



Office of the Commissioner
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MINISTER FOR TREASURY & FINANCE

16th June 2009

Mr. Thomas Abe
Commissioner
Independent Consumer & Competition Commission
P O Box 6394, Boroko
National Capital District

Dear Mr. Abe,

SUBJECT: HOUSING INDUSTRY REVIEW

I write in relation to the above.

As the Minister responsible for the Independent Consumer & Competition Commission, I am formally directing the Commission to undertake the Housing Industry Review. This review will be undertaken as per the attached Terms of Reference for the Housing Industry Review.

I note that access to decent and affordable housing is an issue that is increasingly affecting Papua New Guineans. I expect that this review will identify some of the major failures within the industry that causes this and what the Government can do to address these issues.

With that, I look forward to receiving the Commission's final report and hearing of the Commission's progress in the interim through the consultation arrangements outlined in the terms of reference of this review.

Yours Sincerely,



HON. PARTICK PRUAITCH, MP
Minister for Treasury & Finance



OFFICE OF THE MINISTER OF TREASURY & FINANCE

TERMS OF REFERENCE

REVIEW OF THE HOUSING INDUSTRY

1. BACKGROUND AND PURPOSE

The Government, through the Minister for Treasury and Finance has asked the Independent Consumer & Competition Commission ("ICCC") to undertake a review into the current state of the housing Industry in Papua New Guinea ("PNG") and existing impediments to its growth, and identifying any appropriate actions the Government might adopt in order to foster the industry's development. The review will also look at the role and place of regulation in the housing industry.

The Government recognises that accommodation is a basic need for all Papua New Guineans, particularly those who are earning a regular income through formal employment and living in urban centres. The provision of reasonable accommodation at relatively affordable prices has the potential to improve labour productivity, social welfare and enhance economic growth. Despite this potential, the Government is aware of concerns being raised by the general public and industry participants of the significant shortage of accommodation to meet existing demand in the urban and semi urban towns in PNG with practical issues but not limited to such as:

- availability of land for housing development,
- building plan approval,
- access to financing companies,
- connection to utility services such as water & sewerage, electricity and communications
- high rental and sale price of property

For the purposes of this review, the Housing Industry encompasses housing provided by the government, private companies and individual and those in the development, construction, letting and servicing of residential accommodation in the urban and semi rural areas.

The Review will also focus on the supply of and demand for housing needs in PNG in the supply of high, medium and low covenant houses which is the major concern unlike the high prestige houses. Since an integral part of this review will be to examine issues associated with supply of houses provided by the larger private sector, various Government Departments and the National Housing Commission, this terms of reference will also include reference to the role of the National Housing Commission, and other relevant Government instrumentalities that are directly or indirectly associated with this industry. This study should also examine the activities of the housing industry particularly in the ownership, management, lease, sale, valuation and appraisal, brokerage, development and consulting in respect of housing development and improvements situated in Papua New Guinea.

The review is intended to look at a wide range of issues relating to the operation, composition, structure, and regulation of the housing Industry. It is also envisaged that this review will look at the role of various arms of the Government at the national, provincial and local level government to establish if there is a need for further improvement that will enable new investment in this sector.

The Government is also aware that there are different market segments in the housing industry. The housing under these market segments varies from high to medium and low covenant categories and the locations also varies from prime location to the fringes of the main business district. Notwithstanding other economic considerations, the potential value of a house or the rental price of a property is invariably determined by its condition, category and location.

The Government recognises that supply of suitable housing and availability of land for housing development is scarce, and the ability of consumers to negotiate prices is non existence given the significant imbalance in supply and demand for properties. The potential of cartel activity and price fixing between the real estate companies cannot be overruled and this review will examine the extent to which any anti-competitive behaviour occurs within the housing industry notwithstanding any government policies and statutory requirements that are deemed to prohibit further development of this industry.

Houses or properties built on registered land are required to adhere to regulatory arrangements pertaining to building approval from the Building Board on their structural design and connection of basic utilities like water and sewerage lines and electricity services. The review will need to examine these regulatory arrangements to determine to what extent they act to inhibit or prevent competition from occurring in the market place.

In response to the review's conclusions and recommendations, the Government will consider what if any policy response may be required to improve the overall efficiency, effectiveness, and competitiveness with a view to balancing the supply and demand of houses in PNG including adoption or revision of relevant regulatory arrangements.

2. TERMS OF REFERENCE

The principal objectives and deliverables of the review are to:

- Report on the current state and operation of the Housing Industry in PNG with a particular focus upon:
 - the size and other characteristics of the housing industry,
 - the competitive behaviour of participants in the industry,
 - impediments to competition in the industry, both regulatory and non-regulatory,
 - the relationship and interaction between real estate companies, the building companies, finance companies, National Housing Corporation, Department of Lands and Physical Planning, Insurance Companies and the owners of the properties,
 - any particular issues impacting on competition at the housing industries arising from the spatial characteristics of the country,

- the current statutory arrangements in releasing land for property development to assess if some improvements are necessary;
 - the nature of the regulatory and supply/demand factors acting upon the behaviour of the market
 - the role and behaviour of the main players in the market such as land development companies, the National Housing Commission, the real estate agents, the larger private sector business who provide accommodation to its employees, government department providing housing to its employees and private individuals who acquire land or house
 - factors determining the availability of housing for owners or for lease
 - evidence of market failure (inability of the market to determine the right balance between demand and supply of dwellings)
 - finding out if the current high prices for property rental and purchase and the pent up demand is related to demand, supply or a combination of both and what policy measures would be required to address this; and
 - the range of government policy and regulatory requirements impacting on the industry, including the consistency in these regulatory requirements at the national and Provincial government level across the country.
- Identify issues and areas where Government action may be appropriate to address the problems and issues which are contributing to the failure of the market to get the demand and supply balance right to improve the overall competitiveness, efficiency and effectiveness of the housing Industry in PNG.
 - Make recommendations on what action by Government may be appropriate to rectify any problems in the current structure, regulation and operation of the Housing Industry with a view to improving competition and the imbalance in the supply and demand for accommodations.

3. SPECIFIC TASKS TO BE UNDERTAKEN

Specific tasks to be undertaken as part of this review will include:

1. Review and report on the current operations of the Housing Industry in PNG including but not, limited to:
 - a. The existing structure, size, ownership and operation of the industry;
 - b. The degree of competition between suppliers of basic accommodation within the industry, taking into account the different market segment issues that impact on competition;
 - c. Likely developments or changes in the existing structure of the housing industry including entry of new real estate companies and developments meant for accommodations in the foreseeable future.
2. Review and report on the current regulatory and supply/demand factors acting upon on the behaviour of the market, including but not limited to:
 - a. The licensing requirements for housing companies and development for accommodations at the national and provincial level
 - b. The National and Provincial Government policy or regulatory environment in the provision of houses;
 - c. The regulatory oversight enforced by the building board;
 - d. The requirements and procedures of allocating land and land titles for building developments in urban centres

- e. Other consumer protection laws and requirements that may impact on the operation of businesses in this industry (including the *ICCC Act* and the *Prices Regulation Act*);
 - f. Overall impact of regulations on the cost of doing business
 - g. Other factors that act upon the way in which housing is owned or leased in PNG (the reliance upon the employer to supply housing or a housing allowance, and the heavy reliance on rental accommodation in the urban areas for example)
3. Advise on the role and behaviour of the main players in the market such as the land development companies, Department of Lands, the National Housing Commission, the real estate companies, the larger private sector business and private individuals
 4. Consult previous documentations and related studies undertaken by independent agencies and organisations such as NRI, INA etc and others including the Government's National Housing Taskforce in addressing the inherent housing problem and related issues. Discuss how the findings and recommendations of the earlier reviews can be aligned and all issues addressed in a coherent manner.
 5. Advise on the opportunities and potential for the entry of new competitors into the housing Industry including:
 - a. Likely areas for new entry;
 - b. Potential impact on the industry;
 - c. Pre-requisites for the entry of new participants;
 - d. Likely benefits for the national economy.
 6. Make recommendations on what if any action can be taken by Government to address regulatory impediments or enhance the prospects for increasing competition in the housing industry in PNG, including but not limited to:
 - a. Reforming regulatory and licensing arrangements while retaining appropriate prudential safeguards;
 - b. Removing other barriers to entry by new competitors into the industry;
 - c. Enhancing the countervailing power of consumers and users of the industry's services.

4. DELIVERABLES

The deliverables from this review will encompass the following:

- Verbal presentation with overheads and other summary material on the findings from stages 1 to 3 of the terms of reference as outlined above and preliminary comments on stage 4
 - To be made to the authorising Department and to occur prior to the finalisation of the Draft Report and in ample time for the authorising Department to make comments on the findings of these initial stages
- Preparation and presentation of a written Draft Report for consideration and comments by the Government and other interested parties
 - The presentation to be by way of a public presentation to a select audience and discussion on the Draft Report
 - Opportunity for submission of written comments on the Draft Report
- Preparation and presentation of a fully documented written Final Report to Government