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## IMPROVING HOUSING DEVELOPMENT IN PAPUA NEW GUINEA

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EVIDENCE FROM EDAI TOWN

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### Key Points

- Sustainable and coordinated Housing Development to provide affordable housing is a major challenge for the private and public sector in Papua New Guinea.
- Papua New Guinea is a high risk market for private developers and provides several challenges, such as shortage of land that can be developed, financing options for developers and buyers as well as higher costs than average in nearly every area.
- The private driven example of EDAI Town provides an holistic approach to develop the quantity and quality of housing required in suburban Port Moresby.
- Successful Housing Development has to be understood as successful cooperation between the private and public sector.
- A legal framework to regulate the housing industry could improve the quality and quantity of Housing Developments in Papua New Guinea.

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## IMPROVING HOUSING DEVELOPMENT IN PAPUA NEW GUINEA: EVIDENCE FROM EDAI TOWN

By **Simon Aleker**

**T**he major urban centres of Papua New Guinea (PNG) are experiencing an unprecedented increase in population. As a consequence of this, the high demand, in combination with the limited supply and prohibitive prices of housing, results in rapid growth of squatter settlements. According to the UN-HABITAT urban profile of Port Moresby (POM) from 2010, around 45 percent of POM residents live in informal settlements simply because they cannot afford proper accommodation in POM (UN-HABITAT 2010: 9).

An initiative to challenge this development comes from JC-KRTA Consulting Group (PNG) Ltd, in partnership with the local landowners of Boera Village. The so called “EDAI Town” tries to combine profitable Housing Development (HD) with affordable housing in the PNG context. This example from the private sector will be used to show how HD can be improved in PNG as a way forward. This paper is based on the presentation about “Housing Development in Papua New Guinea – A Private Developer’s Perspective”, given by EDAI Town Managing Director Ms Kim Yong at the Conference Center of the National Research Institute of Papua New Guinea in October 2015.

HD in PNG has been a major challenge for the private and public sectors. There are several problems to deal with when it comes to HD. Examples are shortage of accessible land, financing opportunities and skillset of labour. Despite the challenges, there is a lucrative market for HD in PNG. The demand for so-called “affordable” housing is high. The “affordability” of housing is a key term in the current discussion of HD in PNG. It is significant to understand affordability from the end users perspective. The National Executive Council (NEC) in its decision No. 348-2013 (2nd October 2013) approved the establishment of the “National Affordable Lands and Housing Program” with the task of developing an “Affordable Housing Policy”. ‘Affordable’ in this context has become a political term with no definition. Affordability is a subjective term and varies between differ-

ent income levels. According to an article from BUSINESS ADVANTAGE PNG (2015), the Non-Government-Organisation (NGO), Community Housing Ltd made an attempt to combine this term with a proper value. Based on this article an average employed person in a “good job” can afford a land package, including the required land and a two bedroom house, for a maximum of PGK420,000 in POM. However, the article lacks a proper definition of a “good job”.

So far, several attempts by the public sector have been made to improve the housing situation in PNG. In POM, for example, “8/9 mile”, guided by the National Capital District Commission (NCDC), and “Taurama Valley” guided by the Office of Urbanisation, can be named as such developments. To this date the implementation of both developments has not achieved the set goals and has failed to generate the much needed relief on HD demand in POM.

The private sector has also contributed to the HD in POM. The Harbour City Development, driven by a private development company associated with the Curtain Brothers Group of Companies, is one such successful example. However, such development only provides upmarket real estate which is not affordable for the majority of PNG residents.

### The example of EDAI town

EDAI Town is located 22 km in the north west of POM Town on state land. As such it is strategically located between the PNG Dockyard (9km) and the PNG Liquefied Natural Gas (LNG) project site (6km), which are both major employers in this region. Housing density in this area is very low. This is one of the reasons the national government, in partnership with the NCDC have identified this area as a future growth centre for the urban expansion of POM.

EDAI Town is an initiative by JC-KRTA Consulting Group (PNG) Ltd. This is a privately owned company in the construction industry with strong Malaysian and Australasian connections. The developer’s vision is to: “develop a modern township that will house Papua New Guineans in a safe and affordable environment and to encourage development of business activities that will create local employment to

Figure 1: Edai Town Master Plan; source: Edai Town



achieve a sustainable economic environment for our township” (YONG 2015).

The Master Plan for EDAI Town was approved by the National Physical Planning Board (NPPB) in December 2011. In the absence of a Provincial Physical Planning Board in Central Province, the NPPB is the leading authority to approve such developments. NPPB granted 4 residential, 2 commercial and 2 industrial leases for EDAI Town.

As displayed in Figure 1, the four residential areas include Phase One, EDAI Centro, EDAI east and EDAI west. Two commercial areas can be found between EDAI Centro and EDAI west. These shall include a Hotel and shopping facilities. Furthermore, space will be provided for public services, including a fire station, police station and a medical centre. The industrial leases will be located in the north of EDAI Centro. These areas will be prepared for an industrial park and a solar farm.

Through this setup of residential areas in combination with commercial and industrial areas, the developer is attempting to create a satellite town in the sphere of POM. In response to the natural and social environment of POM, the characteristics of EDAI Town will be as follows:

- **Guarded:** A private security company will provide safety and emergency response services.
- **Gated:** EDAI Town will be a gated community with restricted access to the wider public.
- **Green:** Environmentally friendly construction material will be used and recreational areas established.
- **Global:** Telecommunication services up to international standards will be provided.

This approach attempts to provide a new form of community living in an urban setting for an emerging POM middle class. To secure and protect ownership and investment, the developer is providing a legally binding Lessor/Sub-Lease arrangement to the potential buyers.

Through such an arrangement, a potential buyer is eligible to apply for a “First Home Ownership Scheme Loan” (FHOS) from Bank South Pacific (BSP) if they fulfil following additional requirements:

- Be a citizen of Papua New Guinea
- Provide proof and evidence of a 10% contribution to the equity of the home purchased
- Be employed and earning a regular income
- Not have previously owned a home
- Intend to live in the home

According to the Information Pack (FHOS) from BSP, the FHOS would provide potential buyers with the opportunity of a maximum loan amount of K 400,000 with an interest rate of 4.00% fixed per annum and 10% Equity (BSP 2015). Therefore, a potential buyer who fulfils the requirements stated above would be capable of purchasing property at EDAI Town.

The legally binding Lessor/Sub-Lease arrangement will also provide a management agreement for common facilities. This will be necessary because the developer of EDAI Town attempts to operate independent water and sewerage treatment plants and a centrally organised waste management facility. Furthermore, an integrated back-up power supply is planned to compensate for irregular power black outs.

Figure 1: Edai Town Phase One; source: Edai Town



To date, several steps towards Phase One of EDAI Town development have been taken. The most important milestones are as follows:

- **December 2010:** Five Year Urban Development Lease granted for Portion Eleven (EDAI Town area)
- **April 2011:** Development Partnership formed between JC-KRTA Consulting Group (PNG) Ltd. and Boera Village
- **December 2011:** Master Plan approved by NPPB
- **October 2013:** EDAI Town launch by Prime Minister Peter O’Neill
- **February 2014:** 99year State Leases granted for EDAI Town
- **September 2014:** Commencement of Phase One house construction activities as displayed in Figure 2 (YONG 2015).

### Challenges for private developers

HD in PNG comes with major challenges for the developers. PNG is a high risk market for private businesses. According to the website DOING BUSINESS (2015), PNG is ranked 145 out of 189 in ease of doing business. As displayed in Table 1, PNG’s position has deteriorated since 2010. This includes ease of doing business, starting a business, and dealing with construction permits, registering property or getting credits.

The high risk of doing business in PNG results in high transaction costs for private developers and difficulties in combining both profitable HD and affordable housing. For example, communication charges, legal fees, investigational costs of finding the price, quality, and durability of a service can increase the cost and risk of doing business in PNG.

Table 1: Doing Business Ranking of PNG, 2010 & 2015

Criteria	2010 (of 183 countries)	2015 (of 189 countries)
Ease of doing business	102	145
Starting a business	104	138
Deal with construction permits	121	127
Registering property	83	119
Getting credit	135	167

In addition, a review from the Independent Consumer and Competition Commission (ICCC) about the “PNG Housing and Real Estate Industry” (ICCC: 2010) identified further economic issues affecting HD in PNG. Table 2 (p. 4) displays the most significant economic issues.

Similar challenges have been raised by JC-KRTA Consulting Group (PNG) Ltd (YONG 2015). Through the experience of EDAI Town, the following challenges can be identified for private developers in PNG:

- **Shortage of state land, especially large tracts of land:** The majority of Land (97%) in PNG is customary land (only 3% is state land). In most areas of PNG, state land

Table 2: Economic Issues affecting housing development in PNG

Issue	Description
Shortage of land	State land is virtually exhausted and the release of customary land for HD is insufficient.
Lack of competition and efficiency	There is no sufficient competition in the market for building houses.
Demand side issues	Due to the high demand and low level of supply of houses, prices and rents of houses have soared.
Supply side issues	Supply of housing is influenced by the availability and cost of land, appropriate materials, technology and skilled labour.

is already exhausted. Due to the insecurity in customary land titles, state land is still the preferred land for project sites.

- **Project financing for developer:** HD projects are cost intensive. Local financial institutions have no program in place to finance such privately driven initiatives.
- **Home loan financing for buyer:** The availability of home loan financing options for potential buyers is a problem. Only one financial institution has a general program in place to support a credit on mortgage.
- **Need for training of skilled labour:** The lack of skilled labour in the housing industry is delaying the progress of big scale HD projects and eliminates free market mechanisms such as competition.
- **High material cost – lack of local supporting industries:** The lack of a local supporting building industry results in high material costs for the developer. Building material for large scale development projects have to be imported from overseas.
- **High construction costs:** Cost intensive expatriates with required skillsets have to train local employees to construct houses according to international standards. Local employees with the required skill-sets are not available.
- **High business costs:** As displayed in Table 1, Doing Business in PNG is related to high transaction costs due to insecurity in dealing with the public sector.
- **High financing costs:** The lack of local opportunities in project finances results in more expensive project financing from overseas.
- **Lack of foreign currency:** The shortage of foreign currency in PNG hinders HD projects which rely on expatriates, and financing and construction materials from overseas.
- **Absence of legislative protection:** There is no legislative protection for house buyers if the developer fails or abandons a project. Without such protection, potential home buyers face financial risk exposure.
- **Sustainability Issues:** Without proper long term management of HD in POM there is a risk that the HD will turn into an organised slum after the developer completes the project.
- **Housing Industry is not regulated:** The ‘rules of the game’ in the housing industry are loose and developers are at risk of becoming victims in the unregulated market. For example, there is no legal framework or policy in place for affordable housing. There is no legal requirement for property purchasers to be represented by a conveyancing lawyer to protect their interests. Developers are exposed to land title frauds.
- **Social Issues:** The traditional ‘Wantok’ system is a very unique system in PNG. It can support the progress of individual home buyers through financial support, or it can hold them back through payment expectations to other wantok members. The lack of affordable houses in POM, in combination with urban population growth, is currently increasing the social pressure through the wantok system.

Furthermore, the following factors and possible problems have been identified with the potential to create a negative impact on HD in PNG:

### Improving housing developments in PNG

HD in the absence of an organised housing industry is a key challenge for private developers. A major improvement for HD would therefore be regulation of the housing industry. Such regulation could provide a legal framework for the development of affordable houses. In addition, regulation through a legislative framework could provide a basis for co-operation between the private and public sectors. This would enable the public sector and policy maker to use the experience of private developers like JC-KRTA Consulting Group (PNG) Ltd to develop a broad based housing policy in PNG.

Several challenges of the housing industry have been mentioned above. The following recommendations should be

considered to improve HD in PNG:

- **Support the National Land Development Program:** Most areas of state land are exhausted. The National Land Development Program (NLDP) provides a path to free up customary land for developments through the incorporation of customary land groups and voluntary customary land registration. Continued financial and political support for this program is crucial to establishing a reliable and trustworthy process to provide land for HD.
- **Improve quantity and quality of skilled labour:** The housing industry is growing in POM. The sustainable growth of this industry requires a skilled labour force as well as construction and service companies to provide services required by developers. A coordinated training and apprenticeship program in cooperation with private developers and companies could provide a sustainable approach to establish a labour force with the required skillset for the housing industry.
- **Promote a versatile building supply and material industry:** HD require availability and access to fairly priced construction materials. A versatile building and material industry as a supportive sector of the housing industry would be required to reduce high material costs. The sustainable demand for growing housing industry, in combination with a government initiative to organise and support a versatile building industry, could generate a cost efficient industry supporting the local economy.
- **Reduce financing, business and construction costs and stipulate financing options:** A regulated housing industry based on a legal framework would provide guidelines and increase the security for private developers. This would directly influence the risk factors and reduce high transaction and administration costs. Furthermore, a regulated housing industry could provide the required security and trust of local finance institutes in development projects to increase financing opportunities for potential buyers and developers.
- **Guarantee supply of foreign currency:** The availability of foreign currency is essential for international developers. This can only be provided by the government. A policy has to be established to guarantee the supply of foreign currency for private developers.
- **Stimulate coordinated supply of houses in POM:** Several HD are taking place in POM in an unregulated market with limited access to home loan options for potential buyers. The limited access to home loan options reduces the affordability options for potential buyers and

risks the cost effectiveness of HD. A regulated housing industry could stimulate the supply of home loan offers and stabilise the real demand for affordable housing.

- **Create legislative protection:** A regulated housing industry could exclude private developers who are failing or who abandon a HD project. This would increase the protection of potential home buyers and reduce the risk of financial risk exposure.
- **Create a sustainability pathway:** A legislative framework for the housing industry could provide measurements to ensure the sustainable management of HD after the developer completes the project. This would reduce the risk that HD would turn into organised slums.
- **Reduce social issues:** A regulated housing industry would promote HD and increase the supply of affordable houses to cater for the enormous demand. An increased supply of houses would reduce the social pressure on house owners by spreading the wealth of wantok members between different house owners.

## Conclusion

HD in PNG can be considered a high risk investment. Even if a private developer tries to consider all risk factors related to HD, the success of a development also depends on the services provided through the public sector. Therefore successful HD has to be understood as successful cooperation between the private and public sector.

At the moment, this cooperation fails to be efficient due to the absence of a legal framework to regulate the housing industry. This paper shows that the regulation of the housing industry would improve the quality and quantity of HD in PNG. Such an improvement is desperately needed if the government would like to have a real attempt to create affordable homes for the citizen of PNG.

Although, a regulation of the housing industry is very important, it might not be enough to stop the growth of squatter settlements. To stop this growth, the government has to carry out its duty and provide services for the public. This duty includes supply of infrastructure. Such as, water, sewerage, and telecommunication. It also includes public services like education, police, fire department and health services.

The HD of EDAI Town is a good example of a privately driven initiative to improve the housing situation in POM. However, the future of this project is uncertain if the government fails to play its part. Sustainable HD requires the cooperation of the private and public sector. The private sector has taken up the initiative, it is now up to the

government to support this move through reliable public services and through regulation of the housing industry to provide sustainable housing development in PNG.

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