

Submission to Independent Consumer and Competition Commission

Housing Industry Review Issues

Paper

By

The Salvation Army Papua New Guinea Territory

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Introduction

The Salvation Army wishes to thank the Office of the Commissioner for this opportunity to provide comment in response to the *Issues Paper* issued on 12th August 2009.

As an organisation that is involved with people across Papua New Guinea both from a pastoral and ministry aspect, we are very conscious of the importance of issues that relate to housing. We are providers of institutional housing and have direct contact with many clients who are homeless. In addition, many of those we minister to are trapped in circumstances that demonstrate similar characteristics as those who are homeless even though they may currently have housing, and are therefore regarded as "at risk" of becoming homeless.

Housing is recognised as one of the basic human necessities and has been linked in studies across the world with unemployment, poverty, health, and crime. In many ways each of these issues is closely linked.

The lack of adequate housing supply creates overcrowding in existing stock which may have the appearance of lessening the demand for housing but doesn't – and at the same time adds to the frequency of domestic violence, disruption of the peace, and criminal activity.

Overcrowding contributes to family crisis, sexual, psychological or emotional abuse and domestic violence. These circumstances also lead to related health issues.

Our submission is not based on presented statistical evidence but we would point out that such statistical evidence can be found in studies across the world and in particular we refer you to the recent studies in Australia. Whilst we don't suggest that the Australian experience exactly reflects the Papua New Guinea situation, I am sure the commission would recognise that the inherent issues raised in those studies could very easily be found in any similar study completed in Papua New Guinea.

In relation to the Scope of the Review (3.5), we support many of the comments that are made.

We also note the comments in relation to inflation (4.1) and we concur with the suggestion that uncontrolled inflation adds to the dilemma for those on low and medium level incomes, making the availability of housing less likely and affordable.

(4.2) Industry Background

The Salvation Army concurs with the recognition that there are critical shortages in housing across PNG, but in particular in urban areas.

Public stock appears to be lacking, and this has led to squatter settlements that are unregulated and are either not serviced by utilities or poorly serviced by utilities. The uncontrolled expansion of these settlements, and the high density, unacceptably poor standard housing that resulted has led to areas where crime and safety issues are high, basic health issues predominately unaddressed and general access (roads, etc.) almost non-existent.

Employee housing has been a feature of institutional housing in the past but it is our observation that this is decreasing due to the high cost of maintenance. The Salvation Army, however, continues to provide housing across PNG for our officers (clergy) and also provides some accommodation for staff (employees) in particular situations. This latter provision has been more a result of the availability of housing that is normally used for our offices but has no immediate need, than a deliberate endeavour to provide housing for employees.

Much of the housing provided in rural areas lack basic amenities, such as "town" water and sewerage or electricity. This is not for a want of making those services available, but because the infrastructure is not available to those villages.

Land issues are also a major factor in the providing of housing. Traditional or culturally owned land is difficult to secure for housing and even when agreements can be reached, we find that they are, in many instances, only of value when the personal agreement of the traditional owner remains. That is, if the traditional owners object to the use of the land either by The Salvation Army or its occupation for any other reason, they tend to claim back the land, despite the existence of any agreement. Intra-tribal and inter-tribal disputes add to the vulnerability of such land. This has led to The Salvation Army losing many fine properties and the assets provided in developing them in the past.

(4.3) Demand and Supply of Housing

We have already provided some comments in relation to this, but would add the following:

Finance

Our observation is that finance for housing is difficult to obtain. Many of those who require housing finance are unemployed or in low-paying employment and face the dilemma of paying high rentals or occupancy in sub-standard housing whilst at the same time trying to save to raise the capital needed for eligibility for loans.

Housing finance is critical for any housing development. A lack of qualification for that finance means that it simply won't become available and therefore the development founders.

We believe there exists a situation where a micro-finance loan system may assist, particularly low income earners. An alternative would be for government-guaranteed loans for people on low income.

Anecdotal evidence exists that loans provided in such circumstances are repaid at a higher level than many normal loans.

Interest on any financial loan is also a critical element in the affordability of such loans. Inflation has a direct impact on the interest charged and therefore the control of inflation to manageable levels must be critical for housing finance. We believe there may be an opportunity for the government to consider schemes where loans are guaranteed at stable interest levels for the life of the loan in order to make affordability more possible.

Rental

The lack of affordability to purchase housing leads to higher demand on rental stock. Demand drives rent prices up.

Already in many urban areas, particularly the NCD, rentals are beyond single income families. This leads to parents both seeking employment, or alternatively wider family groups sharing housing that is not designed for the numbers involved. We have already made comment about the dangers of overcrowding.

The key, of course, is supply being greater than the demand.

We also note that when overcrowding exists the over-use of the housing stock tends to mean the standard of maintenance diminishes and that adds further pressure to housing availability, health issues, and the like.

We also note that there is no regulation on rental increases. Many countries have legislation which, while not "capping" increases, regulates rental rises to ensure that they are fair and reasonable. Renters have an opportunity to address any grievance to a housing ombudsman where the owner has to justify their rental in the event that increases are regarded as unfair or agree to a compromise.

(4.4) Competition

Low income workers face the great difficulty of being eligible for the purchase of housing in PNG. Of course, for the unemployed this is usually impossible.

The majority of workers are low-income workers and therefore incapable of purchasing housing. Often rental is required and this means further difficulty (refer comments above).

We believe there exists a need for public housing which is low-cost, basic, but meeting all hygiene and shelter requirements (say to United Nations Standards). We suggest there exists a situation where micro-finance style loans for low income earners should be considered. We suggest there is a situation where the public housing sector should consider a rental/purchase scheme where after a given period the renter has the option of continuing payments that go towards the purchase of the home. For example, a contract is entered where the renter pays rent for a period of, say, five years, and then continues to make payments for an additional twenty or thirty years at similar agreed levels to purchase the building. At the end of the period, providing the property is maintained adequately by the renter, the title is passed to the renter who becomes the owner.

This method has the additional effect of providing incentive to maintain the property at higher standards, lessening maintenance costs for the public housing sector and at the end of the agreed term, the public housing sector "disposes" of aging stock.

We also believe there is a case for consideration of schemes such as first home buyers' schemes where the government provides grants to prospective purchasers based on eligibility criteria. This could be designed to include those purchasers from the public housing schemes described above.

Assistance cited by the Real Estate Guide (February 2009, quoted page 16) is supported in the main.

The recommendation that tax such as GST and stamp duties etc. be removed from the industry is not supported. While this may initially reduce the cost of housing, the administrative burden to the wider community may outweigh any gain directly to the construction industry. A better suggestion would be that a scheme for rebate to new owners could be considered.

We also note the observation that in many countries the concentration of public housing in particular areas is now avoided. Many countries take the view that a mix of private and public housing encourages the better care of public housing, and, linked with the suggested rental/purchase scheme above, provide the best opportunity for public housing to be well maintained and therefore less expensive overall. A planned mix of low, medium and high density housing could also be considered in any development, or redevelopment.

We also note by observation that uncontrolled planning and a lack of services to new developments in the form of roads, transport, health, shopping, schooling, garbage collection etc. only exacerbates many of the crime and health issues.

(5.1) Real Estate Agencies

The Salvation Army's involvement with real estate agencies is very limited so our comments here are limited. However, we would suggest that legislation should be in place to ensure that customers receive fair treatment. Licensing and suitable industry regulations should be in place to ensure professional standards are maintained. Everyone benefits where this is clear.

We also believe trust accounts for bonds and/or rentals should always be a mandatory requirement and externally audited annually.

Legislation and/or Regulation

Any regulation must be legislation-based. Otherwise it lacks impact and credibility.

Legislation must be compiled with industry sector involvement.

Legislation must be practical and not impose unnecessary burden and costs on those who are impacted, and there must always be clarity of process. Critical to all this is uniformity across the country. Regulations from province to province differ and this adds to the complexity that the industry faces.

(5.3) Insurance

Whilst insurance is generally available for both small and large projects, often the cost involved is high and therefore becomes less affordable or "optional".

Insurance must be available for the security of construction sector, the finance sector and also for a builder's guarantee system. This is where each builder is required to pay a premium via a government regulatory body (that over-sights the warranty of construction), enabling claims to be settled for damages and rectification due to

structural and/or material failure within given periods this protecting the otherwise vulnerable owner.

All insurance policies should be in 'plain English'. That is, easily readable, in common language, so that a person with limited education can read the document and gains a suitable level of understanding.

(5.4) National Housing Corporation

The Salvation Army believes that there is little doubt that the National Housing Corporation should be involved in every aspect of housing. However, the view that they should be the sole provider of public housing is not supported. Partnership with the private sector often proves more efficient and cost-saving, and therefore makes possible additional stock.

We believe there exists the opportunity for the Corporation to be involved with both private developments and public developments where both the public and private sectors have ownership of portion of the developments.

There may be an argument for the National Housing Corporation to concentrate on project development and the establishment of infrastructure rather than direct involvement in the construction of housing stock. Overall planning to ensure the provision of adequate housing must be at the forefront of the Corporation's activity. There is little doubt that efforts to date have failed in this area.

(5.5) Land - Department of Lands and Physical Planning

It is recognised in Papua New Guinea that freehold land is not available. Leasehold land is limited. Even for leasehold land, titles are difficult to obtain. For example, we have been waiting nearly three years so far for one such title to be issued by the Corporation.

The records of the Department of Lands and Physical Planning appear to be appallingly inadequate and, when titles are lost or destroyed, the obtaining of a duplicate title is impossible.

(6.1) Traditional Land

We have already provided some comment in relation to the difficulties surrounding traditional or cultural land.

Traditional land is understandably valued by the traditional owners. It is the only asset of value they have. However, we believe there exists a situation where there could be simple processes made available that can be applied to traditional land enabling the owners to sell the land (either on a long term lease or freehold basis) or, when a particular case presents it, that compulsory acquisition for a fair compensation can be made. It must be legislated that once 'sold' that is, title issued to the new owner, that matter becomes final and the land in no circumstances can revert to the traditional owner except where the new owner agrees to this either by gift or sale.

Options cited in pages 33 and 34 are generally supported if this leads to security in

the release of land for housing development. However, we stress that any such form of transfer must be backed by law enforcement otherwise it makes the exercise pointless. If this simply leads to disputes, insecurity, or violence, the community as a whole suffers.

Community Services

The provision of community services such as water, sewerage, roads, and electricity, are basic necessities. Hygiene, street cleanliness, beautification, access, and general maintenance of housing stock are important if we are to maintain the value of existing stock and provide areas where our communities can flourish.

(5.7) Construction Industry

The Salvation Army's interaction with the construction industry is limited but consistent.

We find that differing regulations, licensing requirements, standards of application, standards applied in inspections, and the issue of certificates for occupation, vary and there appears to be no common standard applied.

We believe there is a strong case for consistent regulations for the construction industry as a whole to be applied. Similarly in the areas of finance.

(5.8) Materials Supply and Quality

Our observation is that the supply of quality construction materials is limited to a few main suppliers. This leads to a lessening of competition but we do not believe there is evidence of collusion to falsely raise prices. Market forces, that is supply being greater than demand, plays a part in the pricing of materials.

However, we do believe that there should be suitable consumer legislation that encourages competition, avoids monopolies and outlaws predatory pricing by large corporations attempting to eliminate small competitors.

(5.9) Services

We have already made mention on many occasions in our submissions of the importance of provision of water, sewerage, power, roads. We believe these are utilities and/or services that are critical to the basic needs of acceptable housing developments. In addition, we believe that suitable standards for the maintenance of these services must be guaranteed. The reliability of all such services at this time is appallingly inadequate and far too expensive.

We also raise the issue of rubbish removal. Waste from the roadside and throughout urban areas in particular is directly linked to the standards of health in the community. The removal of rubbish restricts vermin and possible outbreaks of illness and is therefore highly desirable. There may be a place for private sector involvement in this area, that is, contracting to the local government.

Telecommunications (phone, fax, and perhaps to some extent, internet) is also important. The lack of communication hampers education and transmitting of

information in timely and effective ways.

The extension of these services into the rural areas is long overdue.

Government Role

We have already made comments relating to the government involvement. The Salvation Army believes that regulation and the enforcement of such regulations must be based in legislation.

Planning, both of development and infrastructure, licensing, inspections, and standards, must be set by the government in consultation with the relative industry sectors.

However, we do not need more commissions or more bodies involved, but indeed less, with a greater efficiency being involved.

Perhaps one body involved in the planning and infrastructure development, with the other involved in the general construction and practical aspects of housing development.

(6.5) Basic Amenities

We refer you to our comments above, but add the following.

Basic amenities must be in place before the development begins, otherwise they are usually far more expensive and therefore the whole community suffers.

Basic amenities are critical for health and security and are a basic government responsibility on behalf of the wider community. Therefore, basic amenities must always be available to the edge of any development as a minimum. Where government bodies are directly involved in a development there remains a case for their direct involvement throughout that development.

Road access is critical. This assists in the supply and maintenance for the construction industry, the maintenance of housing stock and the general support of the community.

The provision of services does add costs to any development but the alternatives are not acceptable. The current lack of amenities in uncontrolled squatter settlements is evidence of the need.

In addition, the lack of amenities lessens the value of properties, and at the same time adds a higher value to those properties that has amenities, than would otherwise be appropriate.

Our observation is that the very high cost of amenities such as water and power often (falsely) limits user demands solely on economic grounds. However often this simply exacerbates the risk to health.

(6.6) Quality of housing

The supply and demand of housing directly influences the quality. For example, low demand and high supply often leads to the lowering of prices to attract sales and therefore higher quality housing will be first choice for any purchase. This therefore directly influences the quality of housing built, and the housing that is on sold or replaced.

Low supply and high demand on the other hand, allows for sub-standard construction in the haste to make it available and the pressure to retain any stock, irrespective of quality, becomes imperative. People get what they can and hold on to it.

Low supply and high demand in Papua New Guinea, particularly the NCD and major urban areas, reflects this situation. Housing quality is often below acceptable levels but retained simply because there is nothing else available.

Warranty on Buildings

There is a significant need for a period of warranty to be placed on all construction. At the moment virtually no guarantee applies, except those that are agreed by the contractor with the owner or developer. Often this is limited to a matter of months rather than a reasonable period of, say, five to ten years.

The fact that such warranties do not exist limits the incentive to provide quality product both in the materials and construction. Equally, the lack of such guarantees or warranties means that many owners who have saved for years to obtain housing are left with growing maintenance needs which are left unattended due to the high cost involved.

A warranty on housing stock is therefore encouraged and supported.

Such a scheme could be supported by a government regulatory body through which the insurance is arranged for the owner, paid by way of a percentage of all construction cost as the premium.

Consumer Protection

The lack of good legislative framework for consumer protection means unacceptable standards and consumer disadvantage. This may not always be deliberate but it has the same effect.

Consistent quality standards help in this area and the legislation for consumer protection helps avoid exploitation.

Built into such legislation must be the outlawing of anti-competitive behaviour and/or predatory pricing.

Role of Government

We have already made comment that the role of government involved in the housing industry is important. We believe government should provide the legislative framework for the industry.

The provision of public housing is critical and must be provided by a government that is concerned for its people. The government must recognise that most people cannot afford their own housing and therefore the State has a moral obligation to assist. Again, we point out that housing is regarded as a basic human necessity.

Again, we also say that *this does not mean that government has to be involved in every aspect of the provision of housing stock*, but they must be the conduit, the financier of last resort, the promoter of construction projects completed by private developers, and the regulator for all licensing and approvals.

Without this underpinning support the housing situation in Papua New Guinea will never improve adequately and pricing will always remain under pressure.

(6.7) Legislation

We refer to previous comments in relation to legislation.

We believe the key to any legislation is consistency, simplicity, and the establishment of basic standards. A single administrative body for the licensing and enforcement of those licensing standards must exist.

6.10 Institutional Housing

The Salvation Army is a provider of institutional housing across the country. This is provided for our officers (clergy).

Whilst we have been successful in doing this, we also recognise that there is a very high cost of maintenance, and this provides major concerns for us.

As a not-for-profit organisation we have limited financial capacity and many of the houses that we have provided are aging and therefore the cost of replacement adds to the difficulties we face.

Interestingly, there is some anecdotal evidence that some of the housing that we first constructed, and now fifty years old, is of a better standard and more worthy of retention than some of the housing that has been built in more recent days.

We do provide some housing for employees (as mentioned above) but mostly this is where we have under-used officer quarters which have in some instances become available due to positional or location requirements. From our observation, rental paid by staff barely covers the cost of utilities and maintenance. It never provides sufficient funds for us to contemplate the replenishment of capital for future replacement. This therefore means that employee housing as institutional housing is not a preferred option.

Affordability

We have already made comment in relation to the affordability of housing.

The unavailability of low cost finance adds to the difficulty for even the purchase of low cost quality housing.

(6.12) Other studies and findings

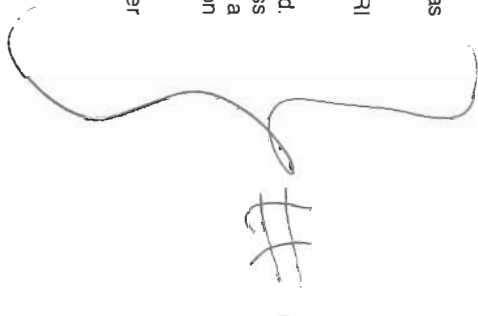
We note with some concern that the 2002 Housing Policy remains in draft and has not been progressed.

We note with concern that the National Housing Strategy (2007 NRI Recommendation) remains unendorsed.

The general thrust as outlined is endorsed as a practical and positive way forward. However, make the point that these studies and recommendations are useless without action following implementing recommendations? It would appear that a great deal of time has been wasted and opportunities missed, and while inaction remains the people of PNG continue to suffer.

We also express concern that this issues paper may be nothing more than another costly delay or avoidance of action. We do hope this does not become the case.

We trust these comments which are provided for your consideration are useful.

A handwritten signature in black ink, appearing to be 'A. Kalai', with a large, sweeping flourish extending to the left.

Signed

On the 28th day of August 2009

By

Commissioner Andrew Kalai

Territorial Commander

On behalf of The Salvation Army Papua New Guinea Territory