side, or both. Targeting the demand side might entail the government increasing workers' wages, which might not be feasible because of the associated costs and potential inflation. Addressing the supply side, which

targets potential strategy that could be applied to reduce house sale prices to the level that most people can afford, might assist in improving accessibility to affordable housing. Policy interventions that could be used to promote access to housing for different income groups include the following:

- Provide an enabling environment for Public-Private Partnerships (PPP) to operate effectively in housing delivery. This has the potential to attract several large-scale private developers to invest in the construction of low-cost houses. However, for the PPP to work well in the provision of affordable housing, the responsibilities of the public and private sectors in the partnership must be streamlined.
- Government at all levels should empower SMEs to increase the production of house construction materials locally. Most house construction materials are imported, which contributes to the high cost of constructing houses in Papua New Guinea (PNG). SMEs could be empowered by providing them with facilities for training and access to loans from financial institutions to increase production.
- Strata titling should be promoted to enable people to buy housing units in multi-family blocks. This would provide people with the opportunity to buy housing units in multi-family blocks with proper titles.
- Establish a national mortgage bank. Currently, low-income and lower middle-income groups often find it difficult to access housing loans from commercial banks because of the stringent requirements imposed by the banks. Furthermore, the interest rates and administration charges also contribute to the housing cost. A national mortgage bank can assist in relaxing requirements that crowd out low-income and lower middle-income groups from accessing loans at low interest rates.
- Political support is necessary for the current review of the National Housing Policy (NHP) to be completed and implemented. As the NHP provides guidelines for the implementation of housing projects, it influences investments in the housing sector. For the review of the NHP document to be completed and implemented, it is necessary for the political class to support the NHP by releasing the required funds when they are due. It is important for the political class to see the funds as an investment rather than a cost. This is because the NHP document has the potential to attract investors into the housing sector, which benefits the State through taxes.
- More political will is necessary for customary land titles

to be acceptable by financial institutions. As State-owned land is almost exhausted, the space for housing has become increasingly scarce, which increases land and house prices. To address this anomaly, there is a need for more political support for customary titles to be bankable so that more customary land could be brought to the formal land market. This will assist in lowering house construction costs and consequently reduce house sale prices.

- In order to benefit from economies of scale, it is necessary to consider constructing more high-rise multi-family apartments. As land with proper titles is almost exhausted, it is necessary to maximise the use of available land by constructing high-rise multi-family apartments. This will assist in reducing the land price per unit of the houses being constructed and consequently reduce house prices.
- Affordable housing schemes should focus on home ownership and house rent schemes. This will result in a 'win-win' situation for urban residents who meet the requirements for owning a house and those who do not. It has the potential to provide residents with the opportunity to access houses with affordable rent until such time they meet the requirements for buying their own house.
- Research on the use of locally available materials for constructing houses should be promoted at all levels of government. It is necessary for government to provide funds to research institutes and universities to conduct research on local materials that could be used for constructing low-cost houses. This will assist us in mitigating the cost of constructing houses and, consequently, lower house prices.

Concluding remarks

Considering the current situation in Port Moresby, most of its residents may find it difficult to access affordable, quality and adequate housing. The FHOS that was established by the State to assist households to access funds to purchase their own home is a step in the right direction. However, considering the high house sale prices and the corresponding 10 percent of the house price to be paid in advance, many households may find it difficult to benefit from the FHOS. If the intention is to promote access to affordable housing for households, we could focus on the supply side of housing that has the potential to push down house prices. This could be achieved by empowering SMEs to increase the production of materials for constructing houses locally. The State should

provide more funds to universities and research institutes for research on the use of local materials for constructing houses. More political will is necessary for financial institutions to accept titles associated with customary land as security to access loans from financial institutions. In order to maximise the use of available land, we should consider reviewing the policy that restricts people from the construction of high-rise multi-family units and strata titling promoted. It is necessary for government agencies, such as the National Housing Corporation, the Department of Lands and Physical Planning and the Department of National Planning and Monitoring, to provide an enabling environment for PPP to operate in an effective and efficient manner. We hope this paper will assist urban development planners and policy-makers to make informed decisions in the provision of affordable housing for residents.

References

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