



**NATIONAL HOUSING CORPORATION
OFFICE OF THE MANAGING DIRECTOR**

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11th September 2009

Mr. Thomas Abe
Commissioner
Independent Consumer & Competition Commission
PO Box 6394
BOROKO
National Capital District

Dear Mr. Abe

SUBJECT: HOUSING INDUSTRY REVIEW

I take this opportunity to commend you and your officers for executing such a high profile/quality consultative process in seeking comments on different and varying issues affecting the Housing Industry in PNG. On this note, I salute the Hon. Minister for Finance & Treasury Mr. Patrick Pruaich, MP, for the initial wisdom and the direction, contained in the Terms of Reference, particularly where the state's participation through the National Housing Corporation has become a serious failure.

The responses provided to the issues raised are indicated by page (eg: 16 of 49).

I look forward to the opportunity to meet with your team members on any matters which may have not been fully commented upon.

Yours faithfully


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TARCISSIUS MUGANUA
Caretaker Acting Managing Director

ISSUES FOR COMMENTARY

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1. FACTORS AFFECTING SUPPLY OF DEMAND

A forward Master Plan (5,10,50, 100 yrs) of towns, cities, districts, ward levels, LLGs and even village level is ultimately essential in guiding Development Planning and Control for government. Ruralization and urbanization phenomenons require guided development attention by Government in various different forms and scale. This is more so with the shelter delivery process where many different sectors/ stakeholders are involved in the planning, design, execution, implementation and completion stages.

2. HOW SUPPLY CAN MATCH DEMAND

Based on point 1, a readily available serviced land/ site is proposed for housing and other essential amenities in a given local or urban setting in the form of a Proposed Development Plan. This plan includes budgetary provision for both infrastructure development and housing construction. Government must maintain an annual Housing Development Budget.

3. WHERE GOVERNMENT ACTION IS REQUIRED TO BALANCE DEMAND & SUPPLY

A clearly spelled out National Housing Policy for all income groups, with clearly achievable strategies and programmes and appropriately weighed resources can enable a conducive environment for supply & demand to balance out.

4. SHOULD THERE BE PROGRAMMES FOR AFFORDABLE HOUSING FOR LOW INCOME PNG CITIZENS?

Definitely, in any Society/Country, there will always be disparities in income patterns, hence Government's responsibility is to design shelter Policies and Programmes which reflect those factors of development. Quite often, subsidies in a variety of form can be incorporated to enable low-income earners achieve shelter provision, or better still, design standards and provisions are determined carefully to suit such a target group of customers.

1. CURRENT STATE OF COMPETITION IN THE HOUSING INDUSTRY AND HOW IMPROVEMENTS CAN BE ACHIEVED TO FOSTER COMPETITION IN THE MARKET

The current situation with property market is that most, if not all real Estate Developers and Managers are at the forefront in forcing the property market to reach exorbitant price scales. This is done with extreme confidence knowing very well that there is a huge vacuum on the part of the states inability, in this instance the National Housing Corporation, in not competing on the same/massive scale. Improvements can only come about through/with appropriate government intervention plan, which it has initiated through NEC Decision 304/2006 and enabling NEC Decisions.

2. ARE THERE AREAS OF THE MARKET WHERE COMPETITION IS NOT ATTAINABLE AND OTHER OPTIONS NEED TO BE CONSIDERED?

It is not attainable in unplanned/squatter areas where the general/basic shelter amenities are in poor state of health, high risk areas for fire and hygiene.

1. THE OTHER COST DRIVERS IN THE HOUSING INDUSTRY

The other cost drivers include building materials, suppliers, Land development contractors.

2. THE EXTENT TO WHICH THESE COSTS DRIVERS IMPACT ON THE HOUSING INDUSTRY

High cost of imported building materials as well as locally produced building materials. The infrastructure development cost of servicing a site for housing construction is usually much greater than the housing construction component.

3. ARE THERE PRACTICES IN THE INDUSTRY THAT ARTIFICIALLY DRIVE UP COSTS, SUCH AS COLLUSION AMONGST PLAYERS AND OTHER ANTI COMPETITION CONDUCT?

Lack of completion in point 1 above does not allow opportunities for any bargaining power for the end user, who is the tenant/ beneficiary to have any real choice.

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In a nutshell on questions **1-7**, the Real Estate Business environment at the current form and shape is at what one may term "A BUBBLE STAGE", meaning that it is penetrating the housing market by serious government ignorance and like every and any form of business, the real estate sector is the only source without any form of competition. The current market pattern does not require any form of regulatory framework, however what is essentially required is an appropriate government intervention plan (NEC Decision 304/2006). The NEC Decision 304/2006 called for a major Nation-wide Housing Development Programme with enabling NEC Decisions to facilitate this plan of action. This programme has just started.

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1-7 HOUSING FINANCE

The lending policy and practices administered by commercial Banks in PNG is totally restrictive to the point where, the banks exercise total monopoly, particularly when it comes to housing loans or mortgage financing towards lower to middle income bracket in PNG.

There is a definite need for the government to establish a HOUSING BANK in the country which has lending facilities accessible to both the urban and the rural setting. Such an establishment must have open policies to individual and group or cooperative needs, given the fact that PNG is largely a strong clan/cultural unit. A housing cooperative could mean an avenue through which family groups can obtain housing finance and be able to repay loan on an acceptable family group loan repayment mechanism. This is where it requires integration of many programs, effective coordination and sharp educational awareness at all levels, particularly at the grassroot/village level before any actual benefits are delivered at their disposal.

1-5 INSURANCE PROTECTION

Insurance cover/protection terms & conditions remain unknown to many tenants/ beneficiaries of both rental housing and owner occupied. Perhaps the level and content of the information is restrictive, including any government policies which are in place.

1. WHETHER THE OPERATIONS OF THE NHC TOTALLY DISCHARGE ITS STATUTORY RESPONSIBILITIES IN ACCORDANCE WITH THE CURRENT NHC ACT HAS BEEN SATISFACTORY

To date the NHC has not performed satisfactorily as expected of it, within the meaning of its statutory responsibilities.

2. WHETHER THE OVERALL OPERATIONS OF THE NHC IN RELATION TO THE PROVISION OF HOUSING HAS BEEN SATISFACTORY AND IF NOT WHAT POLICY, REGULATORY AND INSTITUTIONAL REFORMS WOULD BE CONSIDERED NECESSARY

Good attempts are now being instituted by the current management and the NHC Board following NEC Decision 304/2006, Government intervention in getting the organisation re-establish itself. This includes establishing National Housing Policy, embarking on a massive nation-wide Housing Programme, establishing a vehicle company and many more, which are slowly taking shape.

3. DOES THE CURRENT NHC ACT PROVIDE THE LEGAL FRAMEWORK FOR THE EFFICIENT OPERATIONS OF THE NHC TO FULLY DISCHARGE ITS FUNCTIONS?

The current Act of the NHC may require minimal/ slight review, particularly to incorporate the current charges.

4. IS NHC OPERATING AS AN INCORPORATED ENTITY BEING EFFECTIVE?

NHC is not effective as a Corporation.

5-6. IS NHC SUFFICIENTLY AND APPROPRIATELY RESOURCED TO UNDERTAKE ITS FUNCTION? AND SHOULD THERE BE REGULATION OR CODE OF CONDUCT AIMED AT CONSUMER PROTECTION OF NHC CLIENTS?

The NHC is virtually under-resourced and definitely require every assistance. However, with the most recent changes taking place, there is hope for improvement and expansion in the near future.

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1. THE OVERALL OPERATION AND FUNCTION OF THE DEPARTMENT OF LANDS & PHYSICAL PLANNING IN RELATION TO THE PROVISION OF LAND FOR HOUSING DEVELOPMENT AND OTHER PURPOSES

There are two key functions in DLPP, Land Administration and Physical Planning, and to date major emphasis is only geared towards Land administration and not Physical Planning. There is a serious need for properly executed Master Plans of cities and towns and of course including Districts, LLGs, Wards and villages to guide Development path and in that way it restricts illegal squatting, and uncontrolled development.

2. THE PROCESS, PROCEDURE AND THE PERIOD IT TAKES TO ACQUIRE LAND FOR HOUSING AND OTHER DEVELOPMENT PURPOSES

It is definitely a lengthy process to obtain individual titles and Urban Development Lease approvals for Housing Subdivisions.

3. EVIDENCE OF THE DEPARTMENT ACQUIRING NEW LAND DEVELOPMENT FOR HOUSING AND OTHER DEVELOPMENTAL PURPOSES

NHC has since March 2009 applied for six UDL and eighty nine individual Title transfer, and these applications are still outstanding despite closer follow-up actions by NHC.

4-5. THE PROCESS IT TAKES TO REGISTER/INCORPORATES CUSTOMARY AND HOW CUSTOMARY LANDOWNERS CAN PARTICIPATE IN FREEING THEIR LAND FOR DEVELOPMENTAL PURPOSES AND THE STATUS OF THE RECOMMENDATIONS AND FINDINGS ON THE NATIONAL LAND DEVELOPMENT TASKFORCE REPORT AND ITS APPLICATION TO THE HOUSING INDUSTRY

NHC is now involved in the LNG Gas Project Site with a number of villages within Napa Napa on the customary land Housing Development Programme using customary Land Development processes, procedures and mechanisms. It is very much a pilot concept at this point in time.

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1 – 6 EFFECTIVENESS OF BUILDING, BOARD AUTHORITY

Although the Building Board is performing well, it ought to do more still in so far as illegal building construction and uncontrolled squatting is concerned. It appears that the BBA functions seem to concentrate more on formal residential areas/conventional standards and not across the Board in totality and this type of situation has created opportunity for uncontrolled developments to flourish at an alarming rate. It must extend its jurisdiction to control and manage informal, illegal and improper Building standards and to effectively deal with offenders.

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1 – 6 NHC manages and supervises contractors in new subdivision Housing Construction and ensures that proper safety measures and correct methods and systems of construction are employed at all times.

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1 – 6 BUILDING MATERIALS/SUPPLIES

Building material costs within the Housing industry remains very high. Most Building Materials are imported. There is definitely a serious need to explore opportunities to develop local Building Materials and set-up

Building materials research centres to test some of these materials before they reach local and overseas markets.

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1 – 3 INFRASTRUCTURE SERVICES

In all new Housing Subdivisions, provisions for water, power, sewerage, footpath, vehicle access roads and drainage systems are planned, funded and constructed before Housing construction phase gets underway. Upon completion of these services, NHC formally transfers to relevant authorities for upkeep and in its maintenance.

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1 – 2 MAIN COURSES FOR HOUSING SHORTAGE

Between 1990 – 2005, after almost 15 years of NHC's establishment NHC carried forward a huge liability of K25 million in the form of accrued land rates and land taxes, no annual budgetary support by Government; A depleted stock of property as a result of various sales schemes, public outrage on rental increases etc. made it all the more tough and virtually placed the Corporation in a very serious liquidity situation.

In 2006 Government intervention through NEC Decision No. 304/2006, gave the NHC the HOPE which was much needed and nothing much has since materialised until in the last Eight to Nine months, where that hope is about to bear fruit.

In March 2009, Gerehu 3B2 Housing Project funded at a cost of K15 million through Government funding kicked off. These Housing will be out-right purchased and lot of first opportunities have been given to many Government Departments and Statutory Bodies to purchase.

Between the NSP (National Strategic Plan) period 2010 – 2050, NHC will embark on a massive Housing Development Plan Nationwide, and its 2010 PIP Project funding estimates have been forwarded to the Departments of Finance, Treasury and Planning for Budgetary consideration and approval.

1 – 3 CUSTOMARY LAND DEVELOPMENT FOR HOUSING

NHC is currently undertaking pilot projects within the Napa Napa LNG Gas Project area involving six villages for a major Customary Land Housing Development Programme. NHC's Land Mobilization Unit has been fully involved with the various clans of these villages to formalize clan group registration through Incorporated Land Group Act and other legal formalities before a HEADS OF AGREEMENT Contract between the landowners and the state (NHC) is signed, as a secured GUARANTEE by PNG Government to allow Foreign Investors to invest in these particular areas in funding Housing Project.