

## Housing for Low Income People in Bangladesh: Problems and Prospects

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***Abstract:** Bangladesh is one of the most densely populated countries of the world. With regard to area, it is the 139<sup>th</sup> smallest country of the world, but it is eighth most populated country of the world. According to the United Nations' report of the World Population Prospectus in the year 2050, the population of Bangladesh will be about 254 million and also will be considered as the seventh crowded populated country of the world. So, population is increasing tremendously although land is fixed. It is not feasible to expand the accommodation of the people horizontally but is possible to expand vertically. The role of real estate companies is very much important to manage this. But it is a matter of regret that though real estate companies are doing their business in urban areas, they are not interested to expand their business in rural areas as they face some difficulties there. In this paper, we tried to identify the factors that impeded the expansion of real estate business in rural areas. Some recommendations are also put forward which can be considered in solving those problems. On the basis of primary data and their analysis, this paper concludes that government should provide necessary facilities and support so that real estate business can expand their business in rural areas.*

***Keywords:** Real estate, Population, Rural areas, Urbanization, Building materials*

### Introduction

The housing situation in Bangladesh has never been satisfactory. The majority of dwelling units are temporary, sub-standard, unsafe and overcrowded. The ancillary physical, social and economic facilities and services essential for the development of healthy and harmonious community life are highly inadequate both in the urban and rural areas.

In Bangladesh, real estate is a recent phenomenon, although such activities started sometime in 1964. Ispahani Group was the pioneer in this sector (Hossain, 2001). During 1970s there were fewer than five companies in Bangladesh engaged in this business (REHAB, 2004). But in early 1980s with the inception of Eastern Housing Ltd., the apartment project started flourishing. Now

this is a booming sector of the economy. Since late 1980s, it came within the purview of business field. As a fast growing city of Bangladesh, such business was initially concentrated in Dhaka. In 1988, there were 42 such developers working in Dhaka and in 2004 there were about 250 companies engaged in this business (REHAB, 2004). Such activities were later on spread to Chittagong and Khulna cities. At present, there are about 400 firms operating apartment business and they have apartment projects in Dhaka City as well as in some other cities.

Over the last 15 years, the real estate development sector has made significant contribution to many sectors in our economy. Since 1985 this sector has created homes for over 20,000 families in the Dhaka Mega City (Seraj, 2003). Additionally, thousands of acres of land have been developed into housing estates where lower-and middle-income families can construct their own dwellings. The Dhaka Metropolitan City has seen a new dimension of modern shopping complexes due to the initiative of the Real Estate Developers.

Fast growth of population, shortage of land supply and lack of planning, together with social and environmental problems in Bangladesh, make building construction from own initiative more unreliable for the low to middle income groups. But private developers construct high-rise apartment building with vertical expansion, which requires small size of land for large number of people. Besides, private developers develop building in the most planned way that improves the decency. In the real estate business process, some prospects and problems are involved. Prospect is that human being is able to dwell in, despite the fact that they have limited land and problems are of several types.

### Significance of Real Estate Business in Rural Areas

Real estate business is very much helpful where the scarcity of land is very high. The density of population is extremely high in Bangladesh. Current annual growth rate of population is 1.48% (GOB, 2004).

**Table-1: Living Structure in Bangladesh**

Particulars	Urban	Rural
Average floor space per living structure	299 sqft	243 sqft
Bedroom spaces per person	62 sqft	54 sqft
Residential houses of the permanent type	22%	1%
Residential houses of semi permanent type	24%	15%
Residential houses of temporary type	54%	84%

Source: BBS(2001).

From the above statistics, it is clear that land is very scarce in Bangladesh. The area occupied by human settlements and supportive infrastructure in Bangladesh is quite high at 30 percent (CPD, 2003). With the continued growth of population, land for agriculture and forest will shrink in tandem. This calls for high density settlement either in high rises or in small unit low rise apartments. Private individuals construct their house in horizontal expansion, which require huge land for solving housing problem for small number of people. Rural Bangladesh comprises 80% of the 130 million populations growing at the rate of 1.8% per year. The estimated 16.3

million households with average size of 5.4 members occupy at least 86% of the dwelling units in the country. The rural economy is primarily agricultural providing substantial income to the population. Over 60% of the rural households are poor. The very low income does not allow much for housing and 85% houses are “Kucha” (raw) whose structural frame is of bamboo and a few pieces of lumber, usually covered with “chhan” or “shan” (hemp), a popular thatch material of long dried grass, with plastered mud as walls. A few houses have corrugated-iron sheets as roofing. This type of house needs constant repair and cannot withstand the ravages of natural calamities such as cyclone and floods. In 1988 for example, floodwater completely or partially damaged houses of 1.3 million as estimated (Islam, 1993). The need to replace and rehabilitate damaged houses has greatly increased the role of real estate business in rural areas.

Since the enormity of the rural housing problems cannot be tackled in any appreciable degree through the public sector due to resource constraints, we can only make a beginning in the improvement of living conditions in the villages through private sector.

So, the role of real estate business in rural area is highly significant. Real estate business can play a great role in rural areas through ensuring dwelling units keeping pace with the population increase, improving the quality of village housing in terms of improved structures to reduce the recurring annual loss to the housing stock caused by climatic hazards and natural dilapidation and ensuring proper utilization of scarce land.

### Objectives

In a developing country like Bangladesh, where population has been increasing without any potential stop sign, need for housing development has got more importance in recent past. The specific objectives of the study are: (1) to assess the role and contribution of real estate business to meet the housing needs in the rural areas; (2) to identify the problems faced by the real estate companies for which they are not interested to expand their business in rural areas; and (3) to identify the steps that should be initiated to encourage real estate business in rural areas.

### Limitations of the Study

The study was conducted through some obstacles and constraints. *Fewer number of sampling:* This paper was prepared by the survey of ten prominent real estate companies and flat builders. It is obvious that if the sample size were more than twenty, the paper would have been more accurate and fruitful. *Data constraint:* Due to scattered nature of business and unwillingness of disclosing information as well as unavailability of secondary data, this paper was done on the basis of primary data. So there is a probability of getting opinions which are not real in true sense. *Literature constraint:* No major work has so far been done in Bangladesh in this sector. So there is a dearth of literature in this field.

## Methodology of the Study

### Data collection

This paper is an endeavor to present and analyze the importance of real estate business in rural areas and to identify the actual problems to expand it in those areas. Questionnaires were used to collect information. Ten prominent real estate companies were selected from a list of twenty companies given in Table-2 for survey and data collection (see Appendix-1). Apart from this, observation methods were used. Respondents of the study consist of executives of the sample real estate companies.

**Table-2 : List of Real Estate Companies**

Sl. No.	Name of the Company
1.	Advanced Development Technologies Ltd.
2.	Bangladesh Development Company Ltd. (BDC)
3.	Bashati Consortium Ltd.
4.	Building Technology & Ideas Ltd.
5.	Concord Real Estate & Building Products Ltd.
6.	Dom-Inno Builders Ltd.
7.	East West Property Development (Pvt.) Ltd.
8.	Eastern Housing Ltd.
9.	Hassan and Associates Limited
10.	Kashba Housing Private Ltd.
11.	Mega Builders Ltd.
12.	Metro Makers Ltd.
13.	Neptune Land Development Ltd.
14.	Rangs Properties
15.	Sheltech (Pvt.) Ltd.
16.	SS Builders & Developers Ltd.
17.	Suvastu Development Limited
18.	The Structural Engineers Ltd.
19.	Tropical Homes Ltd.
20.	Unitech Holdings Limited

### Variables

A good number of variables were used for the analysis of problems in expanding real estate business in rural areas. The variables used for the analysis of problems faced by land developers include increasing value of land, ownership complexity, purchase of large size of land, high registration fees and other charges, extent of facility (no or insufficient), bureaucracy and illegal harassment, poor living standard, purchasing power, communication, government support (unsatisfactory or not at all), subscription, infrastructural facility, social problems, political culture. The variables used for the analysis of problems faced by flat builders include economic growth, customer class (higher and middle higher), problems in wood burning, problems in high rise building development, bureaucratic and legal problems, government cordialness, government intervention.

**Table-3: List of Variables**

Macro economic and political environment	<ol style="list-style-type: none"> <li>1. High inflation rate</li> <li>2. High interest rates</li> <li>3. Low per capita income</li> <li>4. Low investment in housing over the years</li> <li>5. Low priority given to housing by Governments</li> <li>6. Land tenure and ownership</li> <li>7. High population growth and increasing urbanization</li> <li>9. Bureaucracy and illegal harassment</li> <li>10. Present Law and Order situation</li> </ol>
Cost of Land and Building materials	<ol style="list-style-type: none"> <li>1. High cost of land</li> <li>2. Imported materials which are expensive</li> <li>3. Lack of adequately qualified construction managers and skilled artisans</li> <li>4. High registration fees and other charges</li> </ol>
Finance	<ol style="list-style-type: none"> <li>1. Lack of adequate and appropriate financial products especially for low/ moderate-income households</li> <li>2. Lack of adequate financial support from Government, banks and donor community.</li> </ol>
Infrastructural Problems	<ol style="list-style-type: none"> <li>1. Preparation of master plan</li> <li>2. Development of physical facilities</li> <li>3. Problems in high rise building development</li> </ol>

**Description of the survey variables**

The variables for this survey were constructed from the previous literature related to problems of real estate business. The opinions of the respondents are presented Appendix-1. The variables are listed in Table-3 and descriptions of the survey variables are provided below.

**Macroeconomic Variables**

**Inflation and Exchange Rate**

On a point-to-point basis, inflation increased to 7.6% in May 2006, from 6.6% in January 2006. Rapid growth in money supply and the rising import prices amplified by a steady depreciation of Taka [8.4% in Financial Year (FY) 2005-2006] heightened the price pressures. Pressures on the exchange rate moderated in the last quarter of FY2006 due mainly to the leveling off of import demand as the restraint on private sector credit growth due to the tighter monetary policy began to have some effect. With the trade deficit likely to narrow unless oil import bills increase sharply, depreciation of the taka is likely to moderate in the coming months. Since the inflation and exchange rate are not favorable to investors to invest in real estate business, the people in rural in rural areas are not able to attain a good amount of loan to make a drive for investing in real estate development.

The rate of interest on housing loan is very high. Interest rates for fixed rate mortgages in HFI vary from 15 to 20 percent for periods of 10 to 15 years. The rate of interest for housing loans varies among the scheduled banks, and ranged from a low of 13.25 percent to a high of 17.00 percent (Bangladesh Bank 2004).

The related conditions make housing loan unaffordable to many developers and customers. Institutional support for financing real estate business in rural areas is quite insufficient. Housing developers don't get loan facility at reasonable cost and so they can not develop land and make apartment at a reasonable price. On the other hand, buyers don't have easy access to low cost and long-term institutional loan. So they can not afford land and apartment units (ADB, 2006).

### **Low per capita income**

Per capita income in Bangladesh was Tk. 21,681 in fiscal 2005-2006, and Tk. 20,486 in fiscal 2004-2005. The World Bank rates countries with less than \$750 per capita income as LDCs. Nearly half Bangladesh's 140 million people live in poverty, according to official statistics (Bangladesh Bank 2006). As a country in Least Developed Country (LDC) regime the developments are hindrances by low rate of savings followed by low rate of investment.

### **Low investment in housing over the years**

People constantly fight against nature and social ordeals for survival. A good house protects a family from the onslaughts of nature as well as anti-social elements. It thus increases the productive capacity of the inhabitants of a well-built house. When we asked our borrowers about the advantages of having house they said "things do not get damaged due to rains", "the residents are now free from diseases". Housing has increased the productive capacity of the beneficiaries. But these basic needs for human are not possible to meet by slight investment from their savings due to low income level.

### **Low priority given to housing by Governments**

No private sector initiative can succeed without government support. Lack of proper institutions and legislation is restricting a healthy growth in the urban housing sector, and discouraging the Non-Government Organization (NGO) involvement. Support is required to make available developed and serviced land, low-interest long-term finance, and basic utilities. Appropriate legislation, land and title records, laws regarding land acquisition, cooperatives and apartments, etc. will encourage the NGOs' participation in the housing sector. The government's occasional assertion in policy papers on the participation of organizations and individuals were not translated into programs or regulations. Therefore, implementation of programs aimed at encouraging private sector participation or including the poor or squatters was not easy. Sometimes existing legislation contradicted the declared policy, and both failed to give adequate protection. For example, the First Five-Year Plan (1973-78), emphasizing the importance of cooperatives, had strategies to provide incentives, which were never put into place. No cooperative could avail government benefits (Rahman, 2004).

### **Land tenure and ownership**

Strengthening poor people's land rights and easing barriers to land transactions can set in motion a wide range of social and economic benefits including improved governance, empowerment of women and other marginalized people, increased private investment, and more rapid economic growth and poverty reduction, according to a new World Bank report.

The nine most serious problems often accounted in the land market are: double sales by customary owners, improper registration and documentation, nonexistence of reliable database, lack of registered documents, delay in settling land disputes, and lack of clarity of title. Out of

these problems, the most serious and commonly confronted with is the sale of the same piece of land to more than one purchaser by some unscrupulous landowners. This problem has always been a start up of land litigation between and among prospective developers. In fact, the magnitude of this problem is frightening that people now claim that buying a piece of communal land is equivalent to buying a law suit.

### **High population growth and increasing urbanization**

Bangladesh had one of the highest rates of population growth in the world in the 1960's and 1970's. Since then however it has seen a marked reduction in its total fertility rate, from 6.2 thirty years ago to 3.2 (US CIA, 2004).

Urbanization has been rapid and largely imbalanced. A quarter of the population now lives in urban areas, while in 1960 the number was just 5%. Fifty percent of GDP is spent on urban activities. Urbanization has been skewed toward Dhaka, making it among the fastest growing metropolises in the world. This is adding to growing concerns about congestion, lagging urban planning and management, and skyrocketing real estate prices.

### **Bureaucracy and illegal harassment**

A recent report of the United Nations Development Program (UNDP) titled *Corruption and Good Governance* found that bureaucratic corruption and inefficiency are taking a heavy toll on the Bangladesh economy, causing hundreds of millions of dollars' worth of loss in terms of unrealized investment and income (Mustafa, 1997). The report pointed out: "If Bangladesh would improve the integrity and efficiency of its bureaucracy, its investment would rise by more than five percentage points and its yearly Gross Domestic Product (GDP) rate would raise by over half a percentage point" (Mustafa, 1997). The existence of patron-client relationships reinforces corrupt practices in all spheres of public dealings. Almost all political regimes in Bangladesh have been corrupt. Only the nature and extent of corruption varied depending on the nature of the regime, its key leader and his popular power base. Corruption in the public service is extensive and all pervasive.

### **Present Law and Order situation**

Due to the disturbances and oppression created by the terrorists and also their illegal demand of subscriptions from real estate companies, every now and then, real estate business face inconveniences in their activities. It is understood that these illegal works are being patronized by some so called politicians, no doubt under this circumstances; the real estate companies are much helpless.

### ***Variables Related to Cost of Housing***

#### **Cost of Land**

Scarcity and high cost of land is a major impediment to the growth of proper housing in urban Bangladesh. Most housing and infrastructure programs faced problems for the want of serviced land in right amount and at appropriate locations. The majority of the urban poor are rural

migrants with low affordability. An unfairly structured city and a distorted economy have restricted their access to land. They resort to living under inhuman situations in the bastees.<sup>3</sup> Neither they can participate in any public housing scheme, nor the utility agencies want to serve them without the security of the provisions and investment. The poor occupy 20% of Dhaka's residential land; 97% of them do not own the plot on which they live (Islam *et al.* 1997). About 40% of Dhaka's population lives in the *bastees* (slums). In 1990 there were 1 million basteebashis in 2156 clusters within the metropolitan area (BSNC, 1990). The number increased to 1.5 million in more than 2800 clusters by 1996 (BCL *et al.* 1996). About 55% basteebashis get tap water through informal sources; some depend on public supply points outside the bastees. About 40% of the poor use tube wells, one for 100-200 families. They use unclean water from various sources. Around 55% of them cannot use sanitary toilet. Fewer than 20% of the bastees are served with a proper sanitation system; another 60% have temporary shared latrines. The rest have no latrines. Most inner city private bastees have electricity, but all houses are not served. Few of the bastees have electricity; 41% of the houses have access to electricity and another 26% are connected illegally. About 12% of the poor have access to gas; generally people share cookers (Rahman, 2004).

As increasing high and unregulated land price takes a lion part of the housing cost, particularly of the low-income group, no effective solution to the housing problem can be reached without addressing this issue. The solution lies not in the speculative market, but on the institutional and legislative arrangements to curb the imperfections in one hand, and enable legitimate urban footholds to the poor households on the other hand. Absence of proper agencies and legislation and lack of formal sector initiatives made it difficult to achieve this. The Non-Government Organization (NGO) interested to innovate urban housing programs feel dependent on government actions or assistance to provide them with land.

### **Cost of Raw Material**

The availability and cost of building materials to a large extent influence the supply of housing in Bangladesh. Where building materials are readily available and less costly, all things being equal developers can build many houses thereby increasing supply. In Bangladesh, building materials is ranked the second biggest constraint to house construction. It is expensive and supply is inconsistent. This is attributed to the high-dependence on imported materials components including cement, and cement clinker, lime, galvanized iron and asbestos cement roofing sheets, sanitary ware and fittings, electrical fittings and fixtures, glass, steel reinforcing bars, paints etc. It is estimated that construction cost of an average residential property in Bangladesh is split between 70 percent material cost and 30 percent labor cost. It therefore goes without saying that a command of local building materials is a necessary requirement for any meaningful housing development.

While the country is endowed with a wide variety of raw material resources which could be developed to meet the shelter need of the country, attempts by various governments to encourage the development and use of local building materials is beset with various constraints. Building

materials production plants are in general operating inefficiently at less than 50 percent capacity utilization. At the same time materials, which have been used traditionally in the rural areas where about 70 percent of the population resides, are of poor quality. Technological innovations, which could enhance the quality of construction using such materials, have not been sufficiently disseminated by research and extension institutions.

### **Lack of Skill**

Inadequately qualified construction managers and skilled artisans: Construction labor is relatively easy to obtain in Bangladesh. However, the services of skilled professionals such as Architects, Engineers and Quantity Surveyors are less employed by individual private builders. Instead, they rely on local artisans, such as draughtsman, who “designs” according to the brief of the client and charge little as compared to the professional. Where the services of the skilled are used, it is typically engaged by recommendation. The unskilled laborers are engaged either by way of adverts through friends/or relatives or by relying on the skilled hands he has engaged to provide the required number of laborers. However, real estate companies make use of both the skilled and the unskilled personnel.

Artisan’s training is provided in two main ways. One route is through the polytechnics, or technical schools. More commonly, however, skills are simply acquired through apprenticeship. The ways in which their fees are determined is arbitrary, often owing more to the perceived income of the client rather than cost of the job; a rich client will be asked to pay more than a poor one.

### **High registration fee and other related charges**

It is a very troublesome and costly matter to handover or transfer or to execute any sale deed against any land property. The registration fee is fixed at 21% of the total value of the land and other miscellaneous charges are 2%. Thereafter, another problem is the “procedure of Sale Deed or Transfer of Property”. For the flats or apartments which are built out of Rajdhani Unnayan Kartipakha (RAJUK) area, the cost of sale deed or transfer of property charges are as a Value-Added Taxes (VAT) of 2% and a transfer fee of Tk. 1,00,000/- for up to 2000 sqf or less. For flats or apartments more than 2000 sqf, the transfer fee is Tk. 1, 75,000/- with an additional registration fee of 21%. But, in case of the flats or apartment built on the plots allotted by RAJUK, the registration fees stand at 21 % of the total cost of the land as well as the flat or apartment. In this case, the value of a flat or apartment is fixed at Tk. 650/- per sqf. So the total cost of a flat of 2000 sqf. area stands at Tk. 1300000/- for which the buyer is to pay or expand Tk. 300000/- more. So, higher registration fee & other related charges are most important problematic issue for both the land developer and flat builder.

In summary, one of the main constraints in housing production is the high cost of housing in relation to incomes. Particularly in urban areas, where land prices and building material costs are high, the gap between cost of new construction and incomes has some major consequences: (1) It forces new developments for moderate income households further out of the center, while most employment opportunities are still located in inner city areas. (2) Only a small proportion of all required houses (roughly 400,000 per year in urban areas alone) are built in

the formal sector. The private sector builds only for those who can afford to pay. Public housing efforts remain small because required subsidies are deep. While NGOs have housing programs in rural areas, the urban housing problem has been too complex and intractable for NGOs to take on. (3) High land prices in urban areas have caused multi-family units to become the predominant house-type. This type of housing makes it difficult for urban middle and lower-income households to use traditional incremental land acquisition and house-construction methods. Mortgage finance is a necessity for this group of households to acquire an apartment. In rural areas and in informal urban areas incremental single-family house-construction is the prevalent way of house building.

### ***Variables Related to Finance***

The overall size of the financial sector relative to GDP remains smaller than that for other countries in the region and has some critical weaknesses related to poor financial management practices. The housing sector, which is highly financing dependent, is particularly affected. The banking system is troubled by bad debt and cannot provide wholesale or individual long-term funds at an efficient rate for housing finance. Debt markets are not developed and are dominated by government, eliminating another potential source of housing funds. Cleaning up the commercial banking system, strengthening the regulatory and supervisory system for the financial sector and improving and expanding debt markets are of particular concern for the housing finance sector.

The present housing finance system in Bangladesh is underdeveloped and highly segmented:

*The formal mortgage finance system:* (1) is small relative to new housing construction, (2) only serves the highest income groups, (3) is restricted to selected high-income housing sub-markets in Dhaka, (4) has weak underwriting, loan administration and risk management practices, and, (5) has a segregated structure that provides advantages to the government owned Bangladesh House Building Finance Corporation (BHBFC), which operates in the same higher income market. The present establishment of new specialized private housing finance institutions (HFI) is a hopeful sign for a more healthy development of the mortgage market. However, these HFI have difficulty mobilizing adequate resources because of the lack of financial market development, the weak banking system and the competition with government savings schemes. Interest rates for fixed rate mortgages in HFI vary from 15 to 20 percent for periods of 10 to 15 years. The rate of interest for housing loans varies among the scheduled banks, and ranged from a low of 13.25 percent to a high of 17.00 percent (Bangladesh Bank, 2004).

*Non-collateral-based credit for house-construction:* This credit is provided by three of the four largest micro-finance institutions (MFI) in Bangladesh (Grameen Bank, BRAC and Proshika). Loans are made on the bases of established membership in lending programs and a sound track record of repayments on previous loans. Housing loans form only a small proportion of the MFI's total loan portfolio (never more than a few percent), and have only been available to rural landless borrowers, mostly women. A total of approximately 700,000 housing loans

have been issued since the programs started in the 1970s and 1980s. No urban housing lending programs exist.

There are few institutions available for providing loans for shelter development for urban and rural poor, while there are no institutions at all, which provide loans to landless poor people. The ceiling on loans of Bangladesh House Building Finance Corporation (HBFC) remained unchanged at Tk. 2.70 lakh to 25.00 lakh depending on the location. The rate of interest for loans up to Tk. 15.00 lakh in the Dhaka and Chittagong Metropolitan city areas is 13.0 percent, and 15.0 percent beyond this. In all other parts of the country, the rate of interest is flat at 10.0 percent irrespective of ceilings. Repayment period for all HBFC loans is 15 years, though it may be relaxed to 20 years in the case of small size apartment schemes for the low and middle income people. As a prerequisite to eligibility for a loan, the candidate must own land, which can act as a guarantee of at least 20% of the investment needed for shelter construction. HBFC however, provides loans primarily to middle class candidates. HBFC disbursed house building loans of Tk. 130.60(Provisional) crores during 1999-2000 which was higher by Tk. 38.77 crores or 42.3 percent than Tk. 91.83 crores disbursed during the preceding year. The Corporation sanctioned Tk. 124.19 (Provisional) crores against 84 loan applications which was 23.2 percent lower than Tk. 161.61 crores sanctioned in the preceding year. This is surely nothing in terms of demand from the potential candidates (Bangladesh Bank, 2004).

The banking system in Bangladesh did not escape the economic decline and political instability of the 1970's and 1980's. General lack of confidence in the banking system by the public, the banks' inability to engage in venture capital, high default rates, widespread fraudulent practices and lack of expertise to properly appraise projects were some of the problems facing the banking system. As a result most households in Bangladesh, as in most developing countries, use their own savings, sweat equity, and remittances from abroad to build their houses. This usually takes between five to fifteen years. The commercial financial institutions provide very little support to low/moderate households in the form of mortgages. Where it has done so, it has favored the owner-occupied and new dwellings and offers very limited support to the rental and home improvement housing development.

Ferguson (1999) notes that there are three basic dilemmas that face housing finance in developing countries looking at examples from Latin America. These dilemmas fit the situation in Bangladesh. Firstly, the low/ moderate-income households cannot afford the debt service requirements of the commercial lenders. The second dilemma is that the characteristics of the traditional mortgage market do not suit the conditions of the low/ moderate-income households. Mortgages are usually paid monthly and for long periods of time. They also require the client to have formal title to the land, be formally employed and also the clients may need to be literate to understand the paper work involved in taking the loan. In general, low-income people would prefer loans for shorter periods. Evidence from micro lending to poor people around the developing world demonstrates that the low-income earners are usually in self-employment in risky markets such as the retail sector. Many are involved in buying and selling basic imported goods in the market. Such goods are income elastic, and when the economy of

the country fluctuates, real incomes fluctuation affect sales and income of people involved in such activities. These markets are easily saturated removing the profits that attracted people into the market. This makes long-term planning unsuitable for low-income self-employed people. Also low/ moderate-income households occasionally face crises such as sickness and injury, which absorbs their available resources (Ferguson, 1999).

In Bangladesh, families own most of the land. In the urban areas, such as Dhaka, the capital, land prices range from about Taka 3 million to about Taka 12 million per plot or higher in some areas. In areas where the land is competitive, different members of the family that own the land may sell the same piece of land to different individuals. This brings about a lot of litigation. In addition, poor land registration systems and the costly and time-consuming process of obtaining full title registration make the use of land when available as collateral, often unacceptable.

Thirdly, transaction costs in lending to the low/ moderate-income households are usually high. The small loans they require or can afford are unprofitable for a commercial lender. Small loans for long terms are even riskier and as such commercial mortgage lenders are less interested in low/ moderate-income households.

There are other factors that work against traditional mortgage lenders to provide services to the low/moderate –income households. As in most countries, the financial institutions have to select their customers due to reasons of adverse selection and moral hazard. As a result the demand for loans exceeds the supply of loans, creating a shortage of funds for lending. In addition, inflation and interest rates are high in Bangladesh, currently about 7%-8% and 13%-20% respectively. This has adverse effects on the costs of building materials and ultimately the cost of houses.

To conclude, the traditional mortgage lender is limited in its ability to serve low/ moderate-income households. The payment–income ratio is too high meaning that low/ moderate-income household may need to pay amounts that exceed their monthly income. The provision of larger loans for long periods is also ill suited for the needs of low/ moderate-income households. The transaction costs are also high, making such loans unprofitable for the traditional mortgage lender. In addition, the fluctuating economic environment especially inflation rates and high interest rates increase the costs of housing and risks in lending.

The discussion in this paper provides an insight into the factors for which real estate companies are not interested to expand business in rural areas. Among all the factors or problems, the main problems are limited purchasing power of the rural people, lack of infrastructural facility and low density which ultimately creates low demand for land and flat. But these problems are not static. It is possible to overcome these problems as infrastructural facility can be made available by taking initiative by the government while as people's purchasing power can be increased by creating employment opportunities through private and public investment and encouraging foreign investment so that the rural areas can be developed economically and in an infrastructural way.

### **Summary of Findings**

The major findings of the paper are as follows. Lack of infrastructural facility is the main obstacle for the land developers to expand real estate business in rural areas. The land developers do not get convenient land of large size from one single owner for abstaining from the legal problems and the higher carrying cost of materials for building the flat. Low income people live in rural areas and most of the high income groups are concentrated in urban area. Rural areas are not so important for trade and investment and so government pays more attention to urban area compared to rural areas. The flat builder faces local hoodlum and they demand illegal subscription. The life is more comfortable in urban areas as gas, electricity, water and recreation places are available here and hence people are rushing to the cities. The concern for environmental issue has been increased. Now the environmentalists are more aware of not demolishing the agricultural land as they think there is possibility of decreasing cultivating land.

### **Conclusion and Policy Recommendations**

Based on the above findings, the following recommendations can be proposed to expand real estate business in rural areas:

1. Real estate is a capital-intensive business; it is quite impossible for individual developers to operate this sector depending only on equity fund. Institutional support is essential for financing real estate business in rural areas. If the housing developers get loan facility at reasonable cost, they can develop land and make apartment at a reasonable price. On the other hand, if the buyers have easy access to low cost and long-term institutional loan, then they can afford land and apartment units.
2. Loan & land facilities from government should be available. If govt. takes initiative to acquire the land and if BHBFC provides loan to the company for the development, the problem can be solved. If government offers the company to do business in rural areas by joint venture agreement, it will be very productive. More loans from government sectors [BHBFC and National Commercial Bank (NCB)] should be provided at flexible rate to encourage investment in real estate business in rural areas. Interest rate of institutional loan should be reduced.
3. Lack of infrastructural facility is one of the most important problems of expanding real estate business in rural areas. Better communication facilities such as phone, fax, internet etc, physical infrastructures such as school, mosque, playground, park, landscape, shopping center, gymnasium etc, utility services such as electricity, water, gas, sewerage etc should be provided in rural areas.
4. Existing registration procedure is lengthy and related cost is also very high. Many incidental costs are incurred for registration. It should be checked. Existing process of VAT, tax and registration should be made easier.
5. Necessary steps are to be taken to protect the developers from local hoodlum who sometimes creates pressure on land developer for subscription.
6. Private sector should be encouraged with necessary incentives (such as tax holiday for investment in rural areas) for its greater participation in the rural housing sub-sector.
7. Sites and services for residential accommodation of low and middle income group of people should be developed.

If the policymakers pay attention to the above recommendations, real estate business will undoubtedly be expanded in rural Bangladesh.

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Appendix-1: Opinions of the Respondents

Sample Real Estate Companies	Increasing value of land	Ownership complexity	Purchase of large size of land	High registration fee & related charges	Facility extent	Bureaucracy and illegal harassment	Poor living standard, purchasing power, communication	Govt. support	Subscription	Infrastructural facility	Types of Problems	Political culture
Advanced Development Technologies Ltd.	Yes	No	No	Yes	Satisfactory	Illegal Harassment	Communication	Satisfactory	Yes	Of Course	Political	Yes
Bangladesh Development Company Ltd. (BDC)	Yes	Yes	No	Yes	Low	Bureaucracy	Communication	Unsatisfactory	Yes	Of Course	Social	Yes
Bashati Consortium Ltd	Yes	Yes	Yes	Yes	Moderate	Bureaucracy	Living Standard	Moderately	Somewhat	Of Course	Social	Yes
Building Technology & Ideas Ltd.	Yes	No	Yes	Yes	low	Taking Illegal Benefits	Living Standard	Not at All	Yes	Of Course	Political	Yes
Concord Real Estate & Building Products Ltd.	NO	No	Yes	Yes	low	Bureaucracy	All	Not at All	Yes	Of Course	Social	Yes
Dom-Imo Builders Ltd.	Yes	Yes	Yes	Yes	low	Taking Illegal Benefits	Living Standard	Unsatisfactory	Yes	Of Course	Social	Yes
East West Property Development (Pvt.) Ltd.	NO	Yes	No	Yes	Satisfactory	Illegal Harassment	Purchasing Power	Satisfactory	Somewhat	Under Consider	Social	Yes
Eastern Housing Ltd.	Yes	No	No	Yes	Moderate	Illegal Harassment	All	Not at All	Yes	Of Course	Social	Yes
Hassan and Associates Limited	NO	Yes	Yes	Yes	Moderate	Bureaucracy	All	Satisfactory	Yes	Of Course	All	Yes
Kashba Housing Private Ltd.	Yes	Yes	Yes	Yes	Moderate	Taking Illegal Benefits	All	Unsatisfactory	Yes	Under Consider	Political	Yes