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POTENTIAL GAINS FROM THE DEVELOPMENT OF A VIABLE RESIDENTIAL PROPERTY MARKET IN PAPUA NEW GUINEA

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Key Points

- Papua New Guinea (PNG) can obtain considerable revenue from transactions involving residential properties.
- A well-developed 'competitive' property market is lacking in PNG.
- A competitive property market will spur economic growth, and benefit all sectors of the economy.
- To promote a viable competitive residential property market, import duties on building materials must be reduced, basic infrastructure provided, and building materials sourced locally.
- Also necessary is to support the activities of the newly established Customary Land Development Office, and allocate land using market-based systems.

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POTENTIAL GAINS FROM THE DEVELOPMENT OF A VIABLE RESIDENTIAL PROPERTY MARKET IN PAPUA NEW GUINEA

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This paper focuses on one of the findings from the recently article by Ezebilo et al. (2016) concerning residential property prices in Port Moresby. The article stated that K22 million (US\$7.3 million) could have accrued to the State, as revenue from stamp duties. The study was undertaken for a period 13 months, from February 2014 through February 2015, and the stamp duty was based on three percent of the sales value of property. The study is part of the research project by the National Research Institute (NRI) that focuses primarily on the tracking of property prices in Port Moresby, which is the largest market in Papua New Guinea (PNG). The article by Ezebilo et al. (2016) is the second in the series, which tracks the prices of properties that were advertised in The National newspaper. The current paper focuses on the revenue that could accrue to the State through stamp duties, on residential property sales. It is important to note that there are other benefits, such as welfare improvement from owning a property, job creation for builders, and real estate agencies. However, these are excluded from the analysis provided in this paper.

Implications of Findings

- 1. The K22 million (US\$7.3 million) is based on the sales value of residential properties that were advertised in The National newspaper in PNG.** This implies that many properties which were directly advertised via real estate agents and other newspapers were not included.
- 2. It is assumed that the residential property market in PNG is a seller's market. This is driven by high demand in a low supply environment. Given the high demand for housing in Port Moresby, any advertised price most likely will be the sales price.** This implies that the State should have generated K22 million (US\$7.3 million) during the research period as shown by these data.
- 3. The data used in the research reported in this paper were obtained from only one of Papua New Guinea's major cities, Port Moresby.** This indicates that, if property sales

from all areas throughout the country were accounted for, the revenue generated would have been significant for the State, which, in turn, could play an important role in the economy.

4. The analysis from this paper excludes informal transactions in informal housing areas. The informal areas in Port Moresby account for approximately 47 percent of the city (Walter et al. 2016), and constitute a large segment of that residential market. As informal transactions operate outside of the formal sector, the State loses the potential revenue from this market segment.

5. Settlement periods for transactions in PNG. In a study of the use of land lease as collateral for accessing finance in PNG, Chand et al. (2014) found that the settlement period in PNG takes a minimum of six months. This infers that, from the time a buyer and seller reach a sales agreement, it takes at least six months for the transaction to be concluded. In developed economies, such as Australia, the settlement term is approximately 30 days. The absence of a reliable database to facilitate title searches within the Department of Lands and Physical Planning in PNG is the main reason behind the protracted settlement process. The slow transaction process deprives both property buyers and sellers of the benefits of an early settlement, and translates into a delay in the potential revenue that should accrue to the State.

The findings reported in this paper imply that the Papua New Guinean property market is not well-developed, which leads to the loss, and/or delayed realisation of the potential revenue that could have accrued to the State. To increase revenue from the housing sector, it is important to provide an enabling environment that will stimulate the emergence of a well-developed competitive property market. The following section discusses some of the policy options which can make the residential market competitive.

Necessary policy interventions

In order to stimulate the emergence of a competitive residential property market in PNG, there is a need for the State to introduce a range of policies:

- 1. Reducing import duties on building materials:** To attract more investors into the housing sector, and to promote opportunities for a competitive residential property market, import duties on machinery and building materials for residential construction should be reviewed or removed. Currently, most materials that are used to build houses in PNG are imported from overseas and the import duties placed on the materials tend to push up their prices. Consequently, this increases the cost of building houses. There is a need to lower import duties on building materials, equipment, and machines as reported in the PNG Vision 2050 document (National Strategic Plan Taskforce 2009:ss1.14).
 - 2. Provide basic infrastructure, where it is lacking, and regular maintenance of existing infrastructure.** Location is one of the main drivers of property prices. It is influenced by the availability of infrastructure, such as transport, water, sewerage, schools, shops, and medical centres. Given the high cost of providing this basic infrastructure, the private sector is more likely to shy away from investing in residential property development. In order to motivate and/or provide the private property developers with incentives to build more houses, especially in the major cities, the Papua New Guinean Government should take full responsibilities for the development and operational costs of the trunk service infrastructure.
 - 3. Supply more customarily-owned land for the residential property sector.** Property development in Papua New Guinea's major cities, such as Port Moresby, has been mainly on state-owned land. The land owned by the State is limited and almost exhausted. This implies that there is a need to free-up more customary-owned land for the residential property sector. This has also been highlighted in the current work of the National Land Development Program (Department of Treasury led Taskforce), and the Independent Consumer and Competition Commission (ICCC). Through the activities of the newly established Customary Land Development Office (National Executive Council 2016), it is expected that more customary-owned land will be made available for residential development. Therefore, it is critical that the Office is made fully operational and the associated land laws are reviewed to ensure its smooth operation.
 - 4. Review the current land allocation system.** The current land allocation system for state land, through the Land Board, encourages the allocation of land to speculators, which restricts some people from investing in residential properties. To promote a competitive property market, land should be allocated based on a market system which has a time bound development clause that is consistent with an operative urban development plan.
 - 5. Encourage effective planning in informal dominated areas.** To ensure the supply of more houses for the formal residential property market, as advocated by ICCC (2012), it is important to promote effective and efficient planning in informal dominated areas. Such areas include urban villages, squatter settlements on state land, and informal developments on land that has been directly transacted between customary landowners and other Papua New Guineans. Overall, the informal settlement sector must be viewed as a competitor to the formal sector. Consequently, if the systems and processes for formal sector development raise the costs, the informal sector will flourish. This situation requires creative and innovative policies and strategies. Walter et al. (2016), who reported on the major findings of the review of urban planning in PNG, provide some options for consideration. It is important to consider regularising some of the existing informal settlements on the fringes of major urban developments.
 - 6. Source building material locally to reduce the cost of building houses.** The Papua New Guinean Government should support more research into the use of locally sourced materials for building houses, as well as the fabrication of machines. This will help reduce costs, attract more investment in the housing sector, and lead to the supply of more houses in the property market.
 - 7. Support the training of Papua New Guinean citizens in courses related to property development.** Currently, skilled manpower in property development is lacking in PNG. This implies that people must be hired from other countries, which leads to high salaries and adds to housing costs. The Papua New Guinean Government should support the training of its citizens to enable them to acquire skills related to cost effective, and efficient techniques of building houses, as highlighted in the PNG Vision 2050 document (National Strategic Plan Taskforce 2009).
 - 8. Computerise the land administration system using a secure database that facilitates transactions in a transparent and accountable manner.** This is critical in order to improve title storage and title search. This current system remains dysfunctional within the Department of Lands and Physical Planning, even after spending more than K40 million (US\$13.3 million) on a non-functioning computer system. Benchmarks could be set, in order to reduce the period of settlement from the prevailing period of six months to a single month, in two years.
- A competitive residential property market will provide more opportunities for investment in the housing sector, will lead to the building of more houses by private property developers, and the State will receive greater revenue that will accrue

from house sales, through stamp duties. As a result, the residential property market will stimulate the growth of enterprises that are complimentary to the housing sector, and the State will also generate more revenue from taxes paid by the enterprises. Furthermore, access to the necessary infrastructure that provides enabling conditions for a competitive market will provide private property developers with opportunities to invest more, explore possible ways of reducing costs, and result in greater profits. It will also provide the developers with opportunities to draw up long-term plans, and invest in technology that will improve their effectiveness and efficiency.

Concluding remarks

Because of the competitive nature of the market, for each of the private property developers to stay in the market, they will need to build houses that meet the general public's preferences and demands. Moreover, the increase in the supply of houses by the private property developers to the market will push down prices, and increase the benefits received by consumers in the form of reduced prices. The general public will also benefit from the employment opportunities provided by various enterprises that are complimentary to the housing sector. The revenue generated by the State can be used to support other sectors of the economy that have been lagging behind. This implies that the emergence of a competitive residential property market in PNG will result in a "win-win" situation for the State, private property developers, and the general public.

PNG can obtain considerable revenue from transactions involving the residential property market which can help spur economic growth. The emergence of a competitive residential property market will benefit the Papua New Guinean Government through greater revenue that will be generated from stamp duties charged on sales of residential property. However, the conditions required for the development of a competitive residential property market in PNG is lacking, resulting in the loss of a greater portion of revenue to the State.

With the intention to move PNG forward toward promoting a competitive residential property market, several policy options have been discussed in this paper, including lowering import duties on building materials, making all facilities required for the newly established Customary Land Development Office function properly, and the State taking responsi-

bility for the development of the trunk service infrastructure and its maintenance. Consideration should also be given to allocating land to people through a market-based system, especially on state-owned land, and supporting research into the use of locally sourced building materials. It is hoped that this paper will give policy makers a great understanding of the need for a competitive residential property market, and its potential contributions to the Papua New Guinean economy. It will also contribute to the debate on property development, and a sustainable housing policy in PNG.

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