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PUBLIC AND PRIVATE SECTORS COLLABORATION IS NEEDED TO PROMOTE AFFORDABLE HOUSING IN PAPUA NEW GUINEA

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Key Points

- Inadequate access to formal housing in metropolitan cities of Lae and Port Moresby is a growing concern.
- Increase in urban informal squatter settlements have brought to the forefront issues of housing affordability.
- The concept of affordable housing extends beyond the economic variables and includes social welfare of low-income households.
- Stakeholder collaboration across the public sector and private sector is needed to address housing affordability.
- Pragmatic market-led interventions complemented by policy prescriptions by the private and public sectors are needed for affordable housing in Papua New Guinea.

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PUBLIC AND PRIVATE SECTORS COLLABORATION IS NEEDED TO PROMOTE AFFORDABLE HOUSING IN PAPUA NEW GUINEA

By Lindsay P. Kutan

The inadequate access to formal housing in the metropolitan cities of developing countries including Papua New Guinea (PNG) is a growing concern. Plagued by chronic restricted supply of houses, skyrocketing house prices and rents and increase in informal squatter settlements have brought to the forefront the issues of housing affordability. However, the concept of affordability in the housing sector extends beyond the economic variables of prices and income. It also takes into consideration the social implications borne by poor sections of the society who are unable to afford to rent or purchase a house through a market driven approach. Recent studies have indicated that more than 60 percent of housing shortage in South Asia are felt particularly by low-income households (Aslam and Satter, 2018). In the same study, on average, 47 percent of urban population for example in Afghanistan, Bangladesh, India and Pakistan reside in slums. These disturbing statistics corresponds with the cities of PNG such as Port Moresby and Lae where approximately 50 percent of the urban population resides in informal settlements (NCDC, 2020). Housing affordability has become a global concern and was recognised by the United Nations as one of the foundational pillars of sustainable economic development in its New Urban Agenda (Habitat, 2020). Despite this recognition, the fundamental human right for all to have access to adequate shelter with proper infrastructure and facilities continues to dissipate in the sub-standard living conditions of slums and informal settlements. Commonly inundated by congestions, overcrowding, poor quality houses, and lack of basic services which by and large has exacerbated poverty.

This article emphasises the importance of stakeholder collaboration across the public and private sectors to provide adequate and affordable housing. The scope of stakeholders in provision of housing is vast. These include policy formulators and implementers, project managers, financial institutions, regulatory agencies, municipal authorities, legal fraternity, subcontractors, suppliers and service providers, insurance companies, banks, media and press, community representatives, and development agencies. The article summarises the results of an ongoing study undertaken by

PNG National Research Institute on the roles and functions of the public and private sector in the provision of affordable housing. It highlights the concept of affordable housing in the context of the housing market in PNG. Followed by inherent challenges that affects the issues of housing affordability. Then draw some lessons from various developed and developing countries regarding the affordable housing programs initiated by the public and private sector.

Features of collaboration for affordable housing

In the outset, the definition of 'affordable housing' varies across economies. As aforementioned, the definition generally includes the financial component, a standard of what is perceived as a minimum of socially acceptable housing with clear demarcation of what income groups are affected and at what income level households should be eligible for housing assistance. However, a widely used measure of affordability is housing costs that consumes not more than 30 percent of household income per annum (UN Habitat, 2020).

Within the precincts of the above definition, the parameters of collaboration by private and the public sector is underpinned by the fundamental roles of the government and the private developers in this instance. This was discussed recently in Kutan (2021), the government provides a conducive regulatory and policy environment, whilst the private property developers focus on direct construction and the supply of houses into the housing market.

Inherent challenges related to affordable housing

The following inherent challenges identified in Falk and Rudin (2018) are discussed within the context of PNG.

- **Limited land supply.** Housing affordability goes beyond the price concerns and takes into consideration the location, access to services, amenities and employments. The shortage of land with proper titles in the urban precincts of Port Moresby and Lae City are pushing the private developers to establish residential developments in the fringes of the cities, where access to basic services and amenities are a

challenge. For instance, in Port Moresby, residential developments of Edai Town, Skyview and Kennedy estates are facing the challenges of accessibility for proper schools, bus stops, shopping centres, markets in which residents have to travel into the cities to access. Similarly, these challenges are also faced in residential developments of Valley View Estate occurring outside the Lae city boundaries.

- **High construction costs.** The minimum housing market price of K450,000 for a 3-bedroom house within the urban cities of Lae and Port Moresby is unaffordable for middle-income and low-income households. However, the existing house prices reflect the input cost of production. For instance, unserviced land in Port Moresby and Lae without the infrastructure costs is priced between K100,000 and K150,000. With the inclusion of infrastructure this sums up to from K250,000 to K300,000, even before construction of the property commences. Reduction in construction costs would require private developers forgoing the traditional approaches in residential development and embracing innovative ways of lessening cost yet increasing productivity in capital and labour.
- **Increasing operations and maintenance efficiency.** After the construction of houses, the ongoing operations and maintenance is critical to ensure cost savings in the long run. Reducing these costs can make housing affordable and ensure a consistent growth of housing stock and ensure the development aspirations are achieved. Even for middle-income group, the mortgage for housing absorbs a large proportion of their income and expenditure items. Addressing high cost of operations and maintenance reduces the financial strain on the individuals and their families. The lack and inconsistent supply of electricity and water in Port Moresby and Lae inflates the operational costs for the residents. In addition, private developers are complementing the lack of infrastructure with pragmatic solution for instance the Valley View Estate and Lae Birdwing estates have privately installed tuffa tanks and constructed sewerage septic for their individual properties.
- **High financing costs of buyers and developers.** Financing aspect of housing is vital for housing affordability for both the buyers and developers. In a developing country like PNG, overwhelming majority of low-income residents in Port Moresby and Lae are unable to purchase and own a house. Commonly regarded as high-risk category due to

their credit worthiness, the cost of financing is high. Similarly, property developers experience challenges in high cost of financing for large-scale residential developments.

Needed market-led interventions complemented with policy prescriptions

Interventions through collaborative efforts by the government and the private property developers within various proposed housing programs must consider addressing all income segments. These housing programs should not only focus on development of new housing units, but also consider a thorough assessment of the status quo of the existing housing sector. These include understanding the household level data of income, housing standards (for example land and floor space capacity), distribution of housing owned by various income groups within the urban vicinity, locations of economic corridors particularly centers of employment and precise inventory of existing housing stock and planned new supply and corresponding prices.

In light of the above challenges, the following are critical cost leavers in addressing housing affordability observed by McKinsey Global Institute (2014).

- **Land is the most important factor of production for affordable housing.** Irrespective of improvements in management of construction, operations and finance, affordable housing initiatives will not succeed if the land issues are not resolved. Six mechanisms that have widely acknowledged to unlock urban land for affordable housing includes the following: developing new land around transportation infrastructure, releasing public land for development, using regulatory measures to unlock private land or discourage speculators, enabling development through land pooling or readjustments, formalising ownership of informal land and modernising land administration systems, reforming urban land rules to encourage development that includes affordable housing for all income segments.
- **The use of innovative mechanisms to reduce construction costs.** This may include policy interventions to encourage property developers to think smart and outside of the conventional and traditional way of building houses. For instance, regulatory building requirements that inflate costs should be reviewed with the intent of reducing unnecessary costs. For instance, reducing ceiling heights, or opting for a cost effective electrical or plumbing specification. On the other hand, utilisation of innovative and contemporary design of

houses that that utilises our enriched and abundance cultural fixtures. For instance, application of sago thatch as part of the interior walling to accommodate our tropical climate.

- **High operational and maintenance costs can be reduced with the adaptation of energy efficient innovations.** For instance, the usage of solar panels complemented with re-chargeable batteries are increasingly used in homes to reduce the electricity bills. Furthermore, recognition of standards and the empowerment of social groups or associations that demand quality and cost-efficient services encourages competition and accountability among various service providers involved in maintenance and repair.
- **Improve financing to reduce cost of homebuyers and property developers and encouraging a healthy rental market encourages a vibrant affordable housing market.** In this regard, the challenges faced by low-income groups in developing countries are extreme. Particularly, when many low-income citizens are in the informal sector and do not meet the credit worthiness requirements of financial institutions. Reducing costs of financing will require pragmatic approaches and risk averse strategies. For instance, three commonly used interventions: reducing loan origination costs and underwriting risks, reducing the risk of mortgage funding and leverage collective savings. Similarly, on the other hand, with regards to property developers, di-risking, guaranteeing, or subsidising developer financing can reduce the cost of affordable housing. Apart from purchasing a house, renting is an alternative in which one could use as a transition. Hence there is a need for the government to intervene and consider regulatory measures in protecting the interests and welfare for renters. These interventions will need further research.

Conclusion

Inadequate access to formal housing in metropolitan cities of Lae and Port Moresby is a growing concern in PNG. Increase in urban informal squatter settlements have brought to the forefront issues of housing affordability. However, the concept of affordability extends beyond the economic variables and also includes social welfare of low-income groups of the society unable to purchase or rent houses. A collaborative effort among stakeholders across the public and private sector are required to address factors that increase the cost of houses. Therefore, interventions through a market-led approach, complemented by broad-based government

initiated housing programs that accommodate all income categories are needed for affordable housing in Papua New Guinea.

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