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THE ROLE OF PRIVATE SECTOR IN ADDRESSING HOUSING SHORTAGES IN PAPUA NEW GUINEA

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Key Points

- Housing shortages in urban areas of Papua New Guinea have reached a critical level that requires urgent attention.
- The uncoordinated housing initiatives introduced by the government and the private sector have not addressd the housing shortages.
- Public-private partnership is needed to collectively increase the supply of houses to the housing market.
- The private sector's role is in the construction and the supply of houses.
- Government support is needed to mitigate the challenges faced by the private sector to promote the growth of the housing sector.

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THE ROLE OF PRIVATE SECTOR IN ADDRESSING HOUSING SHORTAGES IN PAPUA NEW GUINEA

By Lindsay P. Kutan

The housing shortages which result in high house sale prices and house rents in towns and cities of Papua New Guinea (PNG) has reached a critical level that requires urgent attention. The government has attempted to provide housing to urban residents through various initiatives. For instance, public housing and institutional housing were historically provided by the National Housing Corporation in the public sector. In recent years, government departments and statutory organisations have rolled out numerous residential projects under their home ownership schemes to alleviate their employees suffering from this housing debacle. Furthermore, the private sector, through the superannuation industry, had initiated large private sector housing projects. Some foreign and national private developers have added additional stock of houses to the formal housing sector. However, the number of houses constructed, whether by public or private sector, in an uncoordinated fashion is unlikely to have an impact on the total housing demand in the housing market. Consequently, this has forced some working class Papua New Guineans to resort to informal housing arrangements which often lack the basic amenities such as water, electricity and sewerage. This reveals that a new approach is necessary to address the national housing shortages in PNG. This paper focuses on the role of the private sector in addressing the housing shortages in the urban areas of the country. Amidst the high occurrence of disorderly urban town developments from lack of clear housing policy guidelines. Compounded with the inefficiencies in the public sector. There is an imminent need for the development of a vibrant public-private partnership to collectively address the housing shortage. This partnership will enable the exchange and utilisation of the needed capital resources and technical expertise from the private sector to encourage growth in the housing sector. It is imperative then to understand the scope of the private sector's input in the delivery of affordable houses. Furthermore, the paper highlights the challenges faced by the private sector. It then provides recommendations regarding the support from the government that would enhance the effectiveness of the private sector to deliver affordable housing to all Papua New Guineans.

The role of the private sector

In adopting the proposed holistic housing policy framework as reported by Kutan (2021), the paper distinguishes the housing market into three categories. These includes the demand side, the supply side and the role of the facilitators in the housing sector. The private sector comes under the supply side. This is largely influenced by the availability and the cost of land, appropriate building materials, technology and skilled labour. In other words, the private sector's main role is in the production and the construction of houses for the housing market. At this juncture, it is important to note that the private sector also performs other secondary roles for instance in the manufacturing of the building materials and the supply of the labour and capital. However, this paper focuses on the role of the private sector primarily in the development and construction of houses. According to the Independent Consumer and Competition Commission Report (2010), these roles of the private sector are categorised into the following:

- *Developer*

As developers, the private sector's role is in the development of greenfield (undeveloped land) for the purpose of building houses. These include obtaining raw land; designing residential developments; obtaining regulatory approvals for the subdivision; ensuring the houses constructed are connected to the main trunk infrastructure such as roads, water, sewerage, and electricity; and eventually marketing and selling the residential allotments as the final product to the consumers.

- *Builder*

In the role of a builder, the private sector constructs new residential allotments to supply the housing market. In this aspect, the private sector plays a vital role in sourcing building materials. In addition, employing the needed workforce which includes the whole range of construction workers – welders, cement-block mixers, carpenters, joineries, electricians and plumbers. In the PNG context, commonly, the builders are also the developers of the land in which the final house products are marketed and sold as house and land packages to the homebuyers.

Challenges

The private sector in recent past have taken over the

government's role in providing houses within the urban areas. However, studies including Webster et al. (2016) and Ezebilo and Hamago (2017), have identified inherent challenges experienced by private developers. The challenges include the following:

- **Shortage of State land within the urban areas.** The private sector prefers to develop and construct houses on State land due to security of tenure. However, only three percent of alienated land located in the urban areas has been exhausted. As a result, recent private-led residential developments were pushed out to periphery of towns and cities bordering the 97 percent of land held under the customary tenure, in which the private sector are reluctant to expand on.
- **Delays in securing approvals for housing projects.** In the housing sector in PNG, there is no single legislation that regulates the whole industry. It cuts across multiple State agencies that are regulated by their respective legislations. This results in the long and cumbersome bureaucratic processes needed for approvals among various State agencies and the utility providers. However, this is a concern for the private developers, as it leads to long delays in obtaining the approvals, of which, in turn, increases the cost of the project.
- **High cost in the development of trunk infrastructure.** Proper development of roads, sewerage, reticulated water systems and electricity are prerequisites for proper and orderly urban town planning. The private sector perceives the construction of these key enablers as the responsibility of the Government as it requires large capital investments. However, in the case of Edai Town and Skyview Estates, the private developers undertook this responsibility resulting in the high input costs of construction. As a result, the additional costs were passed on to the homebuyers.
- **Shortage of skilled labour.** The construction sector is labour intensive and requires skilled employees to develop the land and build residential houses. However, shortage of these technical and skilled labours has compelled the private developers to seek foreign workforce. This has high cost implications to the project.
- **High cost of building materials.** Most of the building materials used by the private developers are imported in bulk which incurs high tariffs resulting in high cost of production. On the other hand, the locally-produced building materials are even more expensive than the imported materials, due to lack of supporting industries in the construction sector.
- **Project financing for developers.** The private developers

highlighted the need for large scale project financing that can be sourced domestically through the financial institutions and the support of the government. However, this has been lacking, resulting in the private sector sourcing funds externally which allows them to be susceptible to external issues such as the lack of foreign exchange in the country.

Prospects of private sector in housing delivery

In light of the aforementioned challenges, the private sector's efficacy in the delivery of affordable housing can be enhanced through governments support in the following areas.

- Strengthening and resourcing the reforms on the customary land administration processes to address the shortage of State land. Through the National Land Development Program Phase II, the government should promote a tripartite partnership with landowners and the private sector. This is to encourage the supply of land for housing, particularly, on the peri-urban fringes of towns and cities where some working class are forced to seek accommodation. On the other hand, continue to review and improve the efficiency and the effectiveness of State land administration. This will provide the impetus and the confidence among the private sector to embrace the bankability of customary land titles.
- Streamline and define the roles and functions of the multiple State agencies involved in the release of land for construction of houses. This will require review of the various legislations to ensure efficiency and effectiveness in the implementation as facilitators between the private developers and the consumers. This in turn, should alleviate all the bottlenecks and ensure fast turnaround in the approvals of major private residential projects.
- Affordable housing is dependent on reducing the input cost of construction of houses. Hence, in this public-private partnership, it should be the prerogative of the government to provide serviced land, ensuring that before the construction of houses, all necessary basic infrastructure such as roads, electricity, water, and sewerage are provided. This will reduce the cost of construction of houses supplied by the private sector. However, in cases where the private developers have taken on this responsibility to construct the main trunk infrastructures, the government should consider providing tax concessions. This becomes incentives for the private sector as it reduces their capital expenditure, which then translates to lower house prices to the consumers.
- The government should expand the access and availability

of technical and vocational training programs in the country with the intent to upskill the large number of unemployed youths in the towns and cities. On the other hand, provide incentives to the private developers to conduct 'on the job' training programs for their workforce. These strategies will increase the skilled and technical workforce to address the shortage of labours needed in the various housing development projects.

- In addition, the government should use the housing sector as a driver of economic growth by initiating large scale residential developments in partnerships with the private sector. For example, the government can identify and make available large undeveloped land reserved for residential purposes, then partner with private developers to develop and build residential houses. This will strengthen the public-private partnerships and ensure optimal value in investments towards addressing the housing shortages.
- Given that the private developers import bulk of their building materials from abroad, the government should consider reviewing the import tariffs, particularly to reduce the cost of production. However, in the long run, the growth of the local industries that will support the construction sector is important to develop to complement and sustain the construction of housing. Hence, the government should encourage and promote more small and medium enterprises to engage in the manufacturing sector.
- A vibrant financial sector with the ability to respond to the highs and lows of the economic cycles experienced in the country is critical to the growth of the housing sector. Therefore, the government, through the Bank of PNG, should support the private developers to have the ability to borrow from the commercial banks and financial institutions for large residential projects.

Conclusion

The shortages of houses in towns and cities of PNG has reached a critical level. The uncoordinated initiatives introduced by the government and the private sector has not been able to address the issues. As a result, a public-private partnership is needed to collectively increase the supply of houses to the housing market. The private sector's role is primarily the construction and supply of houses; while the government should play a facilitative role to foster an enabling environment that will mitigate the challenges experienced by the private sector in addressing the housing shortages.

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