

**PATTERN AND PROBLEMS OF APARTMENT BUSINESS IN  
BANGLADESH**

**DISSERTATION  
SUBMITTED TO THE UNIVERSITY OF DHAKA FOR  
THE DEGREE OF DOCTOR OF PHILOSOPHY**

**MOHAMMED ABUL HOSSAIN  
DEPARTMENT OF FINANCE  
UNIVERSITY OF DHAKA  
BANGLADESH**

**FEBRUARY 2006**

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**GIFT**

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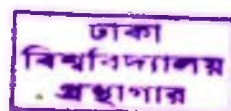
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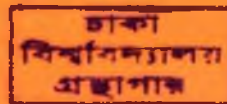
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FEBRUARY 2006



TO THE MEMORY OF MY PARENTS

403562



CERTIFICATE OF SUPERVISOR

This is to certify that Mr. Mohammed Abul Hossain, a Ph.D. student registered in the Department of Finance, University of Dhaka has prepared this thesis under my supervision. This thesis is the outcome of his independent research.

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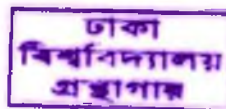


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## ABSTRACT

*During the last two decades, the population of Bangladesh has become more than double. As a result, the housing problem has taken the shape of an acute problem for this increasing number of people. People migrate to the big cities for job opportunities and also for enjoying other urban facilities. This migration gives rise to the accommodation problem in big cities. Growing up slums, unplanned buildings are hampering the decency of cities and causing environment pollution. On the urge of the necessity alternative solutions have come. Real estate companies have come forward with apartment projects to solve the problem as well as to make lucrative profit in a planned way. This system on the one hand, accommodates much people in a limited space, on the other hand it brings the decency and development of the areas. This sector has targeted to beneficiaries, from lower to upper income groups by supplying flats with various sizes, prices, location and standard within a stipulated time. They provide houses according to the requirement of the target group with affordability, besides, this sector offers employment to a good number of technical, skilled and unskilled manpower. For this reason, the popularity and importance of apartment projects are increasing gradually. But the apartment sector has not flourished expectedly. But apartment developers are suffering from various bureaucratic barrier, corruption, shortage of suitable land, inadequacies of legal framework and financing opportunities.*

*The main objective of the study was to identify and to assess the role and contribution of apartment business to meet the housing needs in the metropolitan city areas and also to identify its problems, prospects etc.*

The apartment companies are mostly concentrated in the Dhaka city but in other cities it is gradually flourishing, but Dhaka city is the main center of apartment development. So, the study has covered apartment projects within the Dhaka city and suburbs of Dhaka city. Multiple methods were used to collect data for identifying the pattern of apartment projects in Bangladesh and their problems. Review of relevant literature, field survey, in-depth interviewing, focus group discussions, informal interviews and observation method were some of them. Four structured interview schedules were used for the survey, such as 1) Questionnaire for the executives of apartment developers 2) Questionnaire for the promoters of apartment companies 3) Questionnaire for the apartment buyers and 4) Questionnaire for some apartment projects. The sample developers were collected only from the REHAB members. Out of 87 members of REHAB, 21 top ranked developers were selected ( A ranking list was prepared of 87 developers according to the maximum completed projects up to the time of survey). The sample area was classified into three locations according to the income groups, population structure, social and infrastructure facilities. The locations were Posh area (Bharidhara, Banani and Gulshan), Standard area (Dhanmondi, Lalmatia, and Mohammadpur) & Economy area (Eskaton, Moghbazar, Shantinagar and other areas of Dhaka city) The sample developers sold around 6000 apartments till the time of survey. So the sample frame covered 6000 buyers and randomly drawn a 2% sample from this frame which was 120 in numbers. The apartment projects were selected randomly, where accessible covering all areas and all the sample developers and 209 projects were selected for the study. Socio economic background of fifty four (54) promoters of apartment developers was analyzed.

The following are the important findings of the study:

**A ) DEVELOPERS OF APARTMENT**

*Most of the apartment developers are private limited companies. The mission of the major companies is to earn lucrative profit and secondly to render service to the society. Most of the companies are doing other business besides apartment. Their main financing sources are their own capital, borrowed from private banks and advance taken from the buyers. Sources of land are mostly (95%) co sharing with the landowner. The standard proportion of co sharing is 60% to the developer and 40% to the landowner (It may vary with some factors, such as number of floors, location of the projects and the size of flats etc). The survey shows that, average cost per square feet of apartment in posh area is Tk.1680, in standard area is Tk.1360 and in economy area is Tk.1100. A little experience of default culture is prevailing in apartment business. All companies have taken precautionary measures for earthquake and cyclone at various levels. On an average, apartment companies allow 24 monthly installments for paying the apartment price to the installment buyers. Ninety one percent companies are facing bureaucratic process of registration, plan approval and high cost of registration and VAT. Various laboratory tests adopted by the company for quality control of its products, such as: BUET, ACI, ASTM and BSTI tests. Cent percent respondents have a plan to make apartment for low and middle-income groups. A case study shows that the return on investment (ROI) is 26.74%, which implies that apartment sector offers high profit margin. There is minimum financial risk involved in apartment business, because 100% sales proceeds is collected before handing over the apartment.*

## **B) APARTMENT PROJECTS**

*Out of 209 apartment projects 37.3% are located in posh area, 29.2% in standard area and 33.5% are in economy area. So. It can be concluded that apartment projects have been developed equally all over the sampling areas. It is revealed in this survey that 94% projects are residential. It was found that the average size of land for a project was 11.34 katha with a standard deviation of 6.56 katha. The average size of apartment is 1896 sft. The modal size is 1500-1999 sft. The average number of apartments in a projects is 27 with a high standard deviation of 30 units. The range is 5-500 units. The modal number is below 20 units. The apartment selling price per sft. varies from Tk.800- Tk.3100. Before 1994 only 115 projects were developed. Land price of various locations of the sampling area is surveyed. Average land price per katha is Tk.17.47 lakh.*

## **C) PROMOTERS OF APARTMENT BUSINESS**

*The study surveyed 54 entrepreneurs from the sample developers. The average number of entrepreneurs was 2.85 or 3. The average age of promoters is 45 years. Forty one (41%) percent of promoters is engineer. Some promoters are found to be the ex-students of BUET. A few doctors are also doing apartment business.*

## **D) APARTMENT BUYERS**

*Information gathered about demographic characteristics of the apartment buyers, socio economic condition, their source of finance, advantages and problems of apartment living etc. The majority of apartment buyers are middle aged which is in between 40-60*

years. The average age is 47 years. The average family size of the apartment buyers is 4. Ninety four percent of the apartment buyers are graduate and post-graduate. Seventy five percent of buyers are male, the fortunate female buyers are housewives and they have no regular income. The occupation of the 40% apartment buyers is service. Average family income of the apartment buyers is Tk.40,000. Apartment buyers of posh areas are not satisfied after buying the apartment. But the buyers of other areas are mostly satisfied. For escaping the high registration cost some buyers did not register their purchased apartment. Installment buying is preferred by most (73%) of the respondents. Most (99%) of the buyers used informal source of finance. The cost of govt. sector loan is 12.2% and the duration of loan is 14 years. Only 46% buyers have taken formal loan. Maximum (65.5%) arranged loan by their self - initiative and the rest buyers' loan has been arranged by their developer. Almost all (93%) buyers use their apartment as their own residence. Price is the most important factor for a buyer to select the site of the apartment. Most of the buyers have strongly suggested that there should be specific rules for apartment developers. Fifty five percent buyers replied that they are facing social and cultural problems in apartment living.

#### E) FINANCIAL INSTITUTIONS

The financial institution is a vital issue of evaluating apartment project business. The study revealed that the following institutions are directly and indirectly related to the apartment business:

**1. Bangladesh House Building Finance Corporation (BHBFC)**, is a specialized Govt. sector autonomous housing finance institution since 1952. It expands finance only for the apartment buyers not for the developers. The corporation has extended its services

for 1,19,063 units of houses since inception. Total loan sanctioned Tk.23555.35 crore by June1997. From 1994 to1999 the corporation approved 168 apartment loan cases to the apartment buyers. The amount of apartment loan was Tk.1243.29 Lac.

**2. Nationalized Commercial Banks (NCBs)** play a significant role in housing credit. As urban population doubled during 1985 to 1995, so the high demand of housing credit is seen during this time. But only BHBFC did not meet the tremendous demand of housing loan in urban areas. For this, NCBs slightly increased the disbursement of housing credit in this situation. The total disbursement of housing loan by NCBs from 1985 to Decembe,1995 was Tk. 3436.86 crore which was 50.24% of the total institutional housing loan.

**3. Delta Brac Housing Finance Corporation Ltd. (DBH)** is the first private sector financial institution in Bangladesh. DBH was incorporated on May 11, 1996 as a non-banking financial institution. DBH went into operation in December 1996. DBH has sanctioned Tk.1371 million to the apartment buyers and buying of housing plots up to December 2000.

**4. National Housing Finance and Investment Limited (NHFIL)** was registered in August 1998 under the companies Act 1994. It is the second non-bank financial institution for housing finance. The company disbursed its first loan in June 1999 in favour of non-residential Bangladeshi couple. Up to December,2000 NHFIL has sanctioned Tk.380.64 millions since inception for apartment buying , construction of house or for buying housing plots

5. *Industrial Development Leasing Company of Bangladesh Limited (IDLC) was incorporated in 1985 with a view to contributing to the development of private enterprises through providing lease financing services. In 1997 it diversified its service and included short term finance for housing and merchant banking. Up to 1999 IDLC has sanctioned Tk.84 million for housing sector.*

6. *Private Sector Commercial Banks (PCBs) also has been playing a vital role for housing credit since 1993. It is seen that 20% of total housing credit was made by PCBs. From their inception to December 1995 the total disbursement of housing credit was Tk.1,563.01 crores which is 22.85% of the total housing disbursement.*

*Accommodation problem may hinder all the possibilities and opportunities of the progress of the urban life unless proper attention is given just in time. To cope up with such emerging problem a study on this field became inevitable. So in this respect, this study was relevant and appropriate. The aim of the study was to reveal not only the present status of apartment business but also the various aspects of the apartment buyers. The study has discussed on the various aspects from the perspective of buyers such as: selection of developers, apartment sites, price and quality of apartment and price payment system and the various problems faced by the buyers after they start to live in the apartments. Moreover, the study has taken initiative to identify the role of various specialized financial institutions and concerned govt. institutions regarding the development of apartment business.*

*Therefore, the concerned stakeholders can be benefited using the findings and recommendations given in the study.*



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## ABBREVIATIONS

ACI	American Concrete Institution
ADB	Asian Development Bank
ASTM	American Standard Testing Institution
BHBFC	Bangladesh House Building Finance Corporation
BSS	Bangladesh Bureau of Statistics
BNBC	Bangladesh National Building Code
BSTI:	Bangladesh Standard and Testing Institute
BRAC	Bangladesh Rural Advancement Committee
BUET	Bangladesh University of Engineering & Technology
CDA	Chittagong Development Authority
CSE	Chittagong Stock Exchange
CBO	Community Based Organization
DOE	Department of Environment
DBH	Delta Brac Housing
DSE	Dhaka Stock Exchange
EMI	Equated Monthly Installment
FDR	Fixed Deposit Receipts
GSS	Global Shelter Strategy
HSD	Housing and Settlement Directorate
HBRI	Housing & Building Research Institute
HML	Home Mortgage Loan
HDFC	Housing Development and Finance Corporation
IBBL	Islami Bank Bangladesh Limited
IDLC	Industrial Development & Leasing Company
IFC	International Finance Organization
KDA	Khulna Development Authority
LGRD	Local Government and Rural Development
MOW	Ministry of Works
NCB	Nationalized Commercial Banks
NGO	Non-Government Organization
NHA	National Housing Authority

NHFIL	National Housing Finance and Investment Company Limited
OCS	Office of the Commissioner of Settlement
PCB	Private Commercial Banks
PWD	Public Works Department
REHAB	Real Estate and Housing Association of Bangladesh
RS	Richter scale
SAARC	South Asian Association for Regional Cooperation
SMA	Statistical Metropolitan Area
SWOT	Strength Weakness Opportunity & Threat
GSS	Global Shelter Strategy
UDD	Urban Development Directorate
UNCHS	United Nations Center for Human Settlements



## CHAPTER-1

### INTRODUCTION

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## CHAPTER -1

### INTRODUCTION

#### 1.1 BACKGROUND AND RATIONALE

It is being increasingly recognized that, in addition to gross national product (GNP) or per capita income, there is a need to pay attention to other indicators of development. The general belief that deteriorated living condition is a price that has to be paid for rapid economic development has now changed substantially. Sound environmental planning as an essential ingredient of overall planning of an economy is being increasingly observed. In the concerned policy development, the social and economic importance of improving housing and community facilities both as a goal in itself and as a part of the process of national economic development has begun to be acknowledged.

Although the housing situation in Bangladesh, whether urban or rural, has never been satisfactory, the housing situation in major cities has further deteriorated as seen from the Bangladesh Housing Census, 1991. This deterioration of situation should not be a concomitant of national economic development. In addition to the present acute deficiency in the stock of housing, the future may witness a grave crisis. It will necessitate drastic measures to rectify the various adverse trends and factors, which affect supply of housing.

Perception of the term "housing" and its role has been broadening. By housing it is meant not only a mere form of shelter but includes other community facilities and services, such as water supply, sanitation, transportation etc. Again, housing is not looked upon as only physical phenomenon, but emphasis is also given on its economic and social cost and benefit. Housing not only shelters but also serves as a center of its total residential

environment. Environmental amenity is a major dimension of the housing commodity. Thus the total community is the critical variable and not just a series of houses. Of the many reasons that accounted for the acute condition of urban housing in the country, lack of finance or insufficient finance for an overall public and private housing program is an important one. On the one hand, constraints on the national resources limit the adoption of housing policies that require substantial public resources. On the other hand, as the total community is the critical variable, group or organizational efforts are necessary in urban areas, instead of individual effort to tackle the problem and hence the necessity of financing arises.

In Bangladesh apartment business is a recent phenomenon, although such activities have started sometime in the year 1964. Ispahani and Eastern Housing are the pioneers in this sector. Since 1990 apartment companies have been flourishing. At present more than 400 big and small apartment companies supplied around 12000 apartment units<sup>1</sup>.

Financial aspects of housing development and purchase of apartment require the presence of financial institutions. These institutions can accumulate funds either by mobilizing the savings of thrift deposits of households or business firms or borrowing from some other sources. And they advance these funds to the buyer of apartment or to individual for construction of houses for own living or to sell it on commercial basis or to use it for rental income. Thus, the financial institutions can play an important role as mediator. As the concerned commodity (House/Apartment) is a very important public issue, government in all countries in the world either operates these financial institutions directly or regulates them both intensively and extensively. Housing finance involves long-term investment in a form of real asset, durable and heterogeneous. This characteristic adds further to the complexity of housing finance and makes the financing mechanism a special one different

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<sup>1</sup> REHAB Directory 2001, p 38

from other type of financing. All these necessitate a special type of financing institution for housing finance.

Government established a special housing finance institution named Bangladesh House Building Finance Corporation (BHBFC) in 1952. Since inception this institution has been financing the construction of houses in the own land of the individual and more than 1,26,832<sup>2</sup> housing units were constructed in various cities with its assistance. In 1996 government formulated a positive legal environment by granting license to private sector housing finance institutions. In consequence,, two private sector housing finance institutions were established. But for an individual, the cost of fund is very high. So, middle and low – income households have no access to this mortgage market, though it is the hope of the individuals to have a shelter for themselves.

## **I.2 STATEMENT OF THE PROBLEM**

The density of population is very high in Bangladesh. Average floor space per living structure in Bangladesh is 249sqft; in urban areas it is 299sqft, and in rural areas it is 243sqft. Bedroom spaces per person is 55sqft in Bangladesh; 62sqft. in urban and 54sqft. in the rural areas which is far from satisfactory. Population per sqm. is 876 persons. Annual growth rate of population (1991-01) is 1.48%<sup>3</sup>. Urban population growth rate is 5.4%<sup>4</sup> in 1991. Bangladesh is third ranking urban population growing country in SAARC region. The population growth rate of Dhaka Mega City is 6.55%<sup>5</sup> annually.

This growth of urban population is threatening specially to four SMAs (Statistical Metropolitan Areas). Government with its limited resources is unable to face this acute

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<sup>2</sup> BHBFC ,Annual Report, 1996--97

<sup>3</sup>Bangladesh Bureau of Statistics, Population Census 2001, Preliminary Report BBS: August-2001.

<sup>4</sup> Bangladesh Bureau of Statistics, Urban Area Report 1997.

shortage of urban dwellings, though accommodation is the third basic need of human being. In this perspective the private young entrepreneurs came forward to solve the urban housing problem with their recent thinking of vertical expansion of modern living high-rise apartment projects.

Irrespective of class groups, everybody needs a dwelling house where he can take shelter, and can make arrangement for future generation and promote economic activities. Like developing countries housing situation in Bangladesh, both rural and urban, is not satisfactory. Over the last two decades the population of four SMAs increased very rapidly. Because of rapid urbanization large cities are to bear the brunt of this tremendous growth of urban population. More than 23.39% of the total population lived in urban areas in 2001, whereas the rate was 20.15% in 1991 and 15.54% in 1981<sup>6</sup>. Over the last two decades, urban population increased significantly. Consequently the demand for housing units in the urban areas increased unexpectedly, whereas the supply did not increase accordingly. Government cannot provide housing for its employees. Only 4.3% of the government employees are the beneficiaries of Government housing, rest 95.7%<sup>7</sup> are residing in rented houses. Accurate figure of housing units in private sector is not available. It is obvious that there exists a big gap between the supply of and demand for housing units in urban areas. This is because of inadequacy of fund to individuals to construct houses for themselves or rental purpose. The urban housing situation further deteriorated, because construction of house both in private and public sectors was very slow. The annual demand is 12,38,586 housing units in urban areas. After 5 years the present backlog will be covered if annual demand is met. The annual replacement need is 4,86,586 units and need for increased population is 4,00,000 units. The total requirement will be 8,86,586 units if it is optimistically assumed that one third of this generated demand was met within the past

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<sup>5</sup> Urban Bangladesh, Geographical Studies Edited by Nazrul Islam 1991. Geogrphy Department, D.U

<sup>6</sup> Bangladesh Bureau of Statistics, Urban Area Report 1997.

<sup>7</sup> Halcrow Fox & BCL: 1993. Housing Sector strengthening Project, ADB. T.A. No-1670-BAN.

decade through new construction by private and public sectors. The rest of the urban dwellers must have either squeezed themselves into the overcrowded blighted areas and slums in the cities or they have squatted in the urban areas. The Third Five Year Plan (1985-90) also recognized the magnitude of the problem and pointed out that in addition to public sector resources, the major thrust in this regard will be to formulate policy stimulating private sector participation in solving housing problem of the country.

In such a situation our private companies entered this sector to solve the tremendous housing problems as well as to make profit. The land is very scarce in the city areas. Private individuals construct their house in horizontal expansion, which require huge land for solving housing problem for small number of people. But private developers construct high-rise apartment building with vertical expansion, which requires small size of land for a large number of people. Besides, private developers developed building in the most planned way that improves the decency of urban areas. But the private companies are facing severe financial and other problems.

Urban people suffer seriously from the acute shortage of housing. Attention to this sector has now become imperative. Apartment being a capital-intensive industry, it is quite impossible for individual developers to operate this sector depending only on equity fund. So institutional support is essential for finance. The government allocation in this sector is not sufficient to meet the requirement. If the housing developers get loan facility at reasonable cost, they can 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 apartment units. In this way housing shortage can be reduced.

But the actual cause of slow growth of apartment development is the lack of adequate finance at the disposal of intended buyers. Keeping in view this scenario of apartment

development, the study seeks to explore the detailed aspects of apartment projects in Bangladesh and its problems. Earlier studies in this respect are not comprehensive and have not covered this area adequately.

### **1.3 OBJECTIVES OF THE STUDY**

The broad objective of the study is to identify the pattern and problems of apartment business in Bangladesh. The specific objectives of the study are summarized below:

- i) To assess the role and contribution of apartment business to meet the housing needs in the metropolitan city areas.
- ii) To identify the sources of funds of apartment business.
- iii) To identify the financing problems of apartment business.
- iv) To identify the problems faced by the real estate companies in all phases of their operations.
- v) To identify the factors motivating the buyers to buy apartment.
- vi) To identify the sources of funds of the buyers for buying flats.
- vii) To identify the problems faced by the buyers after buying the flats.

### **1.4 SCOPE AND COVERAGE OF THE STUDY**

In our country apartment is a relatively new sector in business arena. There are many dimensions of study of this industry. But the main focus of the research is to identify the pattern and problems of apartment business in Bangladesh from the view point of developers (Real Estate Companies) and apartment buyers (Consumers or ultimate beneficiaries). So the study tries to explore the pattern and problems of apartment business. The apartment companies are mostly concentrated in Dhaka City and to some extent in Chittagong City, but Dhaka city is the main center of apartment development, so the study is confined to apartment projects within the Dhaka City and suburb of Dhaka City.

## 1.5 LIMITATIONS OF THE STUDY

The study was conducted through many obstacles and constraints. These are mentioned below:

- A. **Financial constraint:** The survey is very expensive. But the budget is too small to accomplish the research. The allotted amount is not sufficient to buy materials, let alone conduct the whole research.
- B. **Data constraint:** Till now, the sector is developing in a scattered way. For this reason it is very difficult to obtain data about them. As very competitive and private sector enterprises, they maintain strict secrecy about their finance related information. Information regarding finance of the industries cannot be gathered as desired. Besides, among around 500 companies engaged in this sector, only 2 public limited companies are listed with DSE & CSE. So, financial information can be obtained systematically from the above two apartment companies. Difficulties were encountered in collecting data from the non-listed public and private companies.
- C. **Literature constraint:** No major work has so far been done in this sector. So there is a dearth of literature in this field.

## 1.6 ORGANIZATION OF THE STUDY

The study has been organized into eight chapters. The **first chapter** contains introduction, the research problem, rationale of selecting the sampling area, objectives of the study and the limitations of the study. The **second chapter** describes the methodology followed in the research. It includes operational definitions, sampling procedures, data collection, editing and tabulating of data and analysis of data. It also includes operational definitions. The **third chapter** covers review of literature, housing situation in rural and urban areas, total housing requirement, housing supply activities and housing gap. It also includes a projection of housing supply on the annual basis to fulfill the existing housing shortage. The **fourth chapter** describes the housing finance system in Bangladesh. It includes all housing finance institutions. Besides, the government owned banks and foreign and private banks have also been covered in this chapter. The **fifth chapter** explores all aspects of apartment business in Bangladesh. It covers influencing factors of apartment development. A detailed field survey is conducted to identify the various characteristics of apartment developers



such as formation of apartment companies, their origin, formation, growth, risk, problems and prospects. **Chapter six** includes total picture of apartment buyers. The socio-economic characteristics of apartment buyers, their education, occupation, influencing factors of apartment buying and site selection criteria has also been covered in this chapter. The **chapter seven** describes the nature and behavior of apartment projects, which have been developing in our country. Two hundred and nine apartment projects were surveyed to identify their various aspects such as location of the project, number of apartment units in a project, time required to complete a project. **Finally, chapter eight** consists of a summary and conclusions and a guideline for further research.

With the introductory discussion, the methodology of the research, operational definitions of the major variables, data collection, processing and analyzing of data will be discussed in the next chapter.

## CHAPTER-2

### RESEARCH METHODOLOGY

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## **CHAPTER - 2**

### **METHODOLOGY**

#### **2.1 METHODS OF DATA COLLECTION**

Multiple methods were used to collect data for identifying the pattern of apartment business in Bangladesh and its problems. Review of relevant literature, survey, in-depth interviewing, focus group discussions (FGD), informal interviews, and observation methods were some of them. Respondents of the study consist of apartment buyers; promoters of apartment business; and executives of the apartment companies, executives of the housing finance institutions. In addition to the above-mentioned respondents, location wise different apartment projects were selected for the study. Besides, different government agencies like RAJUK, HSD, PWD, HBRI and MOW, and organization (REHAB) of the apartment companies were also surveyed. Related information was collected from both primary and secondary sources. Here are the details of methods used to collect data for this study:

##### **2.1.1 Review of Literature**

Survey of existing literature for gathering secondary data related to housing problems, especially for housing finance regarding apartment business on worldwide basis was carried out. Available literature of housing related institutions, housing supply agencies and infra-structural agencies in Bangladesh was also reviewed. Housing finance related different books, journals, research studies, survey reports, ordinances, acts and editorials and special housing supplement of news papers etc. were critically reviewed to know the current position and the lacuna in this field.

##### **2.1.2 Collection of information and data through Survey Method**

Four structured interview schedules were used for the survey consisting of both open-ended and closed ended questions. Letters issued to the concerned authorities of relevant

institutions to get permission for collecting primary data (**Appendix-1**). The draft questionnaires were pre-tested with some potential respondents from all categories in order to determine the consistency of questions, appropriateness of the languages, and sequences of the questions. Thus reliability of the questions to generate the required data was ensured. The reliability of question was tested through test-retest method.<sup>8</sup> One set of schedule was used to collect information about the origin and growth of the apartment companies (**Appendix-2**), sources of fund, costs of fund, major problems faced, selling process of their products, quality control procedures, profitability of the company, sources of materials used etc. Another interview schedule (**Appendix-3**) was used to collect information about the apartment buyers for exploring their socio-economic background, sources of finance, impression about the companies irrespective of purchasing a flat and satisfaction level, mass media communications to buy a flat, their opinions about registration process, costs involved, concerned authorities, financial institutions, potential sources of finance etc. and different cultural complexity related information about community living were included in this schedule. The next interview schedule (**Appendix-4**) was used to collect information only to know the types of people involved in the apartment business. The fourth interview schedule (**Appendix-5**) was used to collect information about the apartment projects of various locations irrespective of companies. This included number of floors, number of flats, size of the flats, land area of a project, selling price of flats, price for parking space, project duration etc. Besides, location wise land price was also collected for exploring the increasing trend of land price.

Two field investigators and one supervisor were employed for field survey. The survey was conducted from January 2000 to December 2001. Average number of visits was around 12 times in case of developers, in case of buyer minimum 6 to 7 visits. The entrepreneur

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<sup>8</sup> Selltiz et. al. *Research Methods in Social Relations*, Revised One –Volume Edition, Holt, Rinehart and Winston, Toronto. 1959, Pp.183-84

background study required around 2 to 3 visits, and more than 10 visits for collecting project data.

Questionnaires were filled in front of investigator. Methods of communication were personal interviews. Both direct and telephone approaches were used.

#### **a) Population of Survey Method**

Population refers to any group of people or objects which are similar in one or more ways and which forms the subject of the study in a particular survey.

**(i) Apartment companies:** Initially difficulties were encountered to ascertain the accurate number of apartment companies in our country. As there was no organization for maintaining the list of apartment companies, the researcher took initiative to prepare an up-to-date list of apartment developers. The registrar of joint stock companies was unable to supply the list of apartment companies, although, 99% apartment developers were listed in his office as private limited companies. Office of the REHAB (Real Estate Housing Association of Bangladesh) supplied a list of 400<sup>9</sup> companies conducting apartment business in Bangladesh. Most of the companies are single project companies, which were making apartment on their own land or co-sharing with landowner and selling them on commercial basis. Only a few of the apartment companies were doing their business in an organized way. They formed an association named REHAB for protecting the interest of the sector. The number of REHAB member was 87<sup>10</sup> during the time of survey.

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<sup>9</sup> Collect a list of the number of apartment companies from DBH (Delta Brac Housing Finance Corporation Ltd.). In addition to the list provided by DBH, the researcher authenticated the list from the advertisement of different newspapers and weeklies.

<sup>10</sup> List of REHAB members collected from their secretariat (Eastern Plaza).

(ii) **Apartment buyers:** The concept of apartment business in Bangladesh has developed since 1985. More than 12000 apartments have been sold up to December 2000 in Dhaka City<sup>11</sup>. It is to be mentioned here that all the apartment companies were operating only in Dhaka City except a few developers who developed a handful projects in Chittagong. The population of this study was only the 6000<sup>12</sup> buyers, of apartments, which were sold by the sample developers.

(iii) **Promoters of the apartment projects:** Around 200 entrepreneurs were engaged with apartment business. This list covered only the members of REHAB.

(iv) **Apartment projects:** More than 500 apartment projects were developed by the sample developers since inception.

## **b) Selection of Samples**

Sampling is a tool that helps to know the characteristics of the population by examining only a small part of it:

(i) **Apartment Companies:** Purposive sampling was used in selecting apartment companies. The sample units were the developers not their projects or individual apartments. Developers varied according to the number of projects completed and the projects also varied according to the number of apartments. So random sampling is not applicable here. Because random sampling from a finite population refers to that method of sample selection which gives each possible sample combination an equal probability of being picked up and each item in the entire population to have an equal chance of being included in the sample<sup>13</sup> (C.R.Kothari: 1996). So a preliminary survey on the apartment builders was undertaken as they were the real developers and were effectively conducting business in this sector. For this reason the sample was selected only from the REHAB members. A list was completed for ranking them according to the maximum number of

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<sup>11</sup> REHAB Directory, 2001

<sup>12</sup> Researcher's prepared list.

<sup>13</sup> C.R. Kothari: 1996, Research Methodology. Methods and Techniques. Second edition, Wishwa Prakashan, New Delhi, 1996.

completed apartments and top ranked 21 (twenty one) companies out of 87 REHAB members was selected as sample (The sample is around 25% of the population).

About 400 companies are working in housing business especially apartment business in Bangladesh since its inception in 1964. During the study period it was found that only 87 members were enlisted under an association named Real Estate and Housing Association of Bangladesh (REHAB). Table 2.1 shows the sample for the study.

**Table 2.1: Name of the Real Estate Company**

SL. No.	Name of the Real estate Company
1.	Amin Mohammed Foundation Ltd.
2.	Bashati Consortium Ltd.
3.	Building Technology & Ideas Ltd.
4.	Hassan & Associates Ltd.
5.	Hamid Real Estate Construction Ltd.
6.	Borak Real Estate (Pvt) Ltd.
7.	Property Development Ltd.
8.	Sheltech (Pvt) Ltd.
9.	Shinepukur Holdings Ltd.
10.	Structural Engineers Ltd.
11.	Subastu Development Ltd.
12.	Urban Design and Development Ltd.
13.	Eastern Housing Ltd.
14.	Building for Future
15.	S. S. Builders & Developers Ltd.
16.	NEER Ltd
17.	Rupayan Real Estate Ltd.
18.	Rangs Properties Ltd.
19.	The Tropical Homes Limited
20.	Advanced Development and Technology
21.	Concord Real Estate

Source: Field Study

(ii) **Apartment Buyers:** The sample developers sold around 6000 apartments till the time of survey. So the sample frame covered 6000 buyers. From this population 2% sample (120) was drawn randomly from various locations. The sample extent was Dhaka City. Sample area was classified into three locations on the basis of income groups of buyers, environment, population, and infrastructure facilities (business centre, office set up, communication etc.). The locations were Posh area (Baridhara, Banani and Gulshan), Standard area (Dhanmondi, Lalmatia and Mohammadpur) and Economy area (Eskaton, Mogbazar, Malibagh, Shantinagar, Elephant Road etc.). Low, moderate and high weights were given respectively for Posh, Standard and Economy areas, while setting the size of samples, covering all categories related to the objectives of the study. From Posh area 7%,

moderate area 21% (more than 3 times of luxury area) and economy area 72% (more than 3 times of moderate area) samples were selected.

A total of 120 buyers were selected for this study from 21 sample apartment companies who were working in the field of housing from the beginning and have flourishing business and have a good chance of survival in this sector in future. They are the leading members of REHAB, which is the trade association of private sector apartment companies. These top 13 (on the basis of completed apartments) housing companies are playing a significant role in REHAB. So, 108 samples (buyer) were collected from the above 13 developers. The remaining 12 (10%) buyers were selected from the non-member of the REHAB. The list of sample buyers from the apartment companies is shown below in Table 2.2.

**Table 2.2: Distribution of Sample Buyers of the Apartment Companies**

Name of the Apartment Co	Frequency	Percent
Amin Mohammad Foundation Ltd.	5	4.2
Boshoti Consortium Ltd.	8	6.7
Building Technology & Ideas Ltd.	12	10.0
Hassan & Associates Ltd.	6	5.0
Hamid Construction Ltd.	6	5.0
Oriental Real Estate.	7	5.8
Property Development Ltd.	10	8.3
Sheltech (Pvt.) Ltd.	5	4.2
Shinepukur Holdings Ltd.	16	13.3
The Structural Engineers Ltd.	5	4.2
Suvastu Development Ltd.	10	8.3
Urban Design & Development Ltd.	2	1.7
Eastern Housing Ltd.	16	13.3
Borak Real Estate (Pvt.) Ltd.	2	1.7
S.S. Builders and Developers Ltd.	1	.85
Neer Ltd.	2	1.7
Rupayan Real Estate Ltd.	2	1.7
Rangs Properties Ltd.	2	1.7
The Tropical Homes Ltd.	1	0.85
Advanced Development and Technology	1	0.85
Concord Real Estate	1	0.85
Total	120	100.0



(iii) **Apartment projects:** Apartment projects are developing all over the sample area, uniformly. The projects were selected randomly where accessible, covering all the areas and all the sample developers, 209 projects were drawn as sample (42% of the population).

### 2.1.3 In-depth Interviews

Unstructured schedules were used for conducting in-depth interviews, a technique that was used along with the other methods because the interviewer could continue to ask questions as long as the respondents gave meaningful responses. Topics included in the unstructured schedule related to apartment developers, criteria for selection of project sites, process of communication with landowner, process of land registration, co-sharing process, VAT procedures, process of marketing, process of approving plan, utility connections procedures, financing procedures and reasons behind entering into the apartment business etc. This information was collected from the developers. Same information was collected from the apartment buyers for cross checking. Further, information about the investment criteria of financial institutions, their investment portfolio and government housing finance policy were collected.

#### a) Samples for In-depth Interviews

Selection of respondents for in-depth interviews was not an easy task because some crucial information of the study was qualitative in nature. The sample size was so limited as not to compromise the quality of interviews. Each in-depth interview required much more time than a structured interview but representative sample had to be selected. However, the

study ended up by interviewing purposively selected 8 respondents, two from each category.

#### **2.1.4 Focus Group Discussions (FGD)**

FGD reduce the amount of time and personnel required for conducting and analyzing in-depth interviews and yet getting detailed qualitative information from a relatively large number of respondents by bringing them together in groups. This type of discussion was held with apartment developers, apartment buyers, and executives of the housing finance institutions, professors of finance and the officials of housing related government institutions. This was done primarily for eliciting their opinions about the housing related finance and other problems, and for seeking suggestions for minimizing these problems.

##### **a) Sampling of participants of FGD**

A list of 10 members of all the categories was prepared and a discussion session was held with them.

#### **2.1.5 Informal Interviews**

Informal interviews were conducted with a number of resource persons, who were variously connected with housing problems. Planners of Urban Development Directorates, various persons of urban research centres, executives of RAJUK, Professors of Department of Urban & Regional Planning (BUET), different columnist, executives of Housing Finance Institutions, experts of housing cooperative etc. The above people were selected because they were directly or indirectly involved with housing policy, urban planning, master plan, and urban development etc.

### **2.1.6 Observation Method**

In addition to all these techniques of data collection, observation method was followed throughout the study period. This method was employed in the case of the attributes of apartment projects regarding location, number of stories, decency, and communication etc.

## **2.2 DATA PROCESSING AND ANALYSIS**

The data collected from the executives of apartment developers, apartment buyers, promoters of apartment companies and apartment projects data from respective officials were organized to reflect the objectives of the research study.

### **2.2.1 Editing and processing the data**

Immediately after completion of the survey, the data were processed and edited. One supervisor and two research assistants attached to the study were involved. The major objective of editing was to verify that the questionnaire had been correctly completed and that items of information recorded or responses to questions obtained were consistent with one another. Each item of the questionnaire was checked individually to ensure validity and consistency of data. Proper care was taken to ensure that editing did not impair quality of data.

### **2.2.2 Analysis of Survey Data**

Data collected were processed in a manner that could be analyzed by **SPSS** statistical computer package. For this purpose all qualitative responses of survey were transferred to numerical numbers. The data contained in the questionnaires were computerized and analyzed. Computerization of data involved the tasks of i) Designing the study forms; ii) Entering data on the computer; iii) Conducting validation checks to ensure that data have

been correctly entered; iv) Analyzing the data according to the study plan; v) Preparation of output tables according to tabulation plan; and vi) Ensuring that, the output tables were correct. Parts of the data were, however, analyzed manually. The data were analyzed for facilitating bivariate and multivariate analyses. Descriptive statistics i.e. mean, mode, quartiles, standard deviation etc. were used for comparative analysis among the variables. For qualitative data, both implicit as well as explicit meanings of the observed phenomena were emphasized.

### **2.2.3 Analysis of the FGD Data**

Recording of FGD data was very difficult because too many people gave opinions at a time. During interview session one person acted as facilitator, another recorded the proceedings, and a third person recorded the question-answers in a tape recorder. Immediately after each session the facilitator wrote the proceedings thematically. When all records were ready we organized, classified and edited the raw data into a manageable and accessible package. Once all data in organized form, a wrap-up session was held by the research team to interpret the collected information to prepare a management plan.

### **2.2.4 Analysis of In-depth Interviews**

Each in-depth interview was written descriptively. Following the description, cross-case analysis was done. This means grouping of answers to common questions. Emic approach for analysis was used, which depicted the perspectives of the interviewees. The technique of answers was inductive, which means the patterns, themes, and categories of analysis emerged from the data rather than being imposed on prior to data collection and analysis.

## 2.2.5 Analysis of other data

The data gathered from **informal interviews** were qualitative in nature. These were recorded in a personal diary of the researcher. At the end of interviews the collected information were summarized and finally used for qualitative analysis. Data collected from **observation** were also included in qualitative analysis.

## 2.3 OPERATIONAL DEFINITIONS OF MAJOR VARIABLES

- (i) **Apartment:** One or more rooms including a kitchen and bathrooms especially, one such set in a building
- (ii) **Apartment Industry:** Group of firms who are building apartments and selling them commercially.
- (iii) **Buyers:** Customers of apartment.
- (iv) **Competitor:** Number in apartment market who is attempting to increase their profits at the expense of their rivals.
- (v) **Turnover:** The total amount of sales made by a builder over a year.
- (vi) **Industry size (in terms of competitors):** Total number of builders working in the same apartment industry
- (vii) **Industry size (in terms of volume):** Total amount of outlay in the apartment industry.
- (viii) **Industry growth (in terms of competitors):** Yearly rate of increase in the total number of builders operating in the apartment industry.
- (ix) **Industry growth (in terms of volume):** Yearly rate of increase in the total amount of outlays in the apartment industry.

(x) **Apartment Facilities:** The attributes of the apartment that provide satisfaction to the customers.

(x) **Market Demand:** The number of apartment units demanded by the customers in a given period;

(xi) **Market Share:** The fraction of the apartment industries' sales accounted for by an individual builder or group of builders.

$$\text{MS (of an individual firm)} = (\text{Sales of a builder} / \text{Total industry sales}) * 100$$

$$\text{MS (of a individual zone)} = (\text{Sales in a particular zone} / \text{Total industry sales}) * 100$$

(xii) **Income group:** The sample apartment buyers are classified according to their monthly family income (in Tk.000), which is below 20, 20-29.99, 30-39.99, 40-49.99, 50-59.99 and 60 above.

(xiii) **Family:** Any group of people related by blood or marriage specially parents and children.

(xiv) **Family income:** Family income refers to the total income of the members of the family.

(xv) **Target Customers:** Individuals who are willing and able to purchase apartments from the builders.

(xvi) **Builder / Developer / Real Estate Companies:** A firm that constructs and sells apartments on a commercial basis.

(xvii) **High-rise building:** Any building higher than nine storied is considered high-rise.

(xviii) **Condominiums:** Many buyers of residential properties have come to know the concept of condominium property ownership. The term condominium means individual

ownership of one family unit within a multifamily structure (Such as high rise) or complex (such as planned unit development). The ownership is coupled with an individual ownership interest in the land common areas (halls, recreation facilities etc.) which are a part of the condominium development. In other word, the owner of a condominium unit owns the unit and has an ownership interest in all common areas. The ownership interest in the common areas is usually determined by either (i) The ratio of the value of the owner's unit to the total project value or (ii) the ratio of square footage contained in an owner's unit to the total square footage in a project. This ownership interest also determines the extent to which each owner must contribute to operating the owner's association, which is the legal entity, created to operate and manage the common areas within the development<sup>14</sup>

With this discussion on research methodology, the next chapter discusses on different shelter development strategies adopted by the countries in the World as well as in Bangladesh and reviews housing situation in Bangladesh. Such discussions include: govt. Five year plans regarding housing, structural features of housing, population density, housing tenure, estimated shelter requirements in urban areas of Bangladesh and population growth etc.

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<sup>14</sup> Brueggenan and Stone, Real Estate Finance, Richard D, Irwin Inc. USA. (1971:197).

## CHAPTER-3

### HOUSING SITUATION IN BANGLADESH

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## CHAPTER - 3

### HOUSING SITUATION IN BANGLADESH

#### 3.1 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.

Past patterns of community housing development in the urban areas were largely concentrated on providing housing plots and community facilities to upper income-groups and houses for the public servants. The exception was a special program of low cost housing for displaced persons. In the private sector profit being the main motivation factor it has always been more profitable to build houses for upper income groups. As a result we have a large backlog of low- income and middle- income group housing. The current need is, therefore, to restore the balance in urban housing development by meeting the needs of the low- income groups and thereby bring about substantial improvement in the living conditions of the urban poor. This implies a major emphasis on public intervention for housing solution of this group.

Traditionally rural housing has been taken care of by the villagers themselves and the public sector did not play any significant role apart from providing some services and facilities. 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.

### **3.1.1 Rural**

The bulk of the rural population comprises the poorest income groups of our population for whom the available dwelling units are only in the form of shelter, which do not adequately meet their minimum needs. Village houses are mostly self-built and the traditional houses provide mere shelter and are vulnerable to destruction and damages due to climate hazards and flooding. Apart from ensuring that dwelling units keep pace with the population increase, there is thus manifest need to improve 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.

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. Family income is estimated to be Tk. 1200 at the 10 % percentile of the income distribution structure as of 1992-93.<sup>15</sup> This is 30% lower than that of the Tk. 1600 income at the same percentile for the urban areas. The very low income does not allow much for housing and 85% houses are “Kucha” whose structural frame is of bamboo and a few pieces of lumber, usually covered with “chhan” 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 an estimated 1.3 million houses.<sup>16</sup> The need to replace and rehabilitate damaged houses has greatly increased the need in rural areas. The fact that rural housing is traditionally a family

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<sup>15</sup> Estimate of Halcrow Fox & BCL Project Team’s Financial Consultant based on the Household Expenditure Surveys and the Greater Dhaka Land – Use Transportation Survey.

<sup>16</sup> Rural Housing in Bangladesh: An Overview, Dr, Nazrul Islam, University of Dhaka, Urban Bangladesh, 1993.

affair built through self-help with the support of the community has somewhat mitigated the problem.

The government's involvement in rural housing has been limited to project specific programs. One such project is the "Guchha Gram" or cluster village project started in 1988 by the Ministry of Land and later renamed "Adarsha Gram" or "Ideal Village" Project.<sup>17</sup> The objective of this Project is to rehabilitate landless families through the establishment of cluster villages on Government land. The Project also proposes to provide "security and sense of unity" among its family –beneficiaries, increase productivity, create employment opportunities and reduce the rate of urban- rural migration. Since 1988, some 30,000 families have been resettled in Cluster Villages.

The government is also undertaking rural housing through the Reconstruction of Rural Housing in Flood and Cyclone Affected Areas Project. Funded by the UNDP, the objective of the Project is to provide credit to low-income families whose houses have been damaged by the cyclone or floods. The Project utilizes NGOs in the affected areas as channels/conduits for the credit operation. NGOs receive funds as grants for lending to identified beneficiaries. The loan is payable in 10 years and carries a 5% interest charge. The project is organized under the Rural Development and Cooperatives Division of the Ministry of Local Government Rural Development and Cooperatives (MLGRDC). The total estimated cost of the program was Tk. 253 million with some 13,500 houses rehabilitated or reconstructed over a period of five years.

Another and very recent Government project is "Asyhrayan Project". The landmark "Ashrayan Project" for the homeless has set a unique example of micro credit program with

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<sup>17</sup> Publication of the Ministry of Land, Adarsha Gram: Towards the 1000<sup>th</sup> Village, 1992.

a loan recovery rate of 98 percent. This project has already been allocated Tk.12,48,78,000/ for disbursement. The project meanwhile constructed 1904 Barrack houses, which accommodate 19040 families (10 families in a Barrack) and has 1289 Barracks under construction that also will provide shelter to 12890 families. The project has disbursed Tk. 4,35,00,000 and recovered amount is 4,23,30,000. The recovery rate is 98%. The project trained 31,398 persons costing Tk.1,66,88,681 (Tk. 531.52 per person), and thus, 14,890 families rehabilitated. Twenty eight thousand three hundred and sixty four beneficiaries have been enlisted as cooperative society members (Male-13948 & Female-14416).

The project "Ashrayan" was launched immediately after devastating cyclone on **19 May 1997** to provide the homeless and the landless with homesteads and basic facilities on Khas land. Nearly Tk.50,000 will be spent for each family for housing and socio-economic development activities. Each Barrack house contains one tube well and two blocks of latrine and bathroom (One for male and other for female). Each family is provided with one unit of barrack house comprising of 225sqft. floor area. The estimated cost of the barrack house is Tk.3,66,800<sup>18</sup>.

### **3.1.2 Urban**

The urban housing sector in Bangladesh is facing acute shortage and poor state of services. Fast population growth, shortage of land supply, lack of planning, together with social and environmental problems in the urban sector makes it more unreliable for the urban low to middle income groups. As a result, only a small proportion of better-off people can afford and enjoy fairly comfortable to luxury housing, while the vast majority of the

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<sup>18</sup> The Daily Star, published on August 12, 2000

lower income group and the poor are faced with the problem of living in substandard housing<sup>19</sup>.

The 1991 census records the urban population to be about 22 million spread over 522 urban centres of Bangladesh. The urban population represents more than 20% of total population of the country. It is to be mentioned here that through the decentralization measures in the 1980s the government tried to reduce the pressure on major cities by providing growth incentive among 460 Thana (Upazilla) urban centres. But urban population growth continues and mainly occurs in some large metropolitan cities such as Dhaka, Chittagong, Khulna and Rajshahi. These four metropolitan areas account for about half (50%) of all urban population<sup>20</sup>

The pattern of new urban population growth is focused on Dhaka and to a lesser extent on Chittagong in absolute terms. The increasing demand for land, housing and other urban services in consequences of urban population growth in all urban areas especially in Dhaka and Chittagong have added a new dimension to urban housing. The situation has become worse with the majority of middle-income groups and lower middle-income group. The small elite class controls the ownership of more than 80% of the urban land while the majority (80%) poor have access to less than 20% of the urban land.<sup>21</sup>

The housing condition has deteriorated further as all urban services, such as sanitation and urban refuse collection, water supply, health and education facilities have failed to cope with the increasing demand. The main reason for these bad conditions can be explained by the fact that there is no comprehensive policy either for housing or for all other urban

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<sup>19</sup> Rural housing in Bangladesh: An Overview, Dr, Nazrul Islam, University of Dhaka, 1993.

<sup>20</sup> Urban Bangladesh' edited by N. Islam et, al , Geographical Studies, Urban Studies Programme, Dept. of Geography , University of Dhaka. 1996:33.

<sup>21</sup> Ibid.

service as a whole. There is no explicit policy, plan to guide or direct either housing or urban services. Therefore, in order to overcome the present crisis and to have a better urban life, a comprehensive housing policy should be implemented.

### **3.2 REVIEW OF THE DEVELOPMENT OF SHELTER STRATEGIES**

Major countries all over the world are now acting, studying, formulating and implementing new shelter strategies. Most of them have UNCHS (Habitat)<sup>22</sup> support, through technical cooperation projects. An overview of different national shelter activities is shown in **Appendix-6**.

Virtually all countries already have national housing policies – adequate or inadequate. Bangladesh has also formulated a national housing policy in 1993, which was amended in 1999. But implementation of the same is yet to start. However, only UNCHS (Habitat) assisted development project for housing (BGD / 86 / 044) was implemented in Chittagong for different professional people. Grameen Bank developed housing program mechanisms for the disbursement of housing loans without collateral to enable the poor to first increase the material base and then improve the essential parts of a relatively permanent housing for rural Bangladesh.

A national shelter strategy, formulated along the lines of the Global Strategy for Shelter recommendations, will facilitate the participation of the three main actors in shelter delivery – governments (both national and local), the private sector (formal and informal), as well as NGOs and CBOs and the community-working together in three main areas of action.

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<sup>22</sup> United Nations Centre for Human Settlements (Habitat), *The Global Shelter Strategy to the Year 2000* (Nairobi, 1990)

Changes in policies and strategies should start with well -identified needs. Shelter strategies should aim at improving the performance of the shelter delivery system, in order to attain adequate shelter for all by the year 2000.

This need can only be thoroughly assessed by analyzing the performance of the shelter sector and understanding its behavior under current policies and strategies. If the performance can be improved, strategy alternatives towards these aims should be considered.

The main stages of setting up national shelter strategies are:

- Evaluation of past and present policy performance of the shelter sector;
- Research on new alternatives to meet shelter needs, including the policy lessons learnt from many countries and elaborated in the Global Shelter Strategies (GSS);
- Information exchange on new approaches to create a more favorable environment for policy change;
- Policy formulation of new, enabling strategies;
- Training at several levels on new strategies and on ways and means to implement them;
- Strategic implementation of the policies;
- Evaluation of the actions and their results.

These stages form the shelter development cycle. The feed -back given by the evaluation sets the course for further development of strategies. The knowledge of the Global Strategy for Shelter (GSS) to the year 2000, the familiarization with successful experiences from other countries- such as the ones described in **Appendix-6** and the assessment of the performance of the national shelter sector could be the starting point of this shelter

development cycle, which should over time improve the shelter- delivery system in every country.

### **3.3 HOUSING POLICY AND FIVE YEAR PLANS**

Bangladesh is one of the members of Habitat. Every year on 1<sup>st</sup> October Bangladesh observes 'World Habitat Day'. Bangladesh is also one of the signatories of habitat Agenda. As per Habitat declaration Bangladesh is always trying its level best to abide by the declarations with its resource constraints.

All over the world emphasis has been given on private sector initiatives. The role of public sector is limited to a facilitator only. In an era of market economy, encouragement of private sector is very effective. Bangladesh has been giving emphasis on private sector as well which was reflected in its last two Five Year Plans (FYP)<sup>23</sup>.

A National Housing Policy was approved by the government in 1993 with the prime objective of ensuring housing for all strata of the society, especially the low and middle income groups and the disadvantaged and shelterless poor. However, its follow up activities have been very limited. There has been virtually no government program for improving the conditions of housing in rural areas. The construction of low-cost houses for the low and middle-income groups has also been limited. Then again, it has primarily been confined to areas in and around the metropolitan cities, and it is not encouraging. Residential quarters for government employees can hardly meet about 10% of the requirements. Against the above backdrop, the objectives and strategies set for this sub-sector in the Fifth Five Year Plan (FFYP)<sup>24</sup> are as follows:

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<sup>23</sup> Government of Bangladesh, Fifth Five Year Plan, Ministry of Planning.

<sup>24</sup> Government of Bangladesh, Fifth Five Year Plan, Ministry of Planning



### 3.3.1 Objectives

- i. Development of low cost houses / multi-storied building / resettlement of slum dwellers, the disadvantaged, the destitute and the shelterless poor and in situ development of the slum and of shelter for squatters;
- ii. Development of sites and services for residential accommodation of low and middle income groups of people;
- iii. Construction of condominiums for low and middle income groups of people;
- iv. Construction of multi-storied flats for sale to government employees at different places to ease the accommodation problems;
- v. Construction of houses for working women;
- vi. Construction of low cost houses in the coastal areas of Bangladesh; and
- vii. Involvement of the private sector with necessary incentives for its greater participation in the housing sub-sector.

### 3.3.2 Policies for Attaining the Above Objectives (FFYP)<sup>25</sup>:

- i. A National Housing Authority will be set up in accordance with the National Housing Policy of 1993 to address, inter alia, the housing problem of the low and middle income groups of people, the disadvantaged, the destitute and the shelterless poor;
- ii. Government khas land will be used to the maximum extent possible for solving housing problem, especially for the poorer households;
- iii. Tax concession will be given to those people who build houses with their own resources;
- iv. Hire purchase system for housing in the private sector will be encouraged;

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<sup>25</sup> Ibid

- v. Tenancy Act will be updated for renting houses in the urban areas for mutual benefit of both the owners and the tenants;
- vi. Abandoned houses to be turned into multi-storied buildings by the HSD in phases for solving the housing problems;
- vii. The size of residential plots will be limited to 3 katha in Dhaka city and 5 katha in other places in housing estates developed by the government and private sector;
- viii. Necessary action will be taken to strictly enforce the Building Code of 1993;
- ix. Arrangement for soft loans for housing will be made for the poor and; to this end, a special fund will be created by the government;
- x. Rural housing will be given emphasis by providing better access to land, finance and cheap, affordable and durable building materials and technology following the Grameen Bank Model;
- xi. Houses for working women will be constructed by the relevant city / town authorities; and,
- xii. Low cost houses in the coastal areas of Bangladesh will be constructed by the local bodies and funded by the government.

### **3.3.3 Programs for attaining the above policies and objectives<sup>26</sup>**

- i. Construction of condominiums for settlement of at least 20,000 slum dwelling families of Dhaka city will be taken up;
- ii. Private enterprise as land developers and builders will be encouraged and given incentives to develop and extend housing facilities;

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<sup>26</sup> Ibid

- iii. Residential plots of various sizes numbering 34916 will be developed for the low and middle income groups and the disadvantaged ones living in urban areas;
- iv. Low-cost flats numbering 9,164 for the low income group and 9,920 for squatters living in the urban areas will be constructed for sale on hire-purchase basis;
- v. Construction of low cost houses by the public sector for sale to wage earners abroad will be taken up;
- vi. Construction of low cost rural houses following the Grameen Bank Model, will be taken up for solving rural housing problem by creating a special fund;
- vii. Multi-storied flats numbering 5,100 in Dhaka city and 1,000 in Chittagong city will be constructed for the government employees;
- viii. Construction of flats for hire-purchase by the government servants living in the 4 city corporation areas will be undertaken;
- ix. Construction of low cost houses in the coastal and selected rural areas will be taken up; "Asrayon Prokalpa" will be pressed in for this purpose;
- x. Construction of houses for working women will be undertaken in the urban areas; and
- xi. Credit for house building, especially for the low and middle income brackets will be extended; savings and loan associations, housing banks as institutions and trust bonds and financial instruments designed for increasing contractual savings for house building will be encouraged in the private sector.

### **3.3.4 Public Sector Allocations and Expenditures During 1973 to 1997**

Public sector allocation and expenditure during the different plan periods are shown below:

Table 3.1: For Physical Planning Water Supply and Housing (in Million Tk)<sup>27</sup>

Plans	Allocation (as base year prices of respective plan)	Relative Share of Sector (%)	Expenditure (at current prices)
First Plan (1973-78)	272.00	5.81	270.00
Two year Plan (1978-80)	250.00	7.80	241.00
Second Plan (1980-85)	1139.00	5.20	1,158.00
Third Plan (1985-90)	1622.00	2.20	1,556.00
Fourth Plan (1990-95)	*18420.00	5.31	*20,940.00
Fifth Plan Part (1995/96)	5,866.50	---	---
Fifth Plan Part (1996/97)	6,803.90	---	---

Source: Fifth Five Year Plan.

\* This expenditure also included expenditure of the National Implementation Committee for Administrative Reforms (NICAR) and Flood Action Plan (FAP) for water supply and sanitation.

### 3.3.5 Major Achievements of Housing Sector in Selected Years (1990-1997)

The Major Achievements of Housing Sector in Selected Years (1990-1997)<sup>28</sup> are shown in Table 3.2

Table 3.2: Major Achievements of Housing Sector

Major Achievements	Position up to June '90	4 <sup>th</sup> plan (1990-95) addition		Position June '95	Position June '97
		Target	Achievement		
1. Rehabilitation of squatter families	6,860 No	3620 No	3400 No	10,260 No	10,260 No
2. Distribution of site and services plots for low and middle income groups	13,918	8,480	8,480	22,398	22,398
3. Construction of flats	17,408	3,120	3,120	18,508	20,528
4. Construction of office building	1,065	225	180	1245	1245

Source: Fifth Five Year Plan

### 3.3.6 Projections for Housing during Fifth Five Year Plan

The following table shows the projection for housing during FFYP:

Table 3.3: Projections for Housing<sup>29</sup>

Areas of Projection	Benchmark of 1996/97 (estimate)	Addition during Fifth plan	Cumulative Total up to the end of plan (2002)
1. Rehabilitation of squatter families	10,260	23,000	33,260
2. Distribution of site and services plots for low and middle income groups people	22,398	34,916	57,314
3. Construction of flats	20,528	6,100	26,628
4. Construction of office building	1,245	75	1,320

Source: Fifth Five Year Plan

<sup>27</sup> Fifth Five Year Plan.P-413, Ministry of Planning. GOB

<sup>28</sup> Ibid

<sup>29</sup> Ibid

### 3.3.7 The Five Year Plans

The Five Year Plans had given emphasis on the private sector. But this is yet to be implemented. Private sector supplies almost 93% of the housing facilities. So housing development is overwhelmingly a private sector activity. Recognizing this fact, the government has been encouraging private housing construction through fiscal and financial incentives. This is apparent from the housing development in recent years in major cities through private developers, but it is 'a drop of water in the ocean.' In view of the prevailing situation, there is an important need to formulate policies and workout appropriate short and long-term strategies to ease the existing housing crisis and to provide desirable living environment, for section of the people in the long run. In this context, policies and programs along the following lines are required:

- i. Public sector agencies may play a significant role in providing land and infrastructure, which people cannot easily provide for them. The government will play the role of 'facilitator' or 'enabler' by giving access to land, finance and building materials and less and less of a 'builder'.
- ii. Intervention of the public sector will be necessary to provide housing to the weaker segment of the community through cross subsidization. For this purpose, the housing and Settlement Directorate (HSD) may be converted into a National Housing Authority (NHA) which will operate as an autonomous organization. The NHA will mobilize both local and foreign resources for housing the low and middle-income groups of people on commercial basis preferably in competition with similar private sector organization.
- iii. The Bangladesh House Building Finance Corporation (BHBFC) may be reconstituted and broad-based so as to facilitate credit to cooperative groups and individuals.
- iv. The Bangladesh Bank Housing Finance Programs may be strengthened for channeling funds through appropriate institutions.
- v. Specified percentage of the Government Provident Fund (GPF) and those of Insurance Companies should be set aside for housing loans to be administered by Housing Bank.
- vi. Income tax exemption should be accorded to dwelling unit not exceeding 1,000 sqft. in plinth area for a reasonable time frame.
- vii. The private corporate sector should be encouraged to provide housing to its own employees.

- viii. Housing cooperatives, now functioning in cities, should be regulated and controlled through appropriate new legislation.
- ix. Since September, 1984, Grameen Bank started its rural housing operation to promote housing in the private sector and so far extended housing loan at 5% interest rate for building 35,000 to 40,000 housing units. UNDP, NORAD and SIDA have financed the program for creation of revolving fund for future rural housing. It is envisaged that this program will continue during the plan period.
- x. No family is to be allowed to acquire more than one plot of land of specified size through any source within the declared city limits for construction of houses.

But as to the achievement of Fourth Five Year Plan, the following points may be stated:

- i. A few housing plots were distributed by the city development authorities during the plan period, RAJUK and CDA.
- ii. National Housing Authority (NHA) has not yet been constituted.
- iii. No "Hosing Finance Program" has been implemented by Bangladesh Bank except "Asrayan Project" which was introduced only for rural landless destitute in May 1997. Under this project 14,890 families were benefited by allotment of Barrack house (225sqft. per family) to them. Up to August 2000, this project was implemented through 276 registered cooperatives.
- iv. Bangladesh House Building Finance Corporation has not yet been reconstituted. But types of loan have been reorganized.
- v. GPF is not yet considered as housing loan and 'Insurance and Trust Act.1938' has not yet relaxed in favour of housing finance.
- vi. No fiscal and financial incentives have been given to the apartment developers or apartment buyers.
- vii. Functions of 'Housing cooperatives' has not yet been changed.

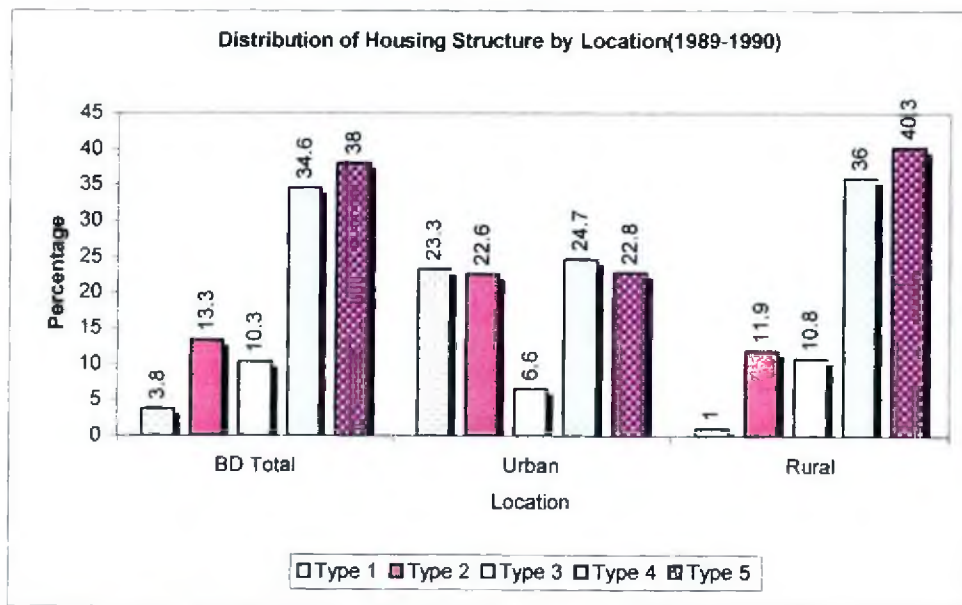
In Fifth Five-Year Plan, many favorable steps have been proposed for the improvement of urban housing situation. Its success depends on its proper implementation.

### **3.4 STRUCTURAL FEATURES OF HOUSING**

According to the Household Expenditure Survey (HES), conducted in 1988-89, by the Bangladesh Bureau of Statistics, revealed that a high percentage (76%) of urban houses

built with temporary or semi-permanent materials were in a structurally poor condition. Of these about 29.2% had Corrugated Iron (CI) sheet or poor quality roofing and temporary wall, 24.7% were completely thatch, bamboo or mud, and 22.8% of the poorest shelters were so vulnerable that they need total replacement every year. In the rural areas the housing situation was even more critical as shown by the distribution of housing structure in Figure: 3.1.

**Figure 3.1: Distribution of Housing Structures by Urban and Rural Location (89-90)**



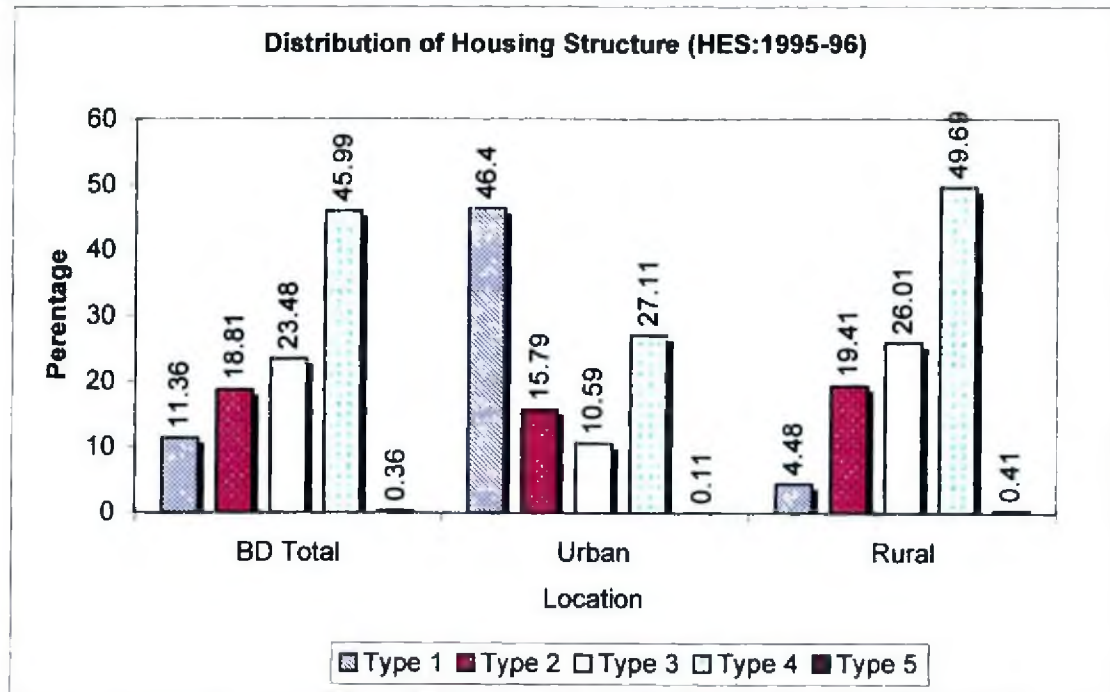
Source: Household Expenditure Survey 1989-1990, BBS

**Note:**

- Type - 1 : Wall = Brick/Cement, Roof = Cement
- Type - 2 : Wall = CI. Sheet / Brick/ Cement, Roof = C.I. Sheet/Wood
- Type - 3 : Wall = Mud / Mud Brick, Roof = Tile / C. I Sheet / Wood
- Type - 4 : Wall = Thatch/ Straw / Bamboo, Roof = Thatch / Straw / Wood
- Type - 5 : Temporary Structures

The Housing Expenditure Survey in 1995-1996, undertaken by the Bangladesh Bureau of Statistics (BBS), showed some improvement in housing situation. Figure 3.2 shows the changed housing structure:

Figure 3.2: Distribution of Housing Structures by Urban and Rural Location (95-96)



Source: Household Expenditure Survey 1995-1996, BBS.

**Note:**

- Type - 1 : Wall = Brick/Cement, Roof = Cement
- Type - 2 : Wall = C.I. Sheet / Brick/ Cement, Roof = C.I. Sheet/Wood
- Type - 3 : Wall = Mud / Mud Brick, Roof = Tile / C. I Sheet / Wood
- Type - 4 : Wall = Thatch/ Straw / Bamboo, Roof = Thatch / Straw / Wood
- Type - 5 : Temporary Structures

The comparison between two surveys reveals that the housing situation has improved. About 62.19% of urban housing was of permanent type, built by brick or CI sheet, the figure was only 24% in 1990. Temporary type of housing was 22.8% as per 1989-1990s survey, which came down to only 11% in 1995-96. Nearly 50% of urban housing was of permanent type now, which was 23.3% during 1989-90.

### 3.5 DENSITY

Density is defined as number of persons living per square kilometer. The area is used for calculating the density in the total area including river, land, and forest area<sup>30</sup>.

<sup>30</sup> GOB, Ministry of Planning, BBS. Urban Area Report 1997



The density of housing is normally an important indicator of the wealth of an urban area. Extreme high densities accompanied with low - rise development normally indicate a degree of poverty. High density normally results from the following:

- i) Scarcity of land as the primary cause of overall urban high density. Most of the land within most cities and towns remains under water during the monsoon or during flood and reduce the supply of buildable land further.
- ii) Lack of financial resources, both public and private, prevents development of land infrastructure, and limits access to land.
- iii) Lack of sufficient economic opportunities in rural areas, combined with natural calamities, causes an influx of destitute rural population to urban areas in search of better opportunities and the migrant population, essentially poor, concentrates in the poorest part of the cities and towns, causing the density of these areas to increase further.
- iv) Low household incomes and minimal affordability levels, limit the affordable floor space.
- v) Lack of institutional arrangement, institutional capabilities and motivation of development agencies to address the existing deficiencies and future needs.

All the above factors have contributed to a gradual deterioration of the situation (Figure 3.2), leading to scarcity of dwellings, civic amenities, infrastructure and utilities. Moreover the publicly funded developments, which recently have largely benefited the higher income groups, have led to skewed development and inequitable distribution of available resources.

The following table<sup>31</sup> shows the densities in different areas of Dhaka and other cities, and also the level of variation in densities between the low-income residential areas and areas developed by city development authorities.

**Table 3.4: Average Urban Densities in Various Urban Settlements**

Name of SMAs	Name of various settlements area	Avg. gross Density Person/Hectare
Dhaka	1. Development authority sites (as planned): Gulshan , Baridhara, Banani , Uttara, Narayanganj	85
	2. HSD (Govt.) Refugee Rehabilitation Colonies	2200
	3. HSD (Govt.) Infrastructure Improvement Project, Mirpur	675
	4. Private sector formal development	250-2000
	5. Private sector informal low income Settlements inner city, intermediate and some fringe Zones (70% of households)	3437
Chittagong	1. Development Authority Site ( Planned): Chandgaon Residential Area	495
	2. Water Development Board Scheme (HSD )	318
Rajshahi	Development Authority Site ( Lower middle , Low ): Parijat , Padma , Chayanir	120-304

Source: Halcrow Fox & BCL,1993

### 3.6 INFRA-STRUCTURAL AND UTILITY SERVICES

Infrastructural provision to most dwellings in Bangladesh is unsatisfactory. In rural areas the condition is substantially worse. Most low-income households lack fresh water, sanitation, cooking facilities and an energy supply. There is no more recent data available than 1995-96, on the provision of infrastructure. It is understood that though there have been some improvements the present picture is unlikely to be substantially different from the information reproduced below (Table 3.5):

**Table 3.5: Percentage Distribution of Household by Sources of Drinking water, Toilet and Electricity**

Area	Drinking water				Toilet					Electricity
	Type 1	Type 2	Type 3	Type 4	Type 1	Type 2	Type 3	Type 4	Type 5	
National	6.95	88.66	2.38	2.01	6.61	14.00	4.70	44.58	30.11	20.5
Urban	38.16	61.05	0.47	0.47	28.67	28.07	11.36	23.37	8.52	72.6
Rural	0.83	94.08	2.75	2.34	2.28	11.24	3.39	48.74	34.34	10.3

<sup>31</sup> Halcrow Fox & BCL,1993

Source: HES-1995-96, BBS.

**Note: Drinking water**

Type1 = Supply water

Type2 = Tube- well

Type3 = Well / Indara

Type4 = Pond / river

**Note: Access to Toilet:**

Type1 = Pucca: septic tank

Type2 = Pucca: water sealed

Type3 = Pucca: unsealed

Type4 = Kucha: Fixed place

Type5 = Open field

From the above table it is clear that 99.21% of urban population have access to pure drinking water (Type1+Type2), and less than 1% of urban population are beyond the reach of pure drinking water.

About 57.37% population has access to hygienic sanitation (Type1+Type2). Nearly 73% of urban population has access to electricity. Situation in rural areas is not satisfactory, as 95% (Type1+Type2), have pure drinking water and hygienic toilet facilities are available for 13.53% (Type1+Type2). About 90% of rural population is out of electricity network

### 3.7 TENURE

There were 3.3 million urban dwellings in 1993<sup>32</sup>, 60% were owner occupied (1.98 million dwellings) and 40% were rented (1.32 million dwellings). The tenure pattern is shown in

Table No: 3.6

**Table 3.6: Housing Tenure**

Tenure Pattern	Dwelling Unit
Formal sector flat owners	5,000
Development authority owners (RAJUK, CDA. etc.)	27,000
Housing and Settlement Directorate (HSD)	67,000
Informal sector owners	18,81,000
<b>Total owner occupied housing</b>	<b>1980000 (60%<sup>a</sup> of total urban)</b>

[% of owner occupied: Owners' stock / Total stock \*100 or 1980000/ 3300000\*100=60%]

Source: Halcrow Fox & BCL: 1993. Housing Sector Strengthening Project, ADB. T.A. No-1670-BAN.

<sup>32</sup> Halcrow Fox & BCL: 1993. Housing Sector Strengthening Project, ADB. T.A. No-1670-BAN.

However, it is important to note that in Dhaka the tenure pattern is substantially different. Previous studies have shown that the percentage of renters is considerably more than the percentage of owners.

Various dependable studies and surveys<sup>33</sup> also show that the percentage of renters, depending on the data source, varies 65% to 75% of total stock. Taking the mean value, it can be assumed that 70% of the total housing stock in Dhaka is rented. The rental tenure pattern of Dhaka is higher than that of the total urban average of 40%, which is explained by the following:

- i) The high price of land in Dhaka compared to other cities is a discouragement to most of the lower income groups to buy land;
- ii) The larger amount of available Government rental property, particularly for the military /police etc., means that owning property is not imperative for many;
- iii) Most migrants (including both family and, particularly single male migrants) assume, often incorrectly, that they will be in Dhaka for only a short period and therefore do not wish to acquire land; and
- iv) The densification of plots in the old city core area by the construction of flats and dwellings by existing owners creates surplus dwellings and a rental market.

As stated approximately 60% of all urban dwellings are owner occupied compared with a rural figure of over 95%. The formal private sector is small and confined to high-income groups in Dhaka only. In late 1990s many apartment companies entered in the formal private sector. About 400 small and big size developers by this time started apartment business and they are contributing to fill up the huge housing deficit.

The development authority sites in the 4 cities Dhaka, Chittagong, Khulna and Rajshahi have tended to cater primarily to the high- income groups. In addition, there are Sites and

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<sup>33</sup> Ibid.

Services Scheme undertaken by HSD in urban areas, which are meant primarily for higher middle, middle and low- income groups. There is a limited open market for the sale of these developed plots (with completed Buildings) for which no figures are available.

Housing built by Government (non-employees housing) has over recent years, been sold to its occupiers, but this is largely confined to HSD Housing Schemes which were constructed for specific target groups. The title is granted only after the beneficiaries have paid all installments. In the very low- income category developments both Site & Services Schemes and nucleus houses, the property is not transferable until after a fixed number of years. All other occupied dwellings are in the informal sector and cater to predominantly lower and middle - income groups.

**Table 3.7: Rental Characteristics in Urban Areas**

SL No	Name of the supplier	Housing units
1	Public Works Dept.(PWD) Rented Government employees	16,000
2	Other Govt. / Semi-Government employees housing	10,000
3	Renters in Development Authorities Sites	54,000
4	Other rented property	12,40,000
	Total Rented property [( 1320000/3300000)*100=40%]	13,20,000

**Sources:** Halcrow Fox & BCL (1993).

Renting accounts for approximately 40% of urban housing and as described above accounts for 70% of housing in Dhaka and is predominantly an urban phenomenon. Renting from the PWD is exclusively for the Government employees. Other Government and Semi-Government housing is provided for employees by a number of institutions including Bangladesh Railway, Port Authority, Civil Aviation Authority, Education Ministry and other Autonomous institutions. These figures (Table 3.7) exclude all Military, Police and Defense Force housing for which no figures are available.

The residue of rental accommodation is private of which a small, but significant, group is composed of rented properties within Development Authority sites as supported by observations and the initial results from the socio-economic survey. The researcher's

assessment is that, on average, 2 extra dwellings are available for rent on each development plot. It is estimated, therefore, that approximately 54,000 have been provided for renters in Developments Authorities Sites, mainly for medium and high-income households. There is also considerable amount of rented accommodation by all- male groups, with an occasional, but growing, incidence of all-female groups. This occurs primarily in Dhaka, but also in Chittagong and Khulna, and is normally associated with industries that require skilled or semi- skilled labour.

### **3.8 ESTIMATED SHELTER REQUIREMENTS IN URBAN AREA OF BANGLADESH**

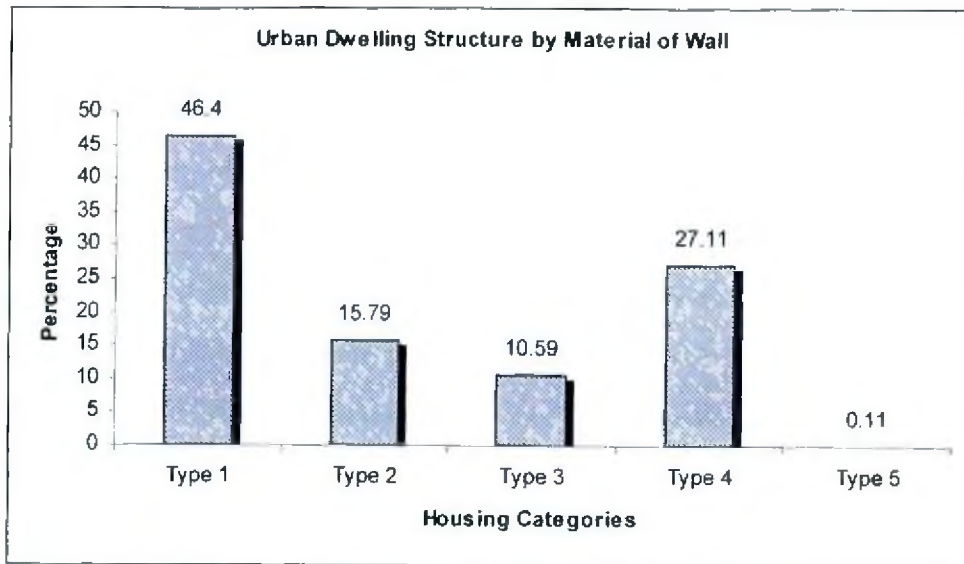
It is essential to indicate, in broad terms, the future shelter requirements in Bangladesh. It should be stressed that the methodology and resultant figures are primarily a guide and should not be considered as a precise program.

The total urban housing requirements have been determined from the following three elements:

- i) Projected population growth through natural growth and in-migration.
- ii) Replacement of existing dwellings due to their limited life span.
- iii) An estimate of the shortfall of dwellings due to homelessness and sharing of dwellings.

In all cases we have defined the total NEED for housing, which is larger than the actual demand for housing. The study indicates again, in broad terms, the types of housing structure. The Household Expenditure Survey (HES 1995/96) by the Bangladesh Bureau of Statistic (BBS) defines 5 broad construction categories (Figure-3.3) and estimates the proportion of properties in each category as follows:

Figure 3.3: Percentage Distribution of Main Dwelling Structure by Material of Wall: Urban



Source: The Household Expenditure Survey (HES 1995/96)

- Note: Type – 1 = Bricks / Cement  
 Type – 2 = C.I. Sheet /Brick/ Cement/ Wood  
 Type – 3 = Mud/ unburnt bricks  
 Type – 4 = Hay /Bamboo/leaf  
 Type – 5 = Others.

For the calculation of need it has been assumed that the lowest two categories types 4 and 5 both substandard forms of construction will be upgraded to category 3 constructions.

### 3.9 POPULATION GROWTHS AND HOUSING NEED

The 2001<sup>34</sup> census determines the total population of Bangladesh as being approximately 123.15 million after making an adjustment for underestimation, which may itself be an under-representation, a figure of 129.25 million may be a more accurate estimation. Based on the population figures for the 1991 Census and the 2001 Census, the average annual growth rate was approximately 1.48%. In the urban areas, as defined by the census, the officially adjusted urban population in 2001 was 28.81 million as per enumeration. The researcher has taken enumerated population for 2001 with decadal growth rate of 38.02%, which represented 23.40% of the total population of Bangladesh.

<sup>34</sup> GOB, Ministry of Planning, BBS, Population Census 2001, Preliminary Report.

In the census the definition of urban is wide [In Bangladesh an urban area is defined as the developed areas around an identifiable central place where amenities like metalled (pucca) roads, communication facilities, electricity, gas, water supply, sewerage, sanitation etc. usually exist which are densely populated and where a majority of the population are non-agricultural and where community sense is well developed.] And it includes peripheral urban areas, rural market centres and, significantly, Thana headquarters have a total population of 4.5 million (22.46\*20%). But in true sense this is not the definition of urban areas as mentioned above. However, if the Government's policy orientation of administrative decentralization is consistently pursued, along with extension of opportunities to these areas, they have the potential of quickly developing into urban areas.

Of more significance is the size and growth of the four metropolitan areas, Dhaka, Chittagong, Khulna, and Rajshahi. These four cities account for 10.4 million people within the SMA or approximately 48% of the total urban population. Unadjusted census figures indicate that the average annual growth rate of the four metropolitan centres is 2.8% p.a. Dhaka itself accounts for 30% of the urban population and 5.94% of the total national population.

Utilizing the statistics prepared by the Bangladesh Bureau of statistics (BBS) the study has attempted to estimate the likely future urban population by the year 2005. Assuming the present annual growth rate of 5.4% (2000) urban population is 36.06 million and it is estimated to be 46.9 million by 2005. Using the fixed household size throughout the period is 5.5 persons. urban population increases by (46.9 - 36.06) 10.84 million within 5 years, an annual increase of 2.18 million. So, annual housing requirement is 394181 (21.8/ 5.5) to cater to the growth in urban population till the year 2005.



### 3.9.1 Housing Replacement Needs

The replacement need depends on the structural characteristics of the house, which would render it vulnerable or unusable after a number of years, defined as the 'building life'. Dividing the total units by the 'building life' arrives at the number of units to be replaced annually. The result in **Table 3.8** calculated on the basis of a total present (2000) housing stock of 4.8<sup>35</sup> million dwelling units.

Possibly up to 53.6% of housing in urban areas is constructed of temporary or semi-permanent building materials. These buildings normally have a very limited life and need frequent replacement in part or in whole. Unless the land is required for another specific purpose, replacement will take place on the original site of the building and normally takes place on a piecemeal and incremental basis, particularly if the dwelling is owner occupied. In most cases, since the houses are likely to be in the informal sector (most housing requiring replacement is informal temporary or semi-permanent housing), it is unlikely to require, or be eligible for, any external funding or assistance. For this exercise, however, it is included in the estimate of housing need.

**Table 3.8: Replacement Need by Type: Urban**

Type	Structure	Building Life	% of Total	Total Stock	Calculation	Annual depletion & Replace (In million)	Replacement need (p.a) (In million)
Type 1	Brick/ Cement	50 years	46.40	2.2272	2.2272/50	0.044544	0.044544
Type 2	Cl/brick/cement/wood	20 years	15.79	0.7579	0.7579/20	0.037895	0.037895
Type 3	Mud/unburnt bricks	15 years	10.59	0.5083	0.5083/15	0.033887	0.033887
Type 4	Hay/bamboo/leaf	5 years	27.11	1.3013	1.3013/5	0.260260	0.260260
Type 5	Others	<1 year	0.11	0.0053	0.11/1	0.110000	0.110000
All types						0.486586	0.486586

It is clear from the above that the total number of dwelling required to replace deteriorating structures is estimated to be 4,86,586 or 4,87,000 units.

<sup>35</sup> Assuming present average occupancy rate in urban areas is 8, based on 1961 was 5.84, 1981 was 7.07 and 1991 7.5. Present population / present occupancy rate. , Nazrul Islam and Rosi Majid Ahsan, Urban Bangladesh, Geographical Studies, Urban Studies Programme, University of Dhaka.

### 3.9.2 Backlog of units

At present it is estimated that there are approximately 4.8 million dwelling units for a population of 36.06 million, which is approximately 6.56 million households. Thus there is a shortage of about 1.76 million or 17,60,000 dwelling units on the basis of a household (HH) size of 5.5 which would involve the replacement of 3,52,000 dwellings annually (17,60,000/5years). This total has been categorized into house types as shown in the following Table 3.9:

**Table 3.9: Backlog Needs by Types**

Types	Structure	% of Total	Annual backlog need
Types 1	Bricks and Concrete	46.40	1,63,328
Types 2	CI Roofing, Brick or wood structure	15.79	55,581
Types 3	CI/Tile/wood roofing .mud Wall	37.81	1,33,091
<b>All Types</b>		<b>100.00</b>	<b>3,52,000</b>

### 3.9.3 Total Urban Dwelling Requirements

The total annual need in urban areas of 12,38,586 units are shown in Table 3.10 below. This is an indicative figure and should be regarded as a general guide for planning purposes.

**Table 3.10: Aggregate urban housing need**

Type	Structure	% of Total	Housing for annual increased population	Replacement need	Backlog Need	Total need
Type A	Bricks and Concrete	46.40	1,85,600	44,544	1,63,328	3,93,472
Type B	CI Roofing, Brick or wood structure	15.79	63,160	37,895	55,581	1,56,636
Type C	CI/Tile/wood roofing .mud Wall	37.81	1,51,240	4,04,147	1,33,091	6,88,478
<b>Total</b>		<b>100.00</b>	<b>400000 *units</b>	<b>486586 units</b>	<b>352000 units</b>	<b>1238586 units</b>

\*Population increase during 5 years =10.90 million i.e. an annual increase of 2.18 million, and requires 396363 housing units (21,80,000/5.5), taken 400000 units.

After 2005, the present backlog will be covered if annual need is met. Then annual replacement need will be 4,86,586 units and for increased population 4,00,000 units. Total housing requirement will be 8,86,586 units (400000 +486586).

### 3.10 HOUSING DELIVERY / SUPPLY AGENCIES

#### 3.10.1 Government Sector Housing Supply Activities

##### 3.10.1.1 Framework for Government Sector Housing

The government agencies responsible for housing are as follows:

Government Agencies	Responsibilities
National Economic Council	Policy and Program –decisions
Planning Commission	Policy and Program review; coordination of urban development and housing
Ministry of Finance	Funding
Ministry of Works	Urban Planning and Housing Development; Construction of public buildings
Housing Settlement Directorate	Public housing program
Urban Development Directorate	Urban and regional planning and policy Recommendations
Office of the Commissioner, Settlement	Allocation of public housing; collection of rent and installment payment
Public Works Development	Construction and Maintenance of Government Buildings and Staff Housing
City Development Authorities (Dhaka, Chittagong, Khulna, Rajshahi)	Physical planning, land development, regulation; sale of developed land
Housing and Building Research Institute	Material and construction research / development
Ministry of Local Govt. Rural Development and Cooperatives	Construction and Maintenance of urban services
Local Govt. Engineering Department	Infrastructure development, Low-income housing.
Bangladesh Rural Development Board	Rural development and housing
Dept. of Public Health Engineering	Water Supply and Sanitation (except in Dhaka and Chittagong)
Water Supply and Sewerage Authorities	Water, Sewerage and Drainage (Dhaka and Chittagong)
Municipal Corporations and Pourashavas	Maintenance of urban services
Ministry of Land	Supply of land; rural housing
Other Autonomous Bodies (Bangladesh Bank, BTTB, Postal Services, etc)	Housing for employees
Bangladesh Housing Building Finance Corporation (BHBFC)	Mortgage lending
NGO Affairs Bureau	Registration and Licensing NGOs.

The Formal Housing Delivery System depicts the institutional arrangement for the delivery of housing and related urban development benefits. It is estimated that the government sector delivers only 10% of the total shelter production, while the private sector accounts for the remaining 90%<sup>36</sup>.

The following institutions are involved in housing production and supply activities:

#### **A. The Ministry of Works (MOW)**

The Ministry of Works (MOW) is one of two ministries at the apex of the Government institutional structure for housing and urban development. Of the many agencies involved in this sector, the MOW has, under varying degrees of control and supervision, nine (9) agencies engaged in urban and regional planning, land development, building and housing construction, slum clearance, land-use and regulation, estate management including repair, maintenance and rehabilitation, allocation for rent of long-term lease of housing units, and construction and material research. In addition, the Ministry constructs monuments and roads, and develops public parks. It also manages "abandoned property". On top of all these, the Ministry formulates housing and urban development policies and program.

#### **B. The Housing Settlement Directorate (HSD)**

The HSD is the agency responsible for the Government housing program. Its main functions are:

- i) To develop sites and services for low and middle income people;
- ii) To construct low-cost houses including core houses for low and middle-income people;
- iii) To construct flats for middle-income families.

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<sup>36</sup> Halcrow Fox & BCL: 1993. Housing Sector strengthening Project, ADB. T.A. No-1670-BAN.

HSD also performs maintenance functions in completed estates. HSD records show that it provided 55,428 residential units of different types including nucleus houses for refugees, squatter house and flats. The agency is currently implementing 6 housing projects, two of which are being implemented with funding assistance from the World Bank (Urban Area Development Project in Chittagong), and the ADB (Dhaka Urban Infrastructure Improvement Project, Mirpur). HSD Projects are funded by Government appropriation under the Annual Development Program.

### **C. The Urban Development Directorate (UDD)**

The Urban Development Directorate (UDD) is a planning agency. Its key functions are: to advise Government on policy on urban land use and land development and to be responsible for the preparation and coordination of regional plans, Master plan and detailed plans of urban centres except in the major cities where development authorities have been established. The agency also serves counterpart organization in foreign assisted projects in physical planning and housing. It is the centre for policy studies on urbanization and is the moving spirit behind the proposal to adopt a national housing policy.

### **D. The Office of the Commissioner of Settlement (OCS)**

The OCS was established in 1958 to handle the allocation of plots, flats and nucleus houses. The office is primarily responsible for all estate management functions relating to the housing benefits, execution and registration of lease deeds, transfer through sale, mortgage or inheritance, collection of rents, amortization payments and other charges and eviction of occupants for cause and recovery of the property. The OCS manages housing projects developed by the HSD. It has over 14000 housing units and plots in 16 housing estates.

#### **E. Public Works Department (PWD)**

The PWD is responsible for the development of housing for Government employees and the construction of public buildings. It also undertakes the repair and rehabilitation and maintenance of all public works borne in the books of PWD. The PWD also acquires land for its projects and may lease out those in its inventory. Its other functions include the construction of monuments, maintenance of public parks, and procurement of materials and equipment for its construction projects.

The Government under the Annual Development Program (ADP) funds its construction projects. Repair and maintenance activities, however, are funded under the Revenue Budget. When completed, allotment of units is done by the Directorate of Accommodation of the MOW or clients by the Government agency.

#### **F. Rajdhani Unnyan Kartipakka (RAJUK)**

Rajdhani Unnyan Kartipakka or RAJUK (The Dhaka Capital development Authority) is the successor to the Dhaka Improvement Trust (DIT) created under the Town Improvement Act of 1953. Under its charter, RAJUK has the power to undertake "Improvement Schemes" for the purpose of providing building sites; developing and improving any areas, creating new or improving existing means of communication and facilities for traffic; laying-out new streets or altering existing ones; providing parks and open spaces; and providing housing accommodation, buildings for public use and convenience, adequate water supply, drainage and sewerage schemes. In undertaking improvement schemes, RAJUK has the power to acquire any land in the area that comprises by the scheme. RAJUK is responsible for the preparation and updating of the Master Plan for Dhaka and the surrounding areas

under its jurisdiction. The Master Plan is the basis of land-use and development controls. RAJUK also has the mandate to regulate land use and development and building construction.

RAJUK undertakes the development of residential, commercial and industrial areas for sale in the open market. Although provision of housing facilities to low and middle-income groups is one of its functions, its housing development schemes are for the high-income group. The Government from time to time requires RAJUK to construct roads and for which purpose it is provided funds in the ADP. It has no new projects but it continues to derive revenues from the sale of land acquired in 1960s, which it has developed and now is being sold in the open market. Commercial plots are sold to the highest bidder in public auctions while residential plots are advertised and sold to applicants selected by the Board. RAJUK still owns about 4,600 acres of land in greater Dhaka.

#### **G. Development Authorities of Other Major Cities**

There are development authorities in three (3) other key cities-Chittagong, Khulna and Rajshahi. The powers of these Authorities are similar to those of RAJUK. These agencies are also real estate developers and builders and at the same time the regulatory bodies for land-use, development and building construction in their respective jurisdictions.

#### **H. Ministry of Local Government, Rural Development and Cooperatives (MLGRDC)**

The MLGRDC is the agency supervising the Local Government Unit's operation. Its interest in housing and urban development is pursued through one of its main divisions - the Local Government Division. Under this division are the Local Government Engineering Department, the Department of Public Health Engineering and the National Institute of Local Government. It also has supervisory powers over the DWASA and CWASA, which

are autonomous bodies. The MLGRDC has supervisory powers over 6 municipal corporations, 64 Districts, 89 municipalities, 460 Upazilas and 4451 union parishads.

#### **J. Local Government Engineering Department (LGED)**

The LGED originated from the Works Program Wing organized in 1982 on the recommendation of the Martial-Law Committee on Organization setup, its function then was to administer rural works programs nationwide. In 1984, it was reorganized into the Local Government Engineering Bureau under the Local Government Division of the MLGRDC. It became a department in 1992. The functions of the LGED are to undergo infrastructure development projects in municipalities and rural areas in general; to provide technical assistance to municipalities and thana; to provide training courses, to provide guidelines including manuals, and other technical materials to LGUs engineering staff, and to undertake land-use and master planning in municipalities and towns.<sup>37</sup>

#### **K. Municipal Corporation and Pourashavas**

Local Government units are of two types: the city corporation (Dhaka, Chittagong, Khulna Rajshahi, Barisal and Sylhet), and the municipalities (100 Pourashavas).<sup>38</sup> The Local Government Division of the MLGRDC administers these. Under the Local Government Ordinance, 1976, LGUs have the power to construct and maintain roads, surface water drainage, parks, markets, collection and disposal of solid waste, administration of public health and sanitation, traffic management, and regulation of "erection and re-erection of building". Some municipalities are now implementing slum improvement projects under the

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<sup>37</sup> "Local Government Engineering Bureau", Brochure prepared by the Ministry of Local Government, Rural Development and Cooperative, GOB, 1992

<sup>38</sup> Approval of the Secondary Towns Integrated Flood Protection Projects in Bangladesh, ADB, 1992.



supervision of the LGED. Their main activity, however, is the operation and maintenance of infrastructure and services.

### **3.10.1.2 General Characteristics of Government Involvement in Housing**

Urban and rural dwellings are provided through four main institutional groups: the Government or semi-government sector; the Cooperatives and Community Based Organizations (CBO's), and other Non-Government Organizations (NGOs); the formal private sector, which is small and confined to urban areas; or through the informal private sector. The informal private sector is by far the largest supplier of housing and provides over 95% of all dwellings in the urban and rural areas. By contrast, the Government and agencies play only a small role in the provision of plots and dwellings in Bangladesh, which is concentrated in the urban areas. The Government's role in the housing sector has largely been the result of two factors; one external and the other internal. Firstly, the Governments attempt to resettle some of the people involved in the mass movements of population that took place during Partition and Independence, and secondly the policy to house some of the large group of Government employees. In both cases the record of the Government is far from satisfactory.

The total supplies of housing and serviced plots in urban and rural areas to date provided by all public agencies is summarized in Table 3.11 below:

**Table 3.11: Total housing provision by the public sector agencies and through BHBFC financing**

<b>Supplying agencies</b>	<b>Number of units</b>
PWD for Government employees	16,000
Other government institutions for employees (estimated)	10,000
HSD serviced sites	35,000
HSD housing units (including upgrading)	50,000
Development Authority sites (RAJUK, CDA, KDA, RDA)	27,000
Adarsha Gram Project, Ministry of Lands	40,000
BHBFC financed*	48,000
<b>Total</b>	<b>226,000</b>

Source: Projections based on calculations from data supplied by HSD.

\*includes both HBFC and BHBFC financing

The activities of the Bangladesh House Building Finance Corporation (BHBFC), a Government lending institution is described in detail in Chapter-4.

The Direct Government involvement in house or site provision is very small and confined exclusively to urban areas. If one considers all direct involvement through PWD, HSD, other Government Housing, and Development Authorities the average total number of dwellings and plots provided each year is approximately 6,000. This is based on figures or estimates of present and recently completed programs. This represents 1.2 % of annual need for housing for households above the 15<sup>th</sup> income percentile. For the urban poor (15 to 45 percentile) it has been estimated that only 1500 dwellings are provided each year, which represents only 0.85% of annual urban need in that income group. Excluding employees housing and Development Authority sites only 45000 plots or dwellings are provided each year, which represents 0.90% of annual urban need. Outside the main urban areas the Government provides no housing or sites as part of its regular program (Table 3.12).

**Table 3.12: Estimated present government urban program per annum**

Income Group	Group Percentile	PWD Employees dwellings	Other Govt. Dwelling	HSD Dwelling	HSD Plots	RAJUK Plots	Other DA Plots	Total	Need
Urban Poor	15-45				1500			1500	198,000
Low income & Low Middle income	45-85	150	100	1000	2000			3250	263,000
Middle/ Upper	85 over	150	100			500	500	1250	99,000
<b>Total</b>		<b>300</b>	<b>200</b>	<b>1000</b>	<b>3500</b>	<b>500</b>	<b>500</b>	<b>6000</b>	<b>560000</b>

Source: Halcrow Fox and BCL (1993).

\* Based on recent years and present activity

### 3.10.1.3 Government Housing Program for Government Employees: PWD and Other Government Institutions

A wide range of Government institutions are involved in the supply of housing for Government employees: the Public Works Department in the Ministry of Works is the largest individual supplier. The Ministry of Education, the Ministry of Health and the Defense Forces provide separately for some staff. Other Government institutions and agencies such as the Bangladesh Railways, the Port Authority, Post Office etc. provide housing only for selected members of staff.

The original objective of the program was to provide all public servants with standard housing situated on Government land. Initially all key and senior Government employees were provided with Government housing in the form of bungalows and houses, whilst others were provided with flats. Today only a small percentage can expect public housing.

A deduction of 7½ % from the basic salary of Government employees who are provided with a Government house is made to cover maintenance and repairs of the property and to provide money for a revolving fund. Government employees who are not provided with a Government house are normally given a cash house allowance of 40-45% of their basic salary. The exact amount may vary between 35% and 55%. In such a case no deductions are made from the salary of the employee.

From the very beginning, financial and resource constraints in the public sector ruled out any possibility of achieving the original housing target. The growth of public service administration was much faster than the public housing sector, and at its best only 7.5% of the public sector payroll were provided with housing, excluding the defense and security establishments, whose needs are met under separate provisions and for which no figures are available. With the realization of the limitations of public resources, a more realistic housing policy for public servants was developed, the essential features of this policy were:

- Housing would be allotted selectively to the most deserving persons, criteria being seniority, family status, affordability and hardship condition of the posting.
- Public servants were encouraged to obtain housing in the open market for which a cash house @ 40-45% of basic salary was introduced.
- Those provided with housing were charged 7.5% of their basic salary, plus the loss of the housing allowance, as house rent.

This new policy eased the pressure on the Government's overall housing program, because where house rents were low, people preferred to rent private house rather than having the 52.5% reduction in their salary. In addition, families with more than one member in the public service could combine their housing allowances together to cover the rental cost of a house of their choice, when no public housing provision was available.

In large cities however, the pressure for public housing continued because the rents were often in excess of the 52.5% of basic salary. The Government houses were of a more generous size and allowed for subletting, which is an attractive source of additional income for the lower income groups. Such families, through partial subletting, were often able to recover more than the cost of the house rent. It is understood from PWD that there is no proposal to sell any dwellings within this category.

The production of housing unit by PWD from 1981-1991 is depicted below:

Table 3.13: Production of housing Units by PWD from 1981 to 1991

Years	Staff Quarters					Officers' Quarters				Grand Total (units)	Total Allocations (Tk. Lac)
	2	3	4	5	6	7	8	9	10		
	11(6+10)	12									
1981-82	8	489	-	30	527	-	10	-	10	537	868
1982-83	7	16	-	32	55	-	15	-	15	70	457.38
1983-84	357	20	-	-	377	-	24	-	24	401	343
1984-85	28	449	-	-	477	-	-	-	-	477	481
1985-86	-	-	-	-	-	-	-	-	-	-	60
1986-87	-	-	146	-	146	13	-	100	113	259	1075
1987-88	-	-	192	-	192	57	-	120	177	369	1403
1988-89	-	-	46	-	46	-	-	170	170	216	1364
1989-90	-	-	-	-	-	-	-	170	170	170	840
1990-91	-	-	-	-	-	-	-	116	116	116	696
Total	400	974	384	62	1820	70	49	676	795	2615	7587.38

Source: Halcrow Fox & BCL (1993)

1= Years

2= Mirpur Rehabilitation

3= Low Cost Multistory Flats in Dhaka, Ctg. Rajshahi & Khulna

4= Up stocking Existing Building in Paikpara

5= Bangabhaban Extension,

6= Total Flats (Staff) ,

7= Dhanmondi Rd. #. 7

8= Judicial Officers Housing at District Levels,

9= District Head Quarters

10= Total Flats (Officer)

### 3.10.1.4 Features of Government Housing

Public housing is of permanent construction, a minimum of 4 storied, of a good standard of finish and with plenty of accommodation compared to rent (aggregate 52.5% of salary).

Over the years however, the sizes of houses have been gradually in line with the constraints of Government's reducing resources. The Table 3.14 shows present housing entitlements for the various categories of staff:

Table 3.14: Housing Entitlements of Govt. Employees

Grade	Pay scale	Building Type	Floor space Entitlement
Grade 1 to 3(part)	Tk8000 & above	Superior	1800+200sqft.
Grade 3 to 4	Tk7100-7999	F Type	1500sqft
Grade 5 & 6 (part)	Tk. 5500-7099	E Type	1250sqft.
Grade 6(part) to 9	Tk. 2850-5499	D Type	1000sqft.
Grade 10 to 11	Tk. 1725-2849	C Type	800sqft.
Grade 12 to 17	Tk. 1125-1724	B Type	600sqft.
Grade 10 and down	Tk. 1050-1915	A Type	600/500sqft.

Source: Government Service Rules, Firoz Miah.

The Government policy lays down that the standard of housing provided by any public agency should be of permanent (brick and concrete) construction with foundations for future extension to 4-storied construction, irrespective of a rural or an urban location. The policy no doubt reflected the concern to:

- (i) Ensure minimum standard of housing for its staff;
- (ii) Minimize the deterioration of the building and lower maintenance costs;
- (iii) Ensure a potential for future upward extension.

The policy had some justification in that the low pay scales in the public sector were compensated by better housing provision. Minimal maintenance and provision for extension could also be regarded as a sound approach, but the higher initial costs confounded all efforts of Govt. to provide sufficient housing. Fast depletion of resources on the one hand and faster growth of the public sector staff on the other resulted in public staff housing development falling far short of the needs. This led to an inequitable distribution of resources with majority of public servants receiving no housing benefits.

Another failure of the program was that the income from the 52.5% of basic salary (45% +7.5%) income was insufficient to cover either the cost of maintenance of the housing stock on a regular basis, or the maintenance of a sustainable housing program. The low level of rent also contributed to a distortion of the market and depressed the growth of the private rental market.

### **3.10.1.5 Cost of government housing**

The cost of the Government employees housing program has always been of concern and has been a point of criticism by various housing experts. The researcher has undertaken an

analysis of one recent pucca low cost public housing project. The analysis is shown in

Table 3.15 below: (Public Works Department)

**Table 3.15: Structural cost of Building for 1000 residential flats in public housing scheme in Dhaka for officers and Staff (As approved in June 1993)**

Particulars	No. of flats	Total floor area (sqft.)	Total cost (in Tk.)	Cost per sqft. (In Tk.)
a) 500sqft.	144	72000	62328330	865.67
b) 600sqft	200	120000	96558830	804.66
c) 800sqft.	200	160000	119094890	744.34
d) 1000sqft.	300	300000	241443590	804.81
e) 1250sqft	104	130000	105559476	812.00
f) 1500sqft.	52	78000	68574534	879.16
<b>Total .....</b>	<b>1000</b>	<b>860000</b>	<b>693559650</b>	<b>806.46*</b>

[\*Average cost per square feet]

Source: Halcrow Fox & BCL, 1993

**Table 3.16: Statement of cost (Site Works and Ancillary Works.) for 1000 Flats in 860000sqft**

Items of cost	Total cost (Tk)	Cost Per sqft.(Tk.)
1. Internal Sanitary and Water Supply	104033950	120.96
2. External sewerage and Water Supply	34805740	40.47
3. Internal Electrification	104033950	120.96
4. External Electrification in/c. sub station equipment	36176976	42.06
5. Providing Gas line (Internal & External)	1733899	20.16
6. Construction of Compound Road (14840.33 sqm.)	9497817	11.04
7. Construction of Boundary Wall (2672.34 Rm.)	6741289	7.83
8. Construction of Surface Drain (8301sq. m.)	5453757	6.34
9. Development of Children Parks and Play Ground	2300000	2.67
10. Site Improvement with carted earth	4215128	4.90
11. Arboriculture	3467794	4.03
<b>Total</b>	<b>328065391</b>	<b>381.42</b>

**Table 3.17: Other Costs**

Items of costs	Total Cost (Tk.)	Per sq. ft. Cost ( Tk.)
1. Charges Contingency , Machinery and others	10325600	12.00
2. Water/ Electricity	25540627	29.70
3. Overhead Charges	71513752	83.16
4. Cost Escalation for Phasing	116060620	134.95
<b>Total</b>	<b>223440600</b>	<b>259.81</b>

**Summary of cost per unit:**

A. Cost of Building structure	: 806.46	43.86%
B. Site Works and Ancillary cost	: 381.42	20.74%
C. Other cost	: 259.81	14.13%
D. Land Cost	: 391.12	21.27%
<b>Total Cost .....</b>	<b>1838.81</b>	<b>100.00 %</b>

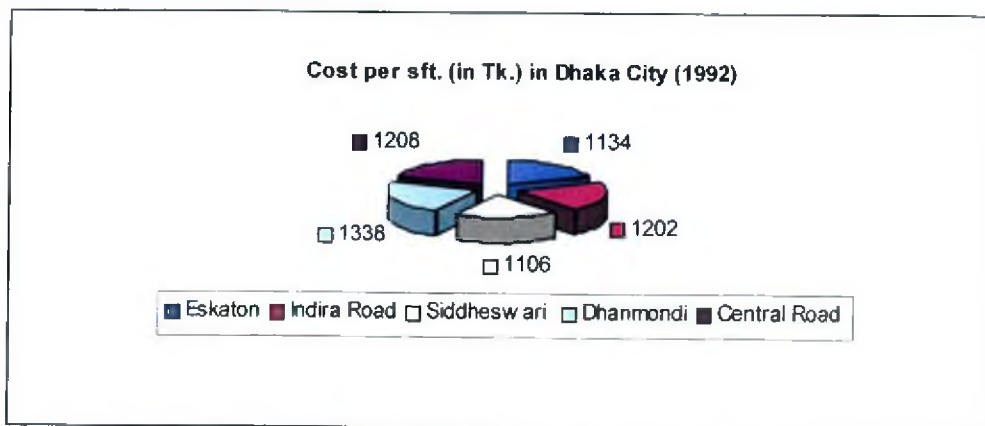
**Table 3.18: Cost of various sizes of flats (In 1993)**

Size of flats (in sqft.)	Cost per sq. ft.(Tk.)	Total cost (Tk.)
A. 500	1840	Tk. 920000
B. 600	1840	1104000
C. 800	1840	1472000
D. 1000	1840	1840000
E. 1250	1840	2300000
F. 1500	1840	2760000

**Source:** Dhaka University Studies Part-C, Vol- 12(2) 1992

In 1992 a survey was conducted at Dhaka University on private sector apartment companies (Figure 3.4).

**Figure 3.4: Cost per sqft. by Locations in Dhaka city**



**Source:** Dhaka University Studies Part-C, Vol-12(2) 1992

Average cost per sqft =  $(1134+1202+1106+1338+1208)/5=1197.6$  or Tk.1200.

From the **Table 3.15-3.17** cost of PWD per sqft.=1840 which is 153% of private developers' cost  $(1840/1200)*100$ .

It is clear that Govt. sector is not cost effective in making apartment. So the Govt. should discourage the initiative of PWD or own initiative. The cost and other matter concerning private sector will be discussed in a separate chapter.

### 3.10.1.6 Some general conclusions concerning housing for Government employees

- i) Over the last 50 years the public sector has produced approximately 30,000 housing units, approximately 16000 by the PWD and the rest by other agencies. This equals an average annual production of  $(30000/50) = 600$  units. This trend of growth can



never reach the objective of public housing for nearly 1.0 million public servants, which equals 3%  $[(30000/10000000)*100]$  of need. It inevitably led to subsidized housing for a selected few and no housing for the majority. This program is inequitable and not supportable.

- ii) There is a housing need of 8,74,000 units in the public sector. This is based on a 9,50,000 public service work force of which it is assumed 30,000 are already provided with housing, an approximately 95% of 9,20,000 will need units (950000-30000), assuming 5% female employees will share units with their spouse who are also in public service. To meet this need by the year 2005 will mean annual production of 1,75,000 housing units (874000/5).
- iii) At present level of supply, the capital fund requirement per year would be  $Tk.1040*750 *175000=136500$  million. (As per survey, the apartment cost of Tk.1040 per sqft. excluding land and assuming that, the average size of housing units would be Tk.750 sqft.). At present rate of repair cost Tk.7548 per unit per annum, average maintenance cost will require an additional Tk.1321crore, giving an aggregate figure of Tk.136631 million per year. Cost of administration will also increase proportionately.
- iv) The supply cost of construction of dwelling for public employees is high and unsustainable. Their size, layout and standard are inflexible, and incremental extension potential is limited. Thus the delivery system is not supportable.

### **3.10.1.7 Government Housing and Site Development Program**

#### **A. Housing and Settlement Directorate (HSD)**

The HSD, a Directorate within the Ministry of Works, is the largest supplier of housing sites in the public sector. Its contribution to obtain housing has been significant in terms of its

locational distribution and input characteristics. Its activities extend through all the major cities in Bangladesh and its activities encompass site and service schemes, upgrading, infrastructure, and utilities, the supply of nucleus houses and flats. The target group encompasses squatters and footloose, refugee, resettlement population, and general population from low to middle income groups. Its performance up to 2000 is presented in Table 3.19:

**Table 3.19: Physical Achievements of the Housing Estate Up to the Year 2000**

SL.No.	Name of the output	Area / unit	Residential units
1	Land acquired	8043.88 acres	-
2	Nucleus house		24143
3.	Semi pucca Row house		6872
4	Semi pucca Row house		1680
5.	Flat		3589
6	Residential plots		24982
7	Rehabilitation plots		2711
8.	Commercial plot		1090
9.	Industrial plot		573
10.	Institutional plot		59
11	Shop		1635
12	Primary school		48
13	Health Centre		18
14.	Staff quarter, Office Building		105
<b>Total</b>	<b>2 to 7</b>		<b>67334 units</b>

**Source:** GOB, MOW, HSD, Parikalpita Grihayan, October, 2000

The general policy of the HSD is to transfer the leasehold rights of most dwellings to the beneficiaries. This includes some low cost multi-story flats which were initially intended to be retained as rental housing, but subsequently sold to the occupiers. Other properties in resettlement schemes are also being sold off to existing tenants.

#### **B. Housing Activities of Development Authorities**

Development Authorities have been established in Dhaka (RAJUK), Chittagong (CDA), Khulna (KDA) and Rajshahi (RDA). The functions are extensive and diverse. One of the principal functions is the development of land, the provision for infrastructure and eventual

leasehold sale to selected beneficiaries. The size and cost of plots has restricted the beneficiaries to the high-income groups. A considerable number of house plots have been provided in this way in the four main SMAs (Table 3.20).

**Table 3.20: Development Authority Serviced Residential Plots**

Development Authority	Implemented / On going	Proposed
RAJUK (Dhaka)	14925	16000
CDA(Chittagong)	2067	-
KDA (Khulna )	2063	-
RDA ( Rajshahi )	7845	-
<b>Total</b>	<b>26900</b>	<b>16000</b>

**Source:** HSD, Parikalpita Grihayan, October, 2000

The planned density in these settlements ranged from 40 to 85 persons per hectare (Pha) gross in the past, but the authorities have recently started to develop smaller size plots such as the Site and Service plots of RAJUK) planned for Genderia, Joar Shahara, Badda, and Shympura. RDA projects in Parijat and Chayanir will provide 100sq. m to 250sq.m. Plots and the WDB colony scheme under CDA will provide 134-sq. m. to 234 sq. m. plots.

As with the HSD site and services schemes there has been a long delay between the development of infrastructure and the completion of the main dwelling. Out of 565 sites in Rajshahi, construction has occurred on only 20 plots over a 10 year period, whilst in Barisal only one plot has been developed out of 368 in 1978 to 1990. However, the development authorities have been particularly successful in providing land for urban development with a good clear title through the land acquisition powers of the Government. Unfortunately the sub-divided land has been sold to beneficiaries at prices much below the market price.

This has provided a hidden subsidy to the beneficiaries who normally are in the higher income groups.

### 3.10.2 Private Sector Housing Supply Activities

#### 3.10.2.1 The Formal Sector: Apartment Companies

The formal private sector in Bangladesh is apartment companies. The apartment companies are producing ready housing flats and selling them in the market whereas the land development companies purchase plots, improve it to buildable position and then sell them to the prospective homebuilder.

The Real Estate business is growing since its starting in the early 80s. At present there are about 400 developers involved in this business. Most of them are formal and many others are informal. Approximately they have produced more than 15,000 apartments, and 5000 apartments are in the planning and development stage<sup>39</sup>. By 10 years from 1990 it was estimated that 10,000 additional housing units would be delivered. Total apartment units supplied by formal private sector amounted to 25,000 units. They have also delivered more than 30,000 residential plots. Functionally the Real Estate companies are of two types: 1) Apartment companies (example: Eastern Housing Ltd., Sheltech Pvt. Ltd., BTI, Concord, Globe Construction Ltd. etc.) 2) Land developers. (Example: Mohammadi Housing, Bashundhara Pvt. Ltd., Kaderabab Housing, Brac Concord Land Project etc.

The supply of houses and plots by Real Estate companies has been very small compared to the overall requirement of the private sector. The Real Estate companies are concentrated mostly in Dhaka with only limited developments in Chittagong. Of the companies found in Chittagong, only one or two have so far operated on more than one project, the others are actually land owners capitalizing on the demand for housing by

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<sup>39</sup> Seraj and Morshed: 1990

building an apartment block on their land in place of single unit house. Similar is the activity of many entrepreneurs in Dhaka.

Increased population require more houses to live, more office spaces and workplaces, more spaces for other facilities related to better housing. The scarcity of lands in the city has made land worthier than gold. Demand for housing is raising the rent with time. Because of acute scarcity of land people have gone for vertical expansion. And at the same time, the city area is expanding around the city to meet the need of land. On the other hand living in high-rise apartment has become a phenomenon as it gives the dweller a hassle free and secured life style, living standard and status. Also investment in apartment gives secured and good return. In most of the cases the developers develop a project with joint agreement with the landowner. The average sharing ratio of apartments units is 60: 40. This means the developer's share is 60 and landowner's share is 40. But this is not the standard ratio. It is being fixed considering the following factors:

1. Location of the projects;
2. Number of floors (story of building);
3. Price of land;
4. Quality of construction;
5. Nature of apartment (Luxury, Standard, Economy).

Mainly, after fixing up the land price on negotiation, the equivalent number of apartment units will be given to the landowner. Because of construction period the landowner will be given more valued apartments as compared to the value of his land.

There is a steady growth both in the number of projects and in the number of apartments. Considering total market the per square feet price of apartment was increasing from Tk.1882.5 in the year 1996 to Tk2114 in the year1998. And price was decreasing in some

posh areas like, Banani, Gulshan, and Baridhara while it was increasing in Dhanmondi, Shantinagar, Maghbazar, Mirpur and Kalyanpur etc<sup>40</sup>.

The apartments of private sector Real Estate companies have been developed at Gulshan, Baridhara, Banani, Eskaton, Siddheswari, Shantinagar, Indira Road, Monipuri para, Dhanmondi, Lalmatia, Kalyanpur and Mirpur areas of Dhaka SMA.

Land development business plays an important role in housing. Since 60s this business has been growing and 15685 bighas of land has been developed. It has been found in various surveys that the maximum development areas are Rampura, Badda, Gulshan, Baridhara, Joar Shahara and followed by Amin Bazar, Savar, Tongi, Matuail, Shanar par, Gazipur, Demra, Konapara etc. areas of Dhaka.

At present there are three specialized institutions, which are providing finance for housing. They are Bangladesh House Building Finance Corporation (BHBFC), Delta Brac Housing Finance Corporation Ltd. (DBH) and National Housing Finance and investments Ltd. (NHFI). Besides, some private Banks have been providing housing finance on a limited scale; they are Islami Bank Bangladesh Ltd. (IBBL), Al-Arafah Islami Bank Ltd. (very recently started). The NCBs are also providing housing finance to the developer only on a short-term basis. NCBs are providing loan to their employees for purchase of land for housing, construction of house, purchase of apartment at a lower interest rate which is equal to "Bank rate" (Now 6%). Some other private commercial banks are also providing loan for the same purpose on a limited scale only to the developers. In 1996 BHBFC, the only Government housing finance company introduced loan for apartment purchase at comparatively low interest rate (10% to 15%). The private sector housing finance company

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<sup>40</sup> MBA thesis (Unpublished), Apartment Marketing in Bangladesh, Hossain Kabir, Roll no: 43, Batch No: 30 (day), IBA.

is the recent phenomenon in our finance sector. DBH was incorporated in 1996 and NHFI in late 1999. They have been financing the buyers of houses. But NHFI started some project finance to the developers on a limited scale. But the rate of interest in case of private finance institutions are higher (15% to 17%) as compared to the only Government sector housing finance institute BHBFC which has been enjoying low cost fund from banking sector by selling Debenture (interest rate ranging 2% to 8%).

There is an extraordinary source of finance in apartment business in the form of booking money or down payment. The projects are financed through these advances collected from purchasers. The formal private sector caters only to a narrow spectrum of the high- income group.

A survey conducted on 20 developers and 40 buyers of apartments revealed the following profile (Table3.21) of the target group<sup>41</sup>.

**Table 3.21: Distribution of Apartment Buyer According to Income**

Class of buyers' monthly income ( in Tk.)	%
Up to 10000	5.0
10000 to 15000	10.0
15000 to 20000	40.0
20000 to 25000	20.0
25000 to 30000	7.5
30000 to 35000	7.5
35000 and above	10.0
<b>Total</b>	<b>100</b>

**Source:** Talukdar A. S. and Bhuiyan Z.H. Apartment Marketing in Dhaka City, Journal of Business Studies, Vol 12(2), 1992.(DU)

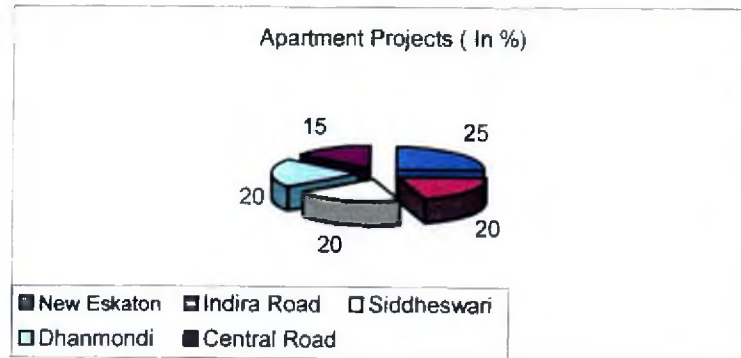
It has been observed from the above that 40% of the apartment buyers had a monthly income between Tk.15000 to Tk. 20000 and 20% of the buyers had a monthly income

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<sup>41</sup> Talukdar A. S. and Bhuiyan Z.H. Apartment Marketing in Dhaka City, Dhaka University Journal of Business Studies, Vol 12(2), 1992.

between Tk. 20000 to Tk. 25000. Only 10% of the apartment buyers were found to have a monthly income of above Tk. 35000.

**Figure 3.5: Distribution of Apartment in different city Areas**



**Source:** Table 3.21

It was observed that the apartment houses are located in different areas in the city. The above Figure 3.5 has shown the distribution of apartment projects in different city areas. The distribution is mostly normal. The survey also observed that 82% of the apartments were between 1000 to 2000sqft. in size. Large size apartments are located in new Eskaton, Gulshan and Banani.

### 3.10.2.2 Housing Cooperatives

The next important formal private sector is the Housing cooperatives. The objective of creating homes for members inspired most of the housing cooperative promoters. In most cases, few promoters formed a housing cooperative and membership was offered to the general people subject to the terms and conditions of the cooperative. Promoters initially collected few members and financed the preliminary expenses through loans and subscriptions. In some cases, employees of a particular organization agreed to solve their housing problems forming a housing cooperative. In these cases, formation of housing cooperatives was more organized and easier. Because, they do not have to make too much endeavor to collect members. Also, they can bring together likeminded persons. But other housing cooperatives have to undertake member collection drive. Sometimes member



collection is done through personal efforts to bring friends and relatives in the housing cooperative. Frequently advertisements are made to collect member.

There are two types of Housing cooperatives<sup>42</sup>: 1) Housing cooperatives which lease or sub-let the house to the members for rent while the dwelling units remain the property of the societies. 2) Housing cooperatives selling land or flats to the members on reasonable terms of owner occupancy. In the real estate market of Bangladesh, only the latter type of housing cooperatives has emerged<sup>43</sup>. At present, there are 152 housing cooperatives in Bangladesh of which 84 housing cooperatives are located in Dhaka<sup>44</sup>. Their functions are shown in the following Table 3.22:

**Table 3.22: Major Functions of Housing Cooperatives**

Functions
i). Land Acquisition and Development and later , sale of plots to the members
ii). Land acquisition and Development and later , leasing plots to the members
iii). Land Acquisition and construction of multi-storied building and sale of Apartments to the members
iv). Land Acquisition and construction of multi-storied building and leasing Apartments to the members

Plot distributing cooperative purchases land, develop the land, divide the land into plot after making provisions for physical facilities and distribute them among the members. Flat distributing cooperatives, on the other hand, purchase land and construct building on the land and distribute apartments to the members. Both flat distributing and plot distributing cooperatives either sell plots / flats or lease the same.

#### **i) Pattern of Financing need of Housing Cooperatives**

Housing cooperatives generally require two types of finances. Finance for infrastructure development and finance for day-to-day operations. These financing requirements are

<sup>42</sup>Imam Osman, Patterns and Problems of Housing Cooperatives in the Dhaka City, Research Monogram. Dhaka University 1991;

<sup>43</sup> Quium: 1988.

<sup>44</sup> Imam Osman: 1991

mostly met by the members' contribution in the form of fees for plots / flats and other charges. In few cases, personal loans are taken for emergency or start -up financing requirements.

In the initial stage housing cooperatives have to purchase land for housing, develop the land if necessary, develop physical facilities, bringing utility services and wherever applicable, construct the apartment building. These activities require huge amount of fund for the cooperatives. Although these expenses are ultimately borne by the members, Cooperatives have to make some financing arrangement until they can collect the entire amount. Because, in most cases, the promoters of housing cooperatives have to purchase land before they can get requisite number of members into their cooperative. Cooperatives, which are formed by the employees of a particular organization can get requisite number of members at the very initial stage and are in a position to collect required amount of money for financing Co-operatives' infrastructure development.

**ii) Problems of Housing Cooperatives (From the view point of cooperatives)**

Housing cooperatives face a number of problems during the course of their development.

The major problems are mentioned below:

- 1) Dispute over the title of purchased land;
- 2) Cheating by Real Estate Brokers;
- 3) Government acquisition of land bought by a cooperative;
- 4) Problems in getting possession of purchased land;
- 5) Housing cooperatives require huge fund at a preliminary stage for purchase of land. But there is no institutional loan for housing cooperative;
- 6) Non- availability of utility services, such as gas electricity, water and sewerage.
- 7) Conflicting interest among members.

### iii) Informal Sector's Contribution to Urban Housing

This is by far the major supplier of both in urban and rural Bangladesh. In urban areas it comprises 92 % of the supply of land for housing and approximately 96.5% of the building provision.

The sector operates in two main ways:

- 1) Through horizontal or vertical densification of existing sites – both private and leasehold properties.
- 2) New developments, mostly in the fringe, but also in inner city areas.

Most of the shelters are built by individual efforts and on the household basis. These shelters may be: (a) legal, (b) semi-legal or (c) illegal.

**(a) Legal shelters** are those shelters where title to the land is legal and the shelters built have the approval of the planning authority. These houses are built mostly through individual initiative, generally in an incremental process. In major urban centres, such as Dhaka and Chittagong, about one third of the houses is designed by architect or engineers or experienced draftsmen. Land is acquired either through open market purchase (through broker or direct negotiation) or through allotment from government development agency or by membership of the cooperative housing societies or by inheritance. Construction is made through personal supervision with hired labour, masons, carpenters, plumbers etc. Materials are procured from open market. Financing of land and housing is largely from personal savings, informal credit, and, for some also formal credit.

(b) **Semi-legal shelters** have legal title to the land but do not have approval of construction of the plan approval authority. These shelters in most cases fail to satisfy the planning standard and as such owners do not approach authorized agency for permission.

Some of the services/ utilities drawn may not have legal sanction. Land assembly and building / construction procedures are same as is in legal case described above. Financing is almost wholly from own savings and informal credit. Slums come under this category. They have very poor housing conditions where structures may be very old, dilapidated buildings, semi-pucca and highly temporary (kutchra). Slums as a type (sub-system) are one of the largest suppliers of housing particularly for lower income group (it is 30% in Dhaka).

(c) **Illegal Shelters:** The last in this group is a squatter, who build mostly on government lands and have neither the legal title to the land nor have the approval of the planning authority to build. These are mostly rudimentary shacks and generally self-built. Services such as water and in some cases electricity are procured through illegal method. The squatters build their own shacks, with very little help from skilled persons.

This sector faces severe constraints as a result of limited access to land, restricted finance, high construction costs and technical and regulatory restrictions.

The standard of construction in the informal sector is very low, since over 85%<sup>45</sup> of privately supplied urban dwellings are of semi-permanent or temporary construction, which are developed and upgraded incrementally over times. They are 1 or 2 room structures, built with local materials, of a simple technology and are the most affordable for the majority. Permanent structure is used when densification schemes with vertical extension are implemented.

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<sup>45</sup> Halcrow Fox and BCL: 1993

#### iv) NGO Activities in Urban Areas

The activities of Non Government Organizations (NGOs) in Bangladesh are wide and they include education and training, health and community care, infrastructure provision, women development, employment generation, savings and credit schemes and a wide range of other activities. Low- income households are their target groups. NGOs now are also a major participants in the housing sector in particular in the rural areas.

There are over 13,000<sup>46</sup> NGOs, registered and operating in Bangladesh of which about 600 could be described as having significant development activities and 639 NGOs are registered to receive foreign funds. BRAC and Grameen bank are two main NGOs, which have been providing housing loan in the rural areas.

The general activities of NGO's in urban areas are limited. In the housing sector NGO activities are very restricted. The reasons are:

- 1) Donor restrictions. Many international donors who supply some or all funds to NGOs restrict the activities of the recipient NGO to rural areas only which is often, and possibly incorrectly, defined as a priority area.
- 2) Urban areas are often perceived as unstable in population terms with families moving areas frequently making long term poverty alleviation program difficult to implement. This would be particularly so in terms of projects involving loans and their repayment. Also many rural based NGOs perceive lawlessness a greater problem in urban areas, which could make their operations more difficult.
- 3) Of most importance in connection with housing loans is the high cost of land, which prohibits the lower income groups from entering the housing market, and consequently limits the demand for housing loans. This was regarded by most NGOs as the most important reason for their non-involvement in rural housing loan activities.

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<sup>46</sup> Halcrow Fox & BCL:1993

- 4) The NGOs believe that the issue of poverty must be addressed first at the rural level to stop the rural urban migration.

So far only BRAC has indicated a keen interest in the urban sector and believe that urban poverty also needs to be addressed urgently and as such they would be moving towards an urban housing loan. Recently BRAC Concord land project has been established to supply housing plot in the outskirts of Dhaka City. Their first project has started at Matuail in the Demra Thana, which is about 10 miles away from Dhaka main City. BRAC, the biggest NGO in Bangladesh has also come forward to finance the urban housing sector indirectly holding 25 % share of Delta Brac Housing Finance Corporation Ltd. (DBH) which is the first private sector housing finance company.

With the discussion of housing situation in Bangladesh as well as about the world scenario of housing, the next chapter deals with the housing finance system. It will cover the institutions which have been engaged in the housing finance in this country, These are BHBFC, the only Government sector housing finance institution and newly established two housing finance institutions, such as: DBH and NHFL.

## CHAPTER-4

# HOUSING FINANCE SYSTEM IN BANGLADESH

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HOUSING FINANCE SYSTEM IN BANGLADESH

4.1 INTRODUCTION

It is seen the annual rate of growth of gross capital stock of housing in Bangladesh has been rather low, amount 1.5-1.6% (in real terms) in contrast to almost 5% and above in developed and in some developing countries<sup>47</sup>. One major reason for this is the short supply of finance for housing. Investment in housing is encouraged by government through tax incentives, easy access to housing finance, interest subsidies on housing loans and other incentives. A major factor in promoting house ownership is the ensuring of a steady flow of mortgage finance through housing finance institutions on reasonable terms.

At first, the discussion is made about the total financial sectors of Bangladesh. After that, special focus will be given about housing finance system. The overall size of the financial sector relating to GDP remains smaller than that in other countries in the South-East Asia region. However, the overall macro-economic environment has provided a favourable climate for financial sector development. The financial system comprises of<sup>48</sup>:

- i. the central bank- The Bangladesh Bank (BB)
- ii. four Nationalized Commercial Banks (NCBs) with total bank assets of Tk. 1670.6 billion
- iii. twenty five private domestic banks with total assets of Tk. 1449.4 billion
- iv. twelve foreign banks, with total assets of Tk. 82.5 billion. The number of foreign banks entering Bangladesh is increasing. Although these provide much needed competition because of their much higher efficiency as measured by their profits per employee, the playing field is far from level, particularly compared to the NCBs with their advantage in accessing lower cost funds

<sup>47</sup> Kamal Mostafa 1998, Urban Housing Problems & The Role of Financial Institutions in Bangladesh, MBA Thesis (Unpublished), Stamford University Bangladesh

<sup>48</sup> Marja C. Hock –Smit: 1998, Housing Finance System in Bangladesh, UNDP, UNCCH (Habitat)



- v. several non - monetary financial institutions, including the Bangladesh House Building Finance Corporation (BHBFC), Investment Corporation of Bangladesh, Bank of Small Industries and Commerce (BASIC)
- vi. twelve private non-bank financial institutions
- vii. the recently established Delta Brac Housing Finance Company.(DBH) and National Housing and Investment Corporation Ltd.(NHFI)
- viii. the Post Office Savings Bank
- ix. the Stock Exchange, with a market capitalization of Tk. 70 billion in 1996/ 97 (only 5 percent of GDP)
- x. the State Provident Fund, several smaller state and private pension funds, most of which are undercapitalized
- xi. thirty general and 6 life insurance companies dominated by two public sector corporations for life insurance and general insurance
- xii. the cooperative and credit union sector, with the Bangladesh Samabya Bank Ltd as the apex institution
- xiii. several large non- governmental and non- profit micro finance institutions
- xiv. non- institutional credit agents such as moneylenders

#### 4.2 MACRO ECONOMIC SITUATION OF THE COUNTRY

The macro-economic performance is shown in the Table 4.1 given below. The real GDP growth percentage is increasing. The private sector bank credit also shows an increasing tendency.

Table 4.1: Overview of the Macro- Economic Scenario, 1993/ 94- 1997/ 98

	1993/ 94	1994/95	1995/ 96	1996/97	1997/98
Real GDP growth (percent change)	3.8	5.5	5.0	5.9	5.6
Inflation (Percent change)	3.3	8.9	6.6	2.6	7.0
Budget Deficit / GDP (Present)	-4.6	-5.3	-4.5	-4.4	-4.2
M2/ GDP (Percent)	27.1	27.9	27.7	28.5	28.6
Deposit Growth (percent change)	11.6	15.0	8.2	10.5	10.0
Credit Growth (percent change)	3.0	23.2	20.4	13.2	11.3
Credit to private sector (percent change)	5.1	23.6	22.6	13.7	10.1
Private Credit / Total Credit (percent)	71.6	71.8	73.1	73.4	72.7

Source: Various Bangladesh Bank Publications

### 4.3 CHARACTERISTICS OF MAIN HOUSING FINANCE SYSTEM

The main financial sector's characteristics relevant to the housing finance system are highlighted below:

#### A. Predominance of Banking Sector

The financial sector in Bangladesh is dominated by the banking sector, which accounted for 96% of the system's total assets at the end of 1997. However, the banking sector has major weaknesses that affect on the availability of housing finance. Some important features of the banking sector are briefly discussed below:

##### (i) Non performing loans

The banking system has a long-standing problem with non-performing assets, concentrated in a relatively small number of private borrowers, and estimated at more than one third of the loan portfolio of both Nationalized Commercial Banks (NCBs) and domestic private banks. Sectors with the highest percentage of total overdue loans are the agricultural and commercial credit sectors. Only in 1990 loan classification guidelines were implemented and, although recently tightened, these are lenient by international standards.

##### (ii) Interest rate structure

Savings and lending volumes have been affected by high spreads between bank lending and deposit interest rates (see Table-4.2) resulting from the high volume of non-performing loans. Real lending rates remained high (9 to 12 percent) and banks' deposits appear to be affected by the lack of confidence in the banking sector'. The NCBs act as the price leaders for interest rates for the sector.

**(iii) Capital inadequacy**

Another problem is a system-wide capital inadequacy. Although the basel guidelines (8 percent of rated assets) are officially followed, enforcement is still lax and many banks are not up to the standard.

**Table 4.2: Weighted Average Rate of Interest on Deposits as on 30-09-99**

Banks	All Deposits	Savings Deposits	Short term Deposits	Fixed Deposits	Break up of Fixed Deposits					Other deposits
					3-6 Month	6m-1year	1y-2y	2y-3y	3+y	
All Banks	7.37	7.44	5.80	9.32	8.72	9.01	9.30	9.57	9.80	5.60
NCBs	7.77	7.63	6.03	9.32	8.60	8.85	9.09	9.45	9.82	7.06
Private Banks (a+b)	6.45	6.94	5.44	9.28	8.77	9.10	9.46	9.76	9.64	2.16
a) Domestic	6.64	7.12	5.61	9.28	8.90	9.10	9.35	9.75	9.59	2.59
b) Foreign	5.74	6.06	5.04	9.30	8.44	9.09	10.0	9.94	9.78	0.56
Specialized Banks	8.99	7.98	5.96	9.57	8.83	9.53	9.34	9.58	9.99	9.88

Source: Schedule Banks Statistics, Quarterly July-Sept. 1999

**(iv) Bank liquidity**

GDP growth has assisted the liquidity position of the banks. Also, the foreign exchange exposure of the banks and their corporate borrowers is less than in other countries in the region, and this makes the system less vulnerable than that of Asian crisis countries. Since bank lending to the real estate sector in Bangladesh is relatively low as a share of total economy, there has been no real estate asset price bubble as in several other Asian countries.

**(v) Lack of competition and product innovation**

The legacy of credit ceilings, refinancing of loans to priority sectors and administrative interest rate structures have left the banking sector more concerned with recovering past

losses than with moving into more innovative and profitable areas. Particularly, long-term lending activities have received little attention.

In the past the DFIs were the main providers of term finance in Bangladesh. However, their bad debt exposure has severely curtailed their operations. The commercial banks have filled the void and dominate the banking sector with more than 50 percent of outstanding advances. Yet, they have remained in severe distress because of the persistent high percentage of non-performing loans and the deficiency of loan loss provisions. Banking reform is recognized by the Government as high priority. Yet, there does not appear to be a sense of urgency to address the fundamental problems of non-performing loans<sup>49</sup>. The weak banking sector is considered a threat to macro-economic stability<sup>50</sup>. It certainly is a hindrance to the development of the residential real estate sector, driving up interest rates and limiting the interest of the banks to lead long-term.

## **B. Capital Markets**

Capital markets include both debt and equity markets. Debt markets are not well developed and revolve around the commercial banks and DFIs. With the weak position of the NCBs, debt markets play a small role in the housing sector outside of BHBFC. Equity markets, dominated by the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE), remain equally weak with an unclear regulatory and supervisory system, inefficient trading, clearing and settlement systems, limited supply of securities, and underdeveloped institutional demand.<sup>51</sup> The short-lived boom and bust cycle of 1996 was driven mostly by foreign portfolio investment and new regulations have been put in place to protect investors' interest and improve the institutional structure. International agencies have initiated programs to strengthen both debt and equity markets.

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<sup>49</sup> Proposal for Reforms. In the World Bank, 1997: p-17.

<sup>50</sup> World Bank, Asian Development Bank 1998, p.16

<sup>51</sup> World Bank, 1998

### C. Cooperative and Credit Cooperative Societies

There are 1,45,000 cooperative societies in Bangladesh of which only 144<sup>52</sup> are housing cooperatives. The great majority is farm and agro-farm cooperatives. The housing cooperatives are mostly set up by high and middle- income households to allow them to acquire jointly and for the construction of housing units for their members. Around 14,000 plots<sup>53</sup> have been developed through the housing cooperatives. There are at present 20 credit co-operative societies with around 14000 members and total resources of Tk.164 million<sup>54</sup>. The apex bank for the co-operative sector is Bangladesh Samabaya Bank Ltd. The sector has experienced severe structural problems and presently no new credit societies are allowed to be registered.

### D. Regulatory and Supervisory Framework

The Companies Act of 1994 and the Banking Companies Act of 1991 are the basis for commercial banks regulation (Excluding the cooperative banks). Non-bank financial institutions are regulated under the Financial Institutions Act of 1993. BHBFC was set up by the specific Acts of Parliament, and fell outside the jurisdiction of these laws. The Securities and Exchange Commission (Amendment), 1997 and the Securities and Exchange Act 1997 regulate the securities markets. The Cooperative Societies Ordinance of 1984 regulates the cooperative and credit union sector and allows deposit taking, issuance of debentures and lending to the members.

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<sup>52</sup> Pattern and problems of Housing Cooperatives, Imam Osman, 1996, BBR,DU.

<sup>53</sup> Pattern and problems of Housing Cooperatives, Imam Osman, 1996, BBR,DU.

<sup>54</sup> Ibid.

The Bangladesh Bank (BB) performs the traditional roles of note issuer and banker to the government and banks. It enforces prudential regulation of the banks and non-bank financial institutions. It also provides deposit insurance to small depositors. The Ministry of Finance (MOF) directly supervises government financial institutions, which it gives directives independent of the BB. Therefore, while the BB in general regulates the banking system, it does not have full authority and autonomy to do so effectively. The Ministry of Finance does the monitoring of the NCBs, and other state-owned or partly state-owned financial institutions such as the Grameen Bank and BHBFC. The Government sets priorities for these institutions that may differ from prudential concerns by the BB. In addition, managerial reforms proposed by the BB are hindered by the interference of strong unions. Because of their special status, supervision of the BHBFC and Grameen Bank has been lax in the past.

The Bangladesh Bank (BB) regulates and effectively supervises the non-banking financial institutions. However, the Security and Exchange Commission (SEC) supervises certain aspects of NBFIs' operations, such as debenture and securities, while regular lending functions are regulated under the Financial Institutions Act of 1993 under the BB. This dual supervisory system creates confusion, particularly for the newly formed housing finance institutions.

The Controller of the Insurance in the Ministry of Commerce regulates the insurance sector under the Insurance Act of 1938. The office has, however, very limited capacity to effectively guide the sector into more innovative practices. The insurance sector is a potential long-term investor in housing sector, but present regulations hinder its expansion into this sector.

The cooperative and credit union sector is supervised by the Registrar of Cooperatives in the Ministry of Local Government, Rural Development and Co-operatives (MLGRDC), which does not really have the capacity to do so effectively for sizable cooperative financial institutions. The financial situation of the 20 credit unions has been deteriorating steadily and the entire sector is in the process of being liquidated.

The growing NGO micro-finance sector is effectively unsupervised. It is under the NGO Bureau of the Ministry of Welfare (Youth and Women's Affairs), which is not equipped to deal with the large non-profit financial institutions. The size of the sector, and the implicit assumption that government will guarantee payments to the borrowers, has increased the need for a sound regulatory and supervisory system. The Credit and Development Forum is the networking agency for the sector. It maintains a comprehensive data bank on member MFIs and acts as a resource center for its member institutions. The NGO apex-funding agency, Pally Karma Shahayak Foundation (PKSF), fulfils a de facto monitoring function for its participating NGOs (approximately 75) and requires monthly reports of the entire operation of its clients.

Debt recovery and bankruptcy laws have recently been enacted and the GOB launched a loan recovery drive for its NCBs and other state lending institutions. As part of this initiative, BHBFC has recently announced a major action to deal with its non-performing loans.

The weak financial system hinders savings and investments, hence economic development. The housing sector, which is highly finance dependent, is particularly affected. The troubled banking system 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.

### **E. Mortgage Finance**

The housing finance system in Bangladesh is both underdeveloped and highly segmented. Formal construction and mortgage finance by the banking sector, which requires proof of land ownership or leasehold deeds and the deposit of title documents as collateral, is only used for a small proportion of new houses production and for an even smaller proportion of existing houses. The 1993 ADB survey of homeowners of newly constructed houses showed that the most important source of housing finance was household savings (more than one third). Loans from relatives and friends were the second most common form of finance followed by the sale of other parcels of land. Employer and bank loans were utilized by 13 percent of new homeowners and HBFC loans were only enjoyed by 5 percent, all in the high- income brackets. Rotating credit institutions were not mentioned and are, therefore, assumed not to play a significant role in house construction. It is widely acknowledged that new finance systems have to be developed and some promising initiatives have been taken.

This section depicts the present mortgage based housing finance systems in Bangladesh and Government policy towards the housing finance sector.

#### **a) Construction Finance for Moderate Income Housing**

##### **(i) Private construction finance**

Most new constructions for the formal housing market is the form of apartment buildings. The predominant way of financing the construction of this type of housing is through a



landowner and a developer self-finance, e.g., by selling part of the land parcel or other land and subscribing the housing development fully before construction starts. Buyers of individual units in multi-family apartments have to put down about 25% to 30% advance and the unit has to be paid for in a few large installments before the house is completed. This type of financing arrangement is difficult for all but the highest income groups in the absence of mortgage financing. Some large developers have access to short-term construction finance from affiliated / scheduled private banks. It is, however, difficult to obtain construction finance from NCBs. Developers are not engaged in long-term financing of housing units for their clients directly. But recently many developers signed Memorandum of Understanding (MOU) with private housing finance companies to arrange home mortgage loan for their clients in the easiest way.

**(ii) Public construction finance**

On the failure of BHBFC to lend for lower cost housing developments, the Prime Minister's Office recently established a Housing Fund called the Grihayan Project, which provides low cost funds to NGOs and public sector developers for the construction of low- to moderate – income housing schemes. The Housing Fund is administered by inter-ministerial committee of 17 members and includes one NGO member (Proshika). A total of Tk.580 million is available at an annual interest rate of 1 percent for 10 years. The project requires that the borrowers lend to lower households at a rate of 5 percent, which leaves a spread of 4 percent from which the developer has to cover all costs including loan administration. Indeed, the project expects the NGO or public sector developers to put in their own funds for project development and management. Therefore, only well-funded NGOs can consider participation in the project. Also, selected agencies have to have the capacity to act both as developers and long-term mortgage financiers for the projects.

Three types of housing solutions are fundable under the project:

1. Small single, tin-roofed rural houses at a maximum cost of Tk. 25,000,
2. Semi-pucca rural houses at a maximum cost of Tk. 85,000, and
3. Flats in district towns at a maximum cost of Tk. 175000. Loan for the first category is made for 10 years, while a 15-year term is set for the two other house types. The target markets were selected because housing finance institutions, apart from Micro Finance Institutions (MFIs), will not invest in housing in rural and smaller towns.

The fund received by more than 850 applicants during the first round of which approximately 20 to 30 institutions will be selected. The idea of Housing Fund was first suggested by the ADB's<sup>55</sup> 1993 study, although a different structure was envisioned.

While an interesting initiative, the fund is small in size compared to the overwhelming need for low-income housing. It can finance 7,000 to 10,000 units depending on the mix. Also, the administrative structure for the program, as an inter-ministerial committee, is extremely weak and ephemeral. The long loan-terms would require a more permanent project administration and monitoring unit or a relationship with a financial institution. Also, the project does not build up institutions that could gradually increase lending for low-income housing.

#### **4.4 HOUSING FINANCE INSTITUTIONS**

One state owned and two private housing finance institutions have been exclusively engaged for providing housing finance in Bangladesh. Besides, one leasing company and some private banks are also playing role in the housing finance sector. Their role in this sector are discussed below:

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<sup>55</sup> Halcrow Fox & BCL, 1993.

#### **4.4.1 Bangladesh House Building Finance Corporation (BHBFC)**

##### **a) The story in retrospect**

The history of Bangladesh House Building Finance Corporation (BHBFC) dates back to 1952 when the then Pakistan Govt. tried to rehabilitate the refugees who came from the then British India after partition in 1947.

Under Act No. 18 of 1952, Pakistan House Building Finance Corporation (BHBFC) was incorporated for the purpose of providing financial assistance for the construction, repairing, purchasing and remodeling of dwelling houses. After Independence under President Order No. 7 of 1973, House Building Finance Corporation is re-incorporated in the new name of Bangladesh House Building Finance Corporation for the same purpose with the assets and liabilities of the then East Pakistan House Building Finance Corporation. President Order No. 7 of 1973 defined the corporation as a corporate body by the name of Bangladesh House Building Finance Corporation having perpetual succession and a common seal, with power, subject to the provisions of this order, to acquire and hold property both movable and immovable and shall by the said name sue and be sued.

##### **(b) Management**

Banking Division of Finance Ministry controls administration of BHBFC. The general direction and the administration of the corporation and its affairs vest in a Board of Directors, which with the assistance of the Managing Director may exercise all powers and acts.

The Board consists of a Managing Director and more than five other directors to be appointed by the government. The Govt. appoints one of the Directors other than Managing

Directors to be the Chairman of the Board. A Director is entitled to hold office for a period not exceeding 3 years.

No person shall be or shall continue to be director who <sup>56</sup>

- (a) is a salaried official of the corporation other than Managing Director, or
- (b) is or at any time has been adjudicated insolvent, or
- (c) is found to be a lunatic or unsound mind, or
- (d) is or any time has been convicted of an offence which in the opinion of the Govt. is an offence involving moral turpitude, or
- (e) is subject to a disqualification imposed by or under any law for the time being in force to hold any public office, or
- (f) is a minor.

Directorship is ceased if s/he absents himself/herself from three consecutive meetings of the Board without leave of absence from the chairman.

**(c) Authority of Managing Director**

- i) The Managing Director is the Chief Executive Officer (CEO) and does, on behalf of the Board, direct and control the whole affairs of the Corporation.
- ii) The Managing Director has the authority to sanction, in respect of each house or a unit thereof, loans not exceeding such ceiling as the Government may, from time to time fix in this behalf and need to place a list of all loans sanctioned by him/ her for the information of the Board.

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<sup>56</sup> Brochures supplied by BHBFC.

- iii) The Managing Director has the authority to cancel, sanction and reduce the sanctioned amount and recall loans.
- iv) In the matters not specifically required by this order (P.O. NO.7 of 1973) or by rules or regulations made there under to be done by the Board, the Managing Director has, in relation to such matter, authority to conduct the business, control functions and manage the affairs.
- v) The Managing Director is appointed by the Government for such a period and on such a salary and terms and conditions of service as the Government determines.

**(d) Legal Authority of the Corporation:**

- (i) The Corporation may open deposit account with any bank or banks as may be decided by the Managing Director.
- (ii) The Corporation may, with the prior approval of the Government raise funds for the purpose of raising its own capital by issuing bonds and debentures carrying interest at such rates as may be approved by the Government provided that the total amount due by the corporation on such bonds and debentures and on other liabilities of the corporation, shall not at any time be allowed to exceed fifteen times the aggregate amount of the paid up share capital and the reserve fund of the corporation.
- (iii) The repayment of the principal and the payment of interest due on the bonds and debentures issued by the corporation are guaranteed by the Government.
- (iv) The corporation may accept deposit on such terms and conditions as may be approved by the Government.
- (v) The corporation may accept loan from the Government on such terms and conditions as may be determined by it.
- (vi) The corporation grants loans to borrowers for the purpose of constructing, repairing and remodeling of the houses.
- (vii) No loan is made unless it is fully secured by a mortgage, hypothecation, assignment of the land and the house to be constructed, repaired, or remodeled thereon or by such other immovable or movable property of the borrower or of his / her surety or of both as may be prescribed.
- (viii) All loans are made in suitable installments concomitant with the construction, repair or remodeling of the house.

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- (ix) No loan is made unless the corporation is satisfied.
- (x) That the borrower is able to provide necessary fund which is added to the loan made by the corporation, covering the entire cost of the construction, repairing and remodeling of the house.
- (xi) That the borrower or his surety or both as the case may be and where the borrower is more than one person, any one or more of such persons or their sureties, will have sufficient means to repay the loan during the prescribed period in the prescribed manner.
- (xii) That adequate care has been taken to ensure that the house would be of an economical and suitable design and of a sound construction, and of a type, which would assure a minimum of practical expenditure for repairs and maintenance during the term of the loan.
- (xiii) The loan is repayable in monthly installment sufficient to cover principal and the interest in such a manner as is prescribed.
- (xiv) The rate of interest chargeable on loan paid by the corporation is determined by the Government from time to time.
- (xv) Every agreement between the borrower and the corporation provides for the period within which the construction, repairing, or remodeling of the house is commenced and completed.
- (xvi) The loan is given for a period not exceeding 32 years.

**(e) Vision of HBFC**

Vision is the long run, outlook foresight and expectation of management. The corporation's vision is to exclusively extend its services all over the county to provide standard living of the countrymen and remain market leader of the industry.

**(f) Corporation's mission**

Organization Mission refers to management's customized answer to the question: "What is our business and what will it be"? A mission statement broadly outlines the organization's future direction and serves as a guiding concept for what the organization is to do and to become.

"Each of our activities must benefit and value the common wealth of our society. We firmly believe that, in the final analysis, we are accountable to each of the constituents with whom we interact, namely our employees, our valued borrowers, our business associates, our fellow citizens and our Government."

**(g) Objectives of the Corporation**

Objectives are the conversion of the organizational mission statement and direction into specific performance targets, something the organization's progress can be measured by following the objectives:

- To anticipate our borrowers' requirements and provide them with the services which meet their need
- To stand as a bad debt less specialized financial institution in Bangladesh
- To show itself as a Government owned profitable concern
- To achieve better turnover on its investment

**(h) Geographical Area served by HBFC**

The Geographical area covered by the service of HBFC encompasses Divisional and District Head Quarters and other important urban areas. The field level operations of HBFC are conducted through 9 Zonal offices and 12 Regional offices under 4 Zonal offices. Zonal offices supervise the activities of Regional offices and Head office supervises all Zonal offices.

Among 9 Zonal offices, 4 Zonal offices are operating in Dhaka and the rest 5 are operating in Chittagong, Khulna, Rajshahi, Barisal and Sylhet.

Among 12 Regional offices Kushtia, and Jessore are under Khulna Zonal office; Noakhali and Comilla are under Chittagong Zonal office; Dinajpur, Pabna, Rangpur are under Zonal office of Rajshahi, Sylhet Regional office is under Sylhet Zonal office and Mymensingh, Jamalpur, Tangail and Faridpur are under one of the 4 Zonal (Dhaka Zone- 4) offices of Dhaka.

**(i) Operational Divisions of BHBFC**

Two main divisions conduct all operations of HBFC mainly; Division of Loan and Administration and Division of Accounts, Finance, Recovery, Audit & Planning. Each main division is supervised by a General Manager (GM) employed by the discretionary authority of the banking division of the finance ministry of the Govt. Under each GM there are a few deputy general managers (DGM). Each of them is the Chief Executive Officer (CEO) of a department and remains responsible for the activities of the concerned department.

Under the GM of Accounts & Finance, Recovery and Audit & Planning there are three DGMs. One is for Budget and Accounts, one is DGM Recovery who is responsible for



Recovery. He is to supervise the functions regarding recovery of loans given to borrowers. The other one DGM is DGM Audit & Planning. He is to supervise the activities of Audit, Planning, Building and Engineering. Under General Manager of Loan & Administration there are two DGMs. One of them is the Chief Executive Officer (CEO) of Administration and remains responsible for the activities of Administration. He is to administer personnel of the corporation. He is to assess the need of the personnel and accordingly recruit the same with the approval of the board. Recruitment, transfer, promotion, motivation etc. are under his / her supervision.

Another DGM is DGM of Loan who is responsible for the activities of loan department. He supervises receiving of loan applications, scrutinizing, processing, and finally sanctioning of loans. MD has the discretionary power to sanction loans subject to informing the board.

Each department under a DGM consists of a number of personnel having hierarchical position. From the bottom to the top of the hierarchy subordinates are accountable for their assigned duties.

Like various departments of the Head Office there are various sections in each Zonal office. Administration section of Zonal Office deals with the management of personnel. Accounts section maintains books of accounts of the concerned zonal office. Loan section deals with the processing of loan applications and disbursement of loan. Law section deals with legal affairs of the concerned zone. Recovery section is responsible for recovering the loan disbursed to borrowers.

**(j) Product of the Corporation**

Product means a package of services provided by the producing unit. BHBFC is one of the specialized financial institutions in Bangladesh. The significant service provided by it is to facilitate the urban dwellers by providing financial assistance for the purpose of constructing, repairing, remodeling and purchasing of a house intended for human habitation. It is a corporate body having legal entity. Thus it is a corporation. Its main function is to finance building of houses. It performs its functions by giving loan to the intended house builders and recovering the same over a longer period of time. The loan giving process passes through several phases.

**(k) Procedures of Providing Loan**

The following procedures are followed in granting loan:

- a) At first the application is received from intended borrowers. All applications for the grant of loans for the purpose of constructing, repairing & remodeling of houses are to be made in a prescribed form along with original plan of the houses duly approved by the competent local authority, documents of title and a receipt from any branch of the Sonali Bank showing that the application fees payable has been paid.
- b) The applicant is to pay the following fees, namely:
  - i) Such application fee as the board may determine from time to time. Application fees consist of a payment of Tk.500 non-refundable for the application form and application fees @ Tk. 2 per thousand of amount applied for
  - ii) Loan application can be in the name of any member of a family. None of a family can apply for the loan if that family gets any loan from the corporation and it is not repaid fully. In case of a couple loan application may be in joint names or separate name. A minor can't apply for the loan unless s/he has a legal guardian.
  - iii) A family (husband, wife and dependents) may not apply for loan if it owns any dwelling house in the same city or town but may apply for the loan for remodeling, expansion or repairing of the existing houses.

- iv) A non-encumbrance certificate from registrar for last 12 yrs to be submitted with the corporation. The corporation provides the form of non-encumbrance certificate. But it is not required for the loan/ plot received from Govt. lease and housing society accepted by the corporation.
- v) In case of plot received on lease from RAJUK, CDA, KDA, RDA, a mortgage approval issued by the concerned authority is to be submitted.
- vi) Copy of mutation certificate (C.S. S. A. or R.S.) of name change and receipt of up to date rent, city tax is to be submitted.
- vii) Certificate of income is to be submitted in prescribed form.
- viii) In case of businessmen they would declare that they haven't taken loan from any other financial institutions and if any, they will submit non- defaulter's certificate.
- ix) Applicant is to submit two copies of attested photo and Signature Identity Certificate.
- x) If the application seems valid and required documents are attached, the loan may be sanctioned within 35 days in case of plot leased from Govt. and within 45 days in case of privately owned land.
- xi) All loans are sanctioned from head office.
- xii) All loans are fully secured by a mortgage, hypothecation, or assignment of the land and the house to be constructed repaired or, remodeled thereon.

c) After sanctioning of loan the borrower is to:

- (i) Invest the required amount equal to the difference between total estimated cost and sanctioned amount. This amount ranges from 15% -35% of total construction cost.
- (ii) Pay inspection fees @ Tk.3 per thousand (but at least Tk100/=) on the sanctioned amount.
- (iii) Pay Tk.100/= for each copy of Mortgage deed.

- (iv) Pay all expenditures regarding the registration of mortgage deed.
- (v) Submit letter of guarantee before receiving the first cheque of installment.

**(l) Disbursement of Loan**

After sanctioning and fulfilling all formalities of the loan, the sanctioned amount of loan is disbursed in several installments.

Cheque of first installment is disbursed subject to required preliminary investment made by the borrower. After sanction of the loan the borrower is to complete his/ her initial investment within three months otherwise the sanction may be canceled.

Next installments are disbursed at 2 months interval from preceding installment subject to the advancement of construction as reported by authorized engineers.

The accounts department or counseling counter of the concerned zonal or Regional offices issues all cheques as the case may be.

**(m) Types of loans**

There are 6 types of loans made by HBFC. These are as follows:

- 1) **General Loan:** This type of loan is given in a single or joint name including husband and wife. In case of general loan the proposed houses should be located beside a road.
- 2) **Group Loan:** Group loan is given to a group of persons intending to build multistoried apartment building on a plot under the ownership of a group of members.
- 3) **Flat or Apartment Loan:** Flat or apartment loan is given to persons intending to purchase a ready- made flat.

- 4) **Adjustment Loan:** Adjustment loan facility is offered for the existing borrowers subject to adjustment of their previous loan. This is a new or an additional loan to the existing borrowers for aiding them to repair, remodel the already built houses.
- 5) **Multi Loan:** Such loan facility is given for constructing multistoried small units of maximum thousand square feet considering the high land prices in urban areas. Under this system of loan marginal cost of additional unit decreases but rental income to the borrowers does not decrease accordingly.
- 6) **Loan for semi- constructed building:** This loan is given in Dhaka and Chittagong cities and other Divisional and District towns for constructing semi- constructed building.

**(n) Terms and Conditions of House Building Loan:**

Terms and condition of house building loans are narrated below:

- a) The ceiling of disbursing loan ranges or varies in terms of the importance of area wherein the loan is given, the value of the land where the building is constructed and the area of the building measured in aggregate square feet.
- b) The loan is sanctioned against the mortgage of the land and building to be constructed thereon. The area of the house in sqft ranges from 1000sqft to 5000sqft, and the loan amount ranges from Tk.3 lac to Tk.30 lac for constructing a building fully.
- c) The present interest charged on loan lies in between 13% to 15%. In Dhaka and Chittagong interest rate is 13% up to Tk.15-lac ceiling and 15% for loan above Tk.15 lac. In other District Head Quarters interest rate is 13%.
- d) The maintenance and supervision of the building vests on the borrower and the corporation is not liable for any damage of the building property. The corporation is concerned only with security of its investment and interest thereon.

**(o) Recovery procedure of BHBFC Loan:**

The corporation recovers its loan and interest thereon through equal monthly installments.

The monthly installment consists of equal portion of principal and interest charged thereon.

Principal portion of installment is determined by dividing the total principal by the number of installments. The corporation charges simple interest on its investment. No interest is charged on unpaid accumulated interest balance. In this system accumulated interest is not capitalized. Interest is calculated on average balance of principal. As an equal portion of principal is recovered in each month, principal is reduced constantly. Here interest is charged on reduced balance of capital that remains invested.

**The calculation of monthly interest installment is as follows:**

$$\text{Monthly interest Installment} = \frac{\text{Principal} \times \text{Annual Rate of Interest} \times (\text{No. of Installment} + 1)}{2 \times 100 \times 12 \times \text{No. of Installments}}$$

Average principal is found out by dividing the principal by 2 because the principal would be zero at the last installment. 12 is used to find out monthly interest rate. No. of installments is used to find out monthly portion of interest.

**Principal portion is computed as follows:**

$$\text{Monthly Principal Installment} = \frac{\text{Principal}}{\text{No. of Installments}}$$

During construction period no installment becomes due. But interest is calculated on the investment during construction period. Its name is Interest during Construction Period (IDCP). IDCP is calculated for finding out monthly equivalent principal based on product basis of number of months and amount of cheque.

Installment payment starts after 12 months of getting last cheque of the sanctioned amount. That means first installment payment starts from 9<sup>th</sup> month after getting first cheque. The interval between getting last cheque and starting first installment repayment is known as the moratorium period. The moratorium means a period during which payments are suspended

by law. The moratorium is a facility given to the borrowers. The borrower may pay the amount of IDCP at a time otherwise it is capitalized and considered as principal.

The borrowers deposit their monthly installments at some specific branches of the Sonali Bank all over the Bangladesh and one National Bank Branch at Khulna Zonal Office and one Janata Bank Branch at HBFC Building of Dhaka. If borrowers remain regular in making their installment payments no legal action or significant proceedings are required to be adopted. But if the borrowers default in making their installment payments several measures are followed to expedite recovery and make them regular. The procedures or measures are legally available to corporation for enhancing recovery and ensuring its benefits or investment. The procedures of recovery include the following steps in case of defaulters.

- 1. First Call Notice:** First call notice is sent to borrowers requesting them to pay their installments if their consecutive installments become overdue. If consecutive installments become overdue then this notice is sent to borrowers. After sending this notice if the borrowers start payment and the total overdue installments numbered 5 or less than instead of second call notice only a general letter is issued for suggesting and reminding them to continue the installment payment including the dues.
- 2. Second Call Notice:** The second call notice, in prescribed form is circulated / issued if, after circulating the first call notice, the borrower does not start payment and the numbers of overdue installments become 6 or more. After circulating the second call notice only a general letter is issued if overdue collection improves.
- 3. Third Call Notice:** After circulating first and second call notices if no improved response from the borrower is experienced and the total number of overdue

installments stand at 9 then third call notice is circulated. If improvement in overdue payment is experienced then only a general letter is circulated.

4. **Final Call notice:** A final call notice in a prescribed form is circulated if there is no response from the borrower and the total number of overdue installments reach 12 or more.
5. **Personal Contact:** In case of overdue amount the borrowers are personally contacted and the concerned employee maintains records of contact in a register. Analyzing the result of personal contact and the promise of borrowers necessary legal actions are taken.
6. **Legal notice:** A legal notice is circulated if total number of defaulting installments reaches 24 or more and the concerned borrower does not communicate with the office in this regard.
7. **Publication of borrowers' name:** If overdue installments exceed 24 the concerned borrower's name is published in the newspaper for making installment payments. The publication of name is executed before suing the borrower. But such publication of name in newspapers should not be more than once in a year.
8. **Show-Cause notice:** If satisfactory improvement does not happen after circulating legal notice and taking necessary measures, show cause notice under the signature of concerned zonal manager is circulated. But circulation of show-cause notice can be postponed and reasonable time can be extended if the borrower makes 10% payment of overdue amount and promises in writing to pay required installments within a given time.



9. **Final notice:** After issuing show-cause notice if the installment payment does not improve satisfactorily and the borrower does not show any satisfactory tendency to pay the installments, final notice is circulated.
  
10. **Direct Sale Notice:** Direct sale notice under the signature of Managing Director is circulated if the borrower does not communicate or satisfactorily improve payment after circulating show-cause and final notice. At such stage the borrower can be given a reasonable time extension if s/he makes 15% of total overdue amount and promises to pay the balance overdue with a reasonable time given by the authority.
  
11. **Suing:** After analyzing the overdue loan case and considering the situations the borrower is sued with the permission of concerned zonal manager. And according to the verdict or decision of the court the mortgaged building is sold in auction for recovering the dues or total recoverable amount. The excess, (if any) after adjusting the recoverable amount, must be returned to the borrower.

**(p) Source & Uses of Fund**

The main source of its fund is composed of paid up capital provided by Government, Government loan & deposit and fund raised by selling Government.- guaranteed debenture bonds to Bangladesh Bank, Bima Corporation and Nationalized Commercial Banks at bank rate.

Since incorporation the corporation has received Tk.115 crores in total from Government out of this, Tk. 97.29 crores as paid up capital and Tk.17.71 crores as loan and deposit. On the other hand, the corporation raised Tk.1829.61 crores of fund by selling Government guaranteed debentures up to June/ 97. By June/ 97 the corporation repaid Tk.5 crores of

Govt. loan and Tk.132.61 crores of debentures. As a result balance of Government loan and deposit and debentures amounted Tk.12.71 crores and Tk.1697.25 crores respectively by June/97. Corporation is to pay interest on paid up capital @2% to Government.

**Table 4.3: Bank and percent wise Debenture Balance as on 30.06.99  
(Figure in crore Tk.)**

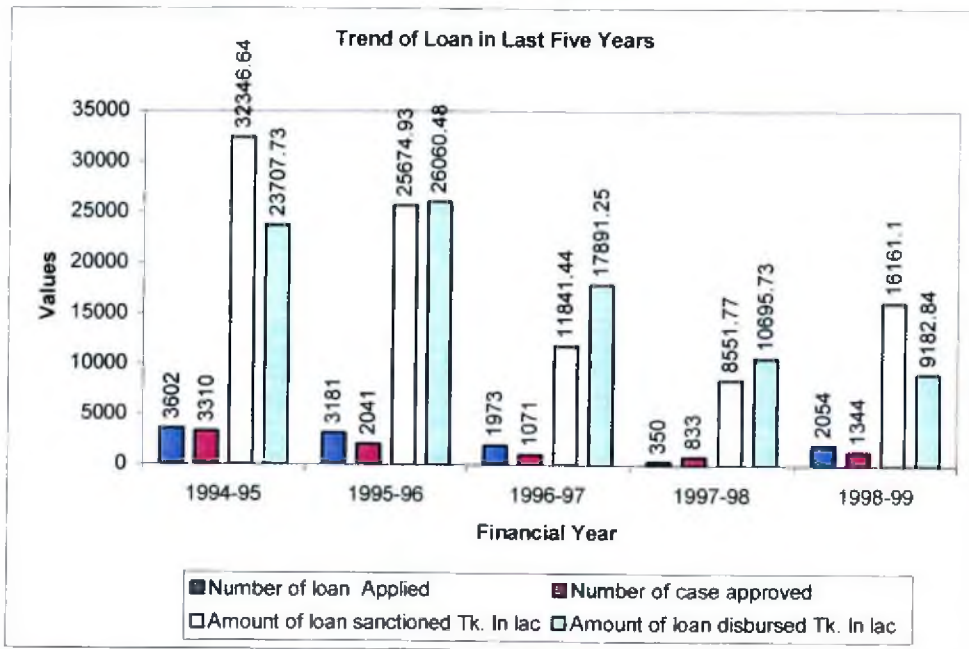
SL No	Name of Bank	Interest rate (%)	Opening on 01.07.98	Payment during the year	Closing Balances 30.06.99
01	Bangladesh Bank	2.75	154.50	-	154.50
02	Bangladesh Bank	3.50	39.50	-	39.50
03	Bangladesh Bank	4.50	716.25	17.90	698.35
04	Bangladesh Bank	6.00	200.00	-	200.00
05	Bangladesh Bank	8.00	50.00	3.33	46.67
06	Agrani Bank	4.5	182.15	-	182.15
07	Agrani Bank	5.50	52.50	3.00	49.50
08	Sonali Bank	4.50	39.75	-	39.75
09	Sonali Bank	5.50	85.00	5.00	80.00
10	Janata Bank	5.50	59.50	3.50	56.00
11	Rupali Bank	5.50	4.25	0.25	4.00
12	Pubali Bank	4.50	8.10	2.10	6.00
13	Pubali Bank	5.50	17.00	1.00	16.00
14	National Bank Ltd.	4.50	4.50	-	4.50
15	National Bank Ltd.	5.50	17.00	1.00	16.00
16	Basic Bank	5.50	4.25	0.25	4.00
17	Uttara Bank Ltd.	5.50	17.00	1.00	16.00
18	Arab BD. Bank	5.50	8.50	0.50	8.00
19	The City Bank Ltd.	5.50	8.50	0.50	8.00
20	Eastern Bank Ltd.	5.50	8.50	0.50	8.00
21	Eastern Bank Ltd.	6.50	9.50	0.50	9.00
22	Muslim Com Bank	5.50	4.25	0.25	4.00
23	UCBL	5.50	8.50	0.50	8.00
24	Prime Bank Ltd.	5.50	9.00	0.50	8.50
25	IFIC Bank Ltd.	6.50	9.50	0.50	9.50
	<b>Total</b>		<b>1717.50</b>	<b>0.50</b>	<b>1675.42</b>

The above table shows that BHBFC procures special type of low cost funds from banking sector, which are not available for its competitors. The rate of interest ranges between 2% to 8%. During May/89 to June/92 the sanctioning of loan was postponed due to shortage of capital and mismatching between interest rate of debenture and interest rate of loan.

Since incorporation the corporation has sanctioned Tk.2355.35 crores against 58.669 loan cases but disbursed Tk.2048.90 crores and canceled Tk.148.09 crores of sanctioned loan.

As a result the amount of undisbursed loan reached Tk122.36 crores. By June/97, the total recoverable loan was Tk.1664.35 and actually recovered Tk1260.87 crores. This results in 75.26% of progressive recovery. This recovery of loan makes another source of fund. The corporation has extended its services for 1,19,063 units of houses since inception.

**Figure 4.1: Trend of loan applied, approved, sanctioned and disbursed in last five years**



Source: Loan Division, BHBFC.

The above table shows that demand of BHBFC loan is decreasing because of incorporation of private sector housing finance companies. Since 1997-98 the demand of BHBFC loan alarmingly declined. DBH, the private sector housing finance company entered the housing finance market with various rewarding proposals.

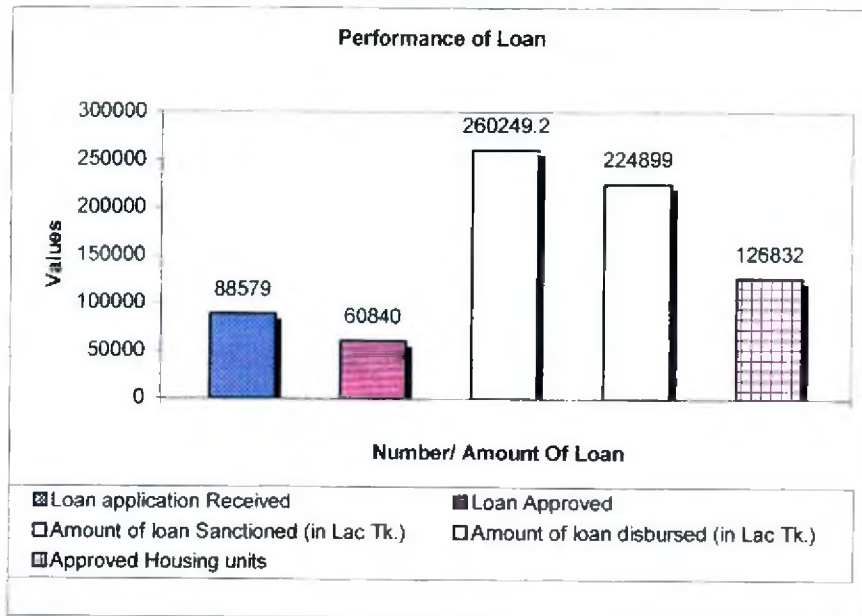
**Table 4.4: Information about Flat loan or Apartment loan**

Financial Year	Number of loan Applied	Number of case approved	Amount of loan sanctioned Tk. In lac	Amount of loan disbursed Tk. In lac
1994-95	64	40	239.39	154.13
1995-96	88	82	533.53	314.47
1996-97	58	53	375.64	324.75
1997-98	158	113	805.25	328.58
1998-99	128	168	1243.29	697.99

Source: Loan Division, BHBFC.

The above table (Table-4.4) indicates the increasing demand of apartment loan. The demand of apartment loan is increasing with the exception of 1996-97, which was marked by political unrest.

**Figure 4.2: Cumulative Performance of BHBFC since Inception (as on 30.06.99)**



Source: Loan Division, BHBFC.

**(q) Financial Performance of HBFC**

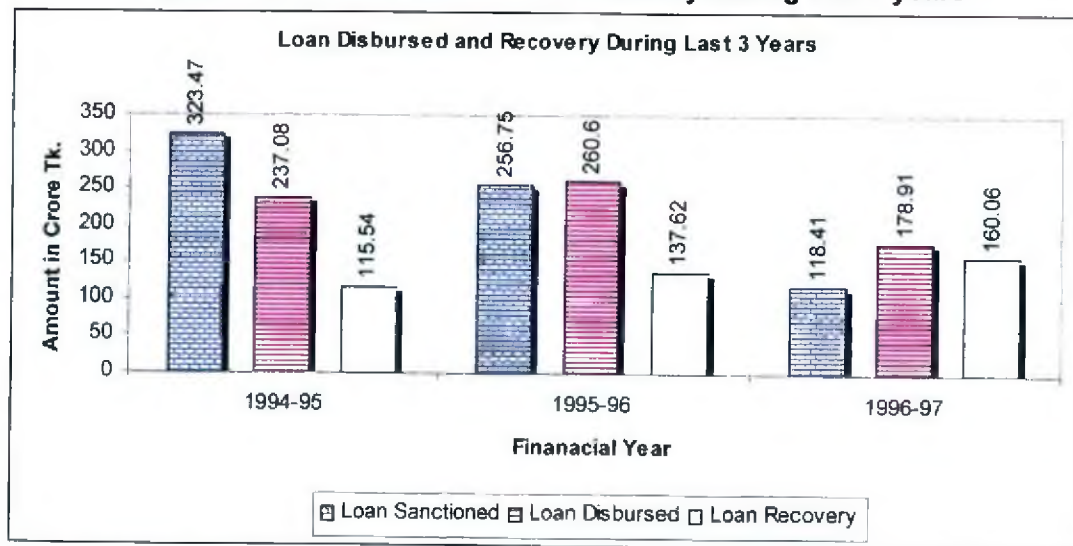
From analytical point of view the financial information has been considered from 1971- 72 financial year. Analyzing all data in terms of trend it was observed that there is a borrowers' rush for obtaining the housing loan. During last 25 years of operation (1971-72to1995-96) number of loan application received was 3367 on average per year and it had a declining trend of 7 applications each year. The sanctioning of loan was 2304 in numbers and Tk. 89.48 crores per year on average. The loan sanctioning had also shown a rising trend of 35 in number of application and Tk. 16.10 crore in each year. Considering the disbursement it was seen that during the period the disbursement was Tk. 74.83 crores per year on average and rose by Tk. 8.57 crores in each year. The number of housing units was 4613 per year on average and it rose by 349 units in each year. From the above analysis it can be inferred that the demand of the corporation's service is much higher than it could

actually deliver. From recovery point of view it can be inferred that the average recoverable amount per year was significantly higher than actually recovered.

The average recoverable amount per year was Tk. 61.46 crores and actual recovery was Tk. 43.78 crores and these rose by Tk. 19.04 crores and Tk.13.42 crores in each year respectively. The average net profit before tax was Tk. 15.89 crores per year. Thus analyzing the overall financial performance of the corporation, it was observed that its net profit before tax and net worth showed a rising tendency.

(r) **Loan disbursed and recovery during last 3 years:** From the 1994-95 to 1996-1997 it was observed that sanctioned loan and disbursed loan amount showed reducing tendency whereas recovery position of loan improved (Figure 4.3).

**Figure-4.3: Loan disbursed and recovery during last 3 years**

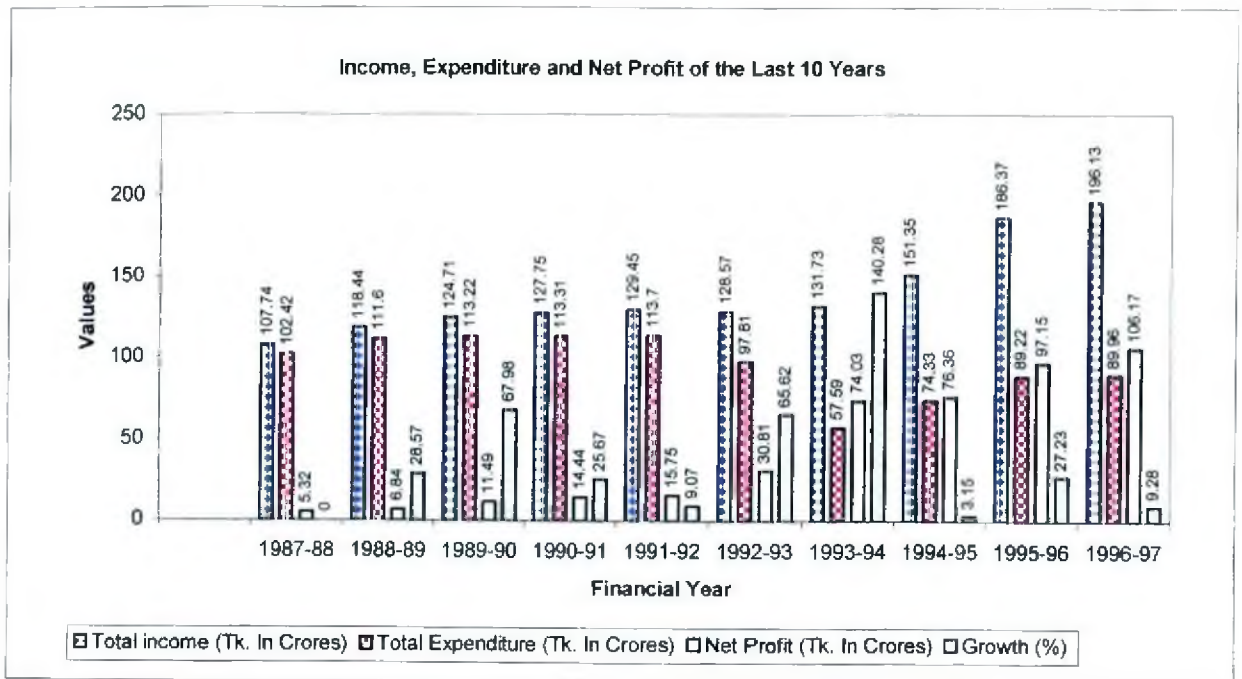


Source: BHBFC.

(s) **Income, Expenditure and Net profit of the Last 10 years (Tk. in crore):**

Profit shows an increasing trend. But the rate of increase is not stable. There is a variation of profit from year to year, which is indicated by growth bar. Reducing trend in the yearly expenditures is a good sign for the organization.

Figure 4.4: Income, Expenditure and Net profit of the Last 10 years (Tk. in crore)



Source: BHBFC

**(t) Services provided to Employees**

Employees of HBFC enjoy the special services provided by the corporation. Corporation, being a specialized financial institution, helps its employees in various ways. The corporation provides special House Building Advance to its employees for purchasing land to construct houses thereon. All the existing employees are also given advances for purchasing motorcycle and bicycle. Interest on all these advances charged at a rate equivalent to bank rate effective from time to time. Employees also enjoy favorable terms and conditions in repaying the housing loan. Thus HBFC provides comparatively better benefits to its employees than other financial institutions. In this way, employees themselves ultimately become able to solve their housing need in a city or a town.

**(u) Problems faced by HBFC**

By observing various aspects and discussion with the BHBFC officials the following problems were found. HBFC, being the only one Government owned housing finance corporation in Bangladesh is facing some problems. These are as follows:

1. There is a huge demand of housing loan but due to lack of Government assistance it cannot raise fund to meet up the demand.
2. Mismatching of Government determined interest rate on loan and borrowing rate sometimes create problems to the corporation in providing loans.
3. Tendency of people not to repay the loan in the sense that the Government will ultimately exempt the loan or interest.
4. Inefficiency of management in managing assets on commercial basis.
5. High red tapism in management.
6. Delay in taking legal decision to realize its investment through selling the mortgaged property.

(v) **SWOT Analysis of the Corporation**

**SWOT** stands for **Strengths, Weaknesses, Opportunities and Threats.**

1. Each item of **SWOT** has been discussed in details:

**Strengths:**

◆ **Exceptional sources of Fund:** The Corporation has unique sources of fund that are not available to other financial institutions. It raises fund by selling Govt. guaranteed bonds to Bangladesh Bank, Bima Corporation and Commercial Banks. The system of raising fund results in lower cost of capital. No significant competitor is present in the market.

◆ **Past goodwill:** Corporation has goodwill in this field. People know it as a specialized financial institution.

◆ **Better lending criteria:** Its Lending Risk Analysis (LRA) is unique in the country. Investments are secured by mortgage or hypothecation of movable or immovable property. Thus defaulting borrowers hardly exist.

◆ **Competitors are not available:** Competitors of HBFC are not significantly available in the market. Over longer period of time it has been the leader in the market.

### Weaknesses:

◆ **Highly Bureaucratic Management:** Management vests with the Government frequently transfers the CEO, and thus hinders continuity in management policies. Bureaucrats having less skill in business management lead the organization in terms of the decision taken by the lower level employees. Proactive decisions are not taken formally.

◆ **Traditional Management:** Management and office equipment are very much traditional. Top level management takes decisions. So, lower level executives have no opportunity to participate in decision making.

◆ **Weak legal Framework:** Prevailing legal framework for safeguarding the investment of HBFC is very weak which hampers collection of dues or recovery of loan.

◆ **Shortage of Fund:** Fund shortage is a major weakness and this is creating difficulty in extending its services and continuing its operation.

### Potential Opportunities:

◆ **Additional borrowers' group:** Day-by-day borrowers' are being added to its existing one. Businessmen and wage earners are showing much interest in buying flats with the financing assistance of HBFC instead of constructing building on their own.

◆ **Favorable Demographic Change:** Demographic characteristics of people are undergoing rapid change. Family size turns out to be very small. This creates demand on small well-decorated houses. This concept leads to the idea of lower cost apartments.

### Threats:

◆ **Vulnerability to recession and business cycle:** Housing finance is a long-term investment and thus economic recession may lead to low recovery and less demand of housing loan. The typical housing finance will be saturated in near future because price of land is increasing rapidly and construction cost is also rising upward. Besides, value of time of people may create less interest in construction of houses. All these may terminate the business cycle of the existing system of housing finance.

◆ **Changing borrower needs & taste:** Borrowers need and taste are subject to changes. They may go to private companies for better services and easy loan formalities like better services, easy loan granting process. There is a possibility of entry of lower cost foreign competitors (Singapore, S. Korea: as significant number of competitors is absent in this sector).

◆ **Entry of new real estate leasing and financing companies:** New real estate leasing and financing companies have already launched their operation. Expansion of their opportunities may squeeze the market of the corporation.

◆ **Growing bargaining power of the borrowers' forum:** A forum in the name of House Building loan borrowers' welfare association is actively bargaining for taking the benefits in their favor. Such exclusive grouping of borrowers may act as a threat.



◆ **Rising land prices and construction cost:** Rising land prices and construction cost will hinder the loanees / borrowers to get loan for the purpose of constructing dwelling houses.

**SWOT Analysis** in an abridged form is presented below:

<p><b>Strengths</b>                  Exceptional source of fund                  Past goodwill                  Entry into new market                  Better lending criteria                  Competitors are not present</p>	<p><b>Opportunity</b>                  Additional borrowers group                  Entering new market                  Favorable demographic change                  Launching new product</p>
<p><b>Weaknesses</b>                  Highly bureaucratic Management                  Traditional Management                  Weak legal framework                  Shortage of Fund</p>	<p><b>Threats</b>                  Vulnerability to recession and business cycle                  Changing borrowers' needs and taste                  Entry of lower cost foreign competitors (S. pore, S. Korea)                  Entry of new real estate leasing and power of the borrowers' forum                  Rising land price and construction cost</p>

#### 4.4.2 Nationalized Commercial Banks (NCBs)

Commercial Bank loans for housing in Bangladesh, unlike their counterparts in developed countries, have played a relatively minor role in providing housing finance in the country. This does not appear to be the result of either the legislative restrictions on such advance or the long-term of these loans. These difficulties, particularly the legal technicalities connected with title and valuation of property etc. in accepting immovable property as security and, further, in realizing the amount lent in cases of default have discouraged commercial banks from advancing money in mortgage of real estate in specializing in housing finance. Besides, banks usually view housing loans as unproductive and inflationary. Thus granting of housing loan has not been recognized as a legitimate activity of commercial banking in Bangladesh.

NCBs take a significant role on housing credit. As urban population increased doubled from 1985 to 1995, so the high demand of housing credit in seen during this time. But only

BHBFC did not meet the tremendous demand of housing loan in urban areas. For this, NCBs slightly increased the disbursement of housing credit in this situation. The total disbursement of housing loan by NCBs from 1985 to December 1995 was Tk. 3436.86 crore which was 50.24% of the total institutional housing loan.

#### **4.4.3 Delta Brac Housing Finance Corporation Ltd. (DBH)**

Delta Brac Housing Finance Corporation Ltd. is the first private housing finance company in Bangladesh. DBH was incorporated on May 11, 1996 as a non-banking financial institution. DBH received sanction from Bangladesh Bank to start business on July 15, 1996. Industrial Promotion and Development Company of Bangladesh Ltd. (IPDC) initiated a study in 1989 and brought in both International Finance Corporation (IFC) and Housing Development Finance Corporation (HDFC) of India on board; but the project came to a stand still position in 1992. In 1993 the Government legislated Financial Institutions Act providing the legal basis for setting up non-banking financial institutions. The introduction of the National Housing Policy 1993 also creates better investment climate and the government calls for more private sector involvement in development activities. Delta Life Insurance Company (DLIC) started working on the project in early 1995 and BRAC, GDIC, IFC and HDFC joined the venture.

Provision of people's basic need of shelter and ecologically sound habitation centres is the prime objectives of Delta Brac Housing Finance Corporation. This is a vast undertaking in a poor disaster prone country and DBH intends to make whatever small contribution it can make to furthering this objective. DBH is committed to financing housing of all types with special emphasis on financing housing for middle and low-income group.

DBH started its operation in Dhaka where the housing crisis is most acute and then moved on to other urban and rural areas. DBH also cooperates with property development

organization and NGOs involved in housing. DBH assists in housing and habitation planning, research and development.

DBH went into operation in December 1996. Since inception DBH approved more than 1511 loan cases (Date-02.08.2000). Initially DBH's business policy is that it will provide loans to corporate executives under guarantee from respective corporation so that in case the employees fails, the corporation will repay the loan out of his/her retirement benefits. DBH will also seek undertaking from the employers under that the respective employers will make the monthly loan repayment out of the respective employees' monthly salaries and rents. The essence of the policy is to secure the loan and to prevent default altogether. Another objective of the policy is to enable young and middle aged executives to own a house in their early life and to fully settle the loan before or at the end of retirement.

#### A. Overview of the organization

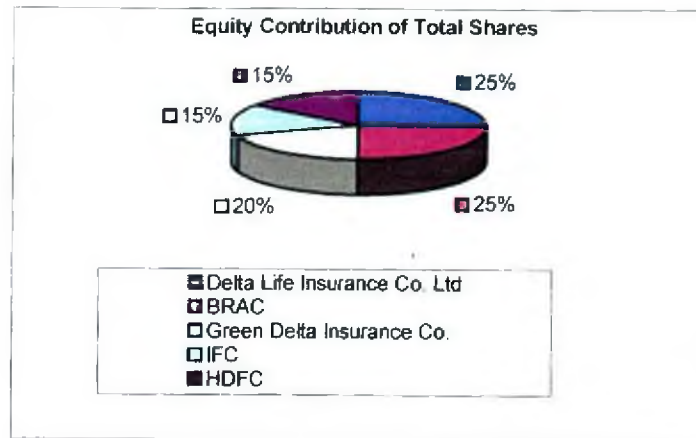
##### Share holders:

Authorized share capital: Tk. 500000000 consisting 5000000 shares @ Tk. 100 each of which Tk.200 million is paid up. Present shareholders of the company are shown below:

Table 4.5: DBH Shareholders Details

Shareholders' Name	Equity Contribution (Tk. in million )
Delta Life Insurance Co. Ltd	50.00
BRAC	50.00
Green Delta Insurance Co.	40.00
IFC	30.00
HDFC	30.00
Total	200.00

**Figure 4.5: Distribution of DBH shareholders**



Further share capital of the company will be raised through issuance of right share and through offering to the public.

**B. Profile of the shareholders**

**i) Delta Life Insurance Company Limited (DLICL)**

DLICL was set up in 1986 as a life insurance company when the insurance sector was opened up by the Government for private sector investment as part of its overall policy of privatization of the financial sector. Over the years DLICL has developed as one of the largest life insurance companies in Bangladesh in the private sector and has earned a countrywide reputation for professional expertise and personalised services. Mr Safat Ahmed Choudhury is the Managing Director of the company, who is an Actuary and widely reputed insurance expert of the country, having more than three decades of experience in management of insurance business. The company made a public offering of 1,50,000 ordinary shares of Tk. 100 par value which was oversubscribed by 30 times. DLICL has grown up rapidly since the commencement of its business in 1986 and in 1994 earned a premium income of Tk. 232.8 million as against a modest Tk. 35.7 million in 1989. DLICL has built up an accumulated life fund of over Tk.130 million. Apart from individual ordinary

insurance and group schemes the company introduced innovative schemes for low and middle class families living in rural and urban areas.

**ii) Green Delta Insurance Company Limited (GDICL)**

GDICL was incorporated in December 1985 as a public limited company and went into operation in January 1986 as a general insurance company. It is engaged in the business of all types of insurance other than life. It also provides underwriting of share services and has progressively diversified its investment portfolio towards shares and debentures listed in the Dhaka Stock Exchange. GDICL operates through branches all over Bangladesh. It has achieved consistent growth in business over the past years. GDICL is regarded as one of the most successful and professionally run general insurance companies in the private sector in Bangladesh. Mr. Safat Ahmed Choudhury is the Chairman of the company.

**iii) Bangladesh Rural Advancement Committee (BRAC)**

BRAC was set up in 1972 by Mr. Fazle Hassan Abed immediately after the liberation of Bangladesh to rehabilitate the refugees in Sylhet district in north- eastern Bangladesh. BRAC organized relief and rehabilitation efforts for war victims whose means of livelihood were destroyed. Over the years BRAC has expanded its activities and has now become the largest local NGO working in Bangladesh. Today there are 12,000 full time staff, 27,500 part-time teachers and health workers working in BRAC. Major programs of BRAC are as follows:

- **Rural development Program** involves development of village organizations of the poor, credit disbursement and facilitation of savings habit. It covers 35,961 villages with a membership of 1.96 million and has so far disbursed loans amounting to more than Tk. 2,138 million.

- **Non-Formal Primary Education Program** for the children of the disadvantaged rural people. It operates about 28,274 schools in 16,946 villages.
- Health and Population Program addresses the health and nutritional status of women and children. It covers a population of 13.8 million in 12056 villages.
- Rural housing loan program started in 1987 for the target areas for upgrading, renewal/ extension of an existing shelter. Current rate of interest on housing loans is 10 percent per annum, the repayment period is three years and the maximum amount of any loan is Tk. 6,000<sup>57</sup>. Between 1987 and May31, 1993 some Tk. 95 million was disbursed to 19,986 borrowers with an average loan amount of approximately Tk.4,700.
- Urban housing Program was started by BRAC recently with Concord a large real estate company., They jointly started a land project at outskirts of Dhaka city in Demra Thana.
- Recently BRAC established a commercial bank named BRAC bank.

In order to attain self-reliance, BRAC has set up its own revenue generating enterprises, such as printing press, cold storage, garment factories and retail shop (Arong).

Its sources of fund presently consist of:

- 1) Contribution from donors,
- 2) Loan from the Government and banks, and
- 3) Project income.

The governing body of BRAC includes eminent personalities of the country with Mr. F. H. Abed as the Executive Director. Mr. Abed was awarded the prestigious Ramon Magsaysay award some years ago for his contribution to the society.

#### **iv) Housing Development Finance Corporation Limited (HDFC)**

HDFC was set up in 1977 as a financial institution and was promoted jointly by the Industrial Credit and Investment Corporation of India (ICICI), International Finance

Corporation (IFC) Washington, and His Royal Highness the Aga Khan. HDFC has pioneered long-term housing finance schemes in India and is regarded as one of the most successful commercially run private sector mortgage finance companies in the third world.

The following Table No-4.6 shows the operational highlights of HDFC for last 5 years<sup>58</sup>:

**Table 4.6: Operational Highlights**

Particulars	1993-94	1994-95	1995-96	1996- 97	1997- 98	Cumulative
Loan Approvals (Rs.in Crore )	1024.77	1494.55	2071.46	2521.70	3251.27	14837.88
Loan Disbursements (Rs. In crores)	889.07	1211.66	1683.55	2100.78	2763.61	12232.99
Loan to Housing sector (Rs. In crores) Yearly cumulative	11275.47	15137.77	19928.88	262.7.51	32701.05	N/A

By 1994 HDFC sanctioned loans aggregating over IRS 55,000 million and financed more than 5,50,000 families to acquire their own homes. The total disbursement was IRS 44,840 million and the value of assets created in housing sector crossed IRS 1,12,750 million spread over nearly 2,100 towns and cities throughout India. HDFC has four regional and twenty six branches spread all over the country. The share of IRS 100 each of HDFC was quoted on Bombay Stock Exchange at over IRS 600 in 1994. HDFC mobilizes its funds from domestic as well as international sources including international capital market. Besides, HDFC also mobilizes funds under various schemes devised by it.

#### Technical assistance from HDFC

HDFC being a very successful housing finance company in this region, is expected to provide technical assistance and operational support to DBH. This could be in phases as broadly set out below:

<sup>57</sup> Housing Sector Institutional strengthening Project, ADB TA No-1670 BAN by Halcrow Fox and BCL, main report, pp-5.32

<sup>58</sup> Annual Report HDFC, 1997-1998.

- 1) Help in designing long-term corporate strategies, policies and procedures.
- 2) Help in designing and developing an appropriate resource mobilisation strategy including instruments for deposits, savings and loan instruments, bonds etc.
- 3) Help in designing new product.
- 4) Help in designing and developing an appropriate accounting system, which would provide the necessary management information system (MIS) as well as statutory accounts.
- 5) Help in developing an appropriate computerized processing system with the necessary software.
- 6) Help in developing an appropriate organization structure and the necessary training programs of staff at all levels.

#### **v) International Finance Corporation (IFC)**

IFC is the Investment wing of the World Bank. It has financed industrial projects all over the world. The capital market division of IFC has played an active role in the setting up of various types of financing companies, merchant banks, leasing companies and discount houses in various countries of the world. In Bangladesh, IFC played an important role in the setting up of IPDC and IDLC apart from a number of industrial projects. IFC is one of the promoters of HDFC, India and has played a key role in setting up of Housing Finance Company in the private sector in Pakistan.

#### **C. Investment policy of DBH**

DBH provides loans for purchase, construction, improvement and extension of private dwelling units. DBH concentrates on individual loan for an individual unit, which is primarily based on repayment capacity, technical soundness, compliance of RAJUK plan and legal



soundness and non-encumbrance of the property. There must be an adequate cash flow to pay all operational costs to service all debt and to provide the owners an adequate return of their investments.

The company shall focus on big corporate employees because they have sufficient amount of guaranteed income out of which monthly loan installment can be repaid. The company would like to seek guarantee from big corporation in order to ensure that the individual employee's monthly salary and rental income of purchased apartment equivalent to monthly loan installments payable to DBH will be deducted at source and credited to DBH's account. DBH also would like to provide a line of credit facility to Individual Corporation for its employees. Besides, DBH also intends to enable other middle and upper middle class people to enable other middle and upper middle class people to afford low cost housing in Dhaka City.

DBH encourages purchase of flat and already built homes because construction involves lengthy disbursement and frequent supervision of project, which is costly, problematic, and to some extent risky.

DBH has been financing houses of Dhaka City dwellers. Although the ratio and amount of loan may vary, DBH maintains a ratio of at best 80 percent debt to 20 percent equity in order to keep the borrowers' stake in the house.

In order to ensure a balanced portfolio and to minimize risk, the company shall not finance more than 60 percent of the total number of flats in any apartment building. The company also ensures every individual loanee against fire, earthquake, flood and cyclone. In implementation of the projects, the company supervises them at reasonable interval,

establishes sufficient reserves for potential default and takes preventive measures to minimize default as much as possible.

**D. Security of DBH's Loan**

Equitable mortgage of the dwelling unit is to be financed or any other security acceptable to DBH. No stamp duty or registration charges are payable.

**E. Loan amount**

Taka four million or 70% of the purchase price or 80% of the construction costs/ extension cost / improvement cost, whichever is lower, is subject to repayment capacity.

**F. Loan period**

Up to 15 years subject to age of retirement or reaching 65 years of age, whichever is earlier?

**G. Current rate of interest**

Up to 2 lac ..... 15.25%

Above 2 lac ..... 15.75%

Interest is calculated in annual rates. The rate may vary at any time in response to changes in money market.

## H. Loan Repayment:

Loan repayment is to be made by Equated Monthly Installment (EMIs) comprising principal and interest. The following Table 4.7 shows the EMI for a loan of Tk.1lakh.

**Tab : 4.7: Equated Monthly Installments (EMI) for a loan of Tk. 1,00,000**

Terms of loan (years)	EMI at 15.25%	EMI at 15.75%
15	Tk 1443	Tk. 1478
12	1554	1587
10	1677	1709
7	2019	2049
5	2501	2531

## I. Loan Eligibility

Repayment capacity taking into consideration factors such as income, assets, liabilities, stability and continuity of occupation and savings history will help in deciding the eligibility of loan.

## J. Loan Application

Application form is available at DBH office to be filled up and submitted along with supporting documents. For salaried person income proving documents such as salary certificate / pay slip etc. and for self employed person tax paper/ audited accounts of the business etc. are required for preliminary assessment.

## K. Loan fees payable

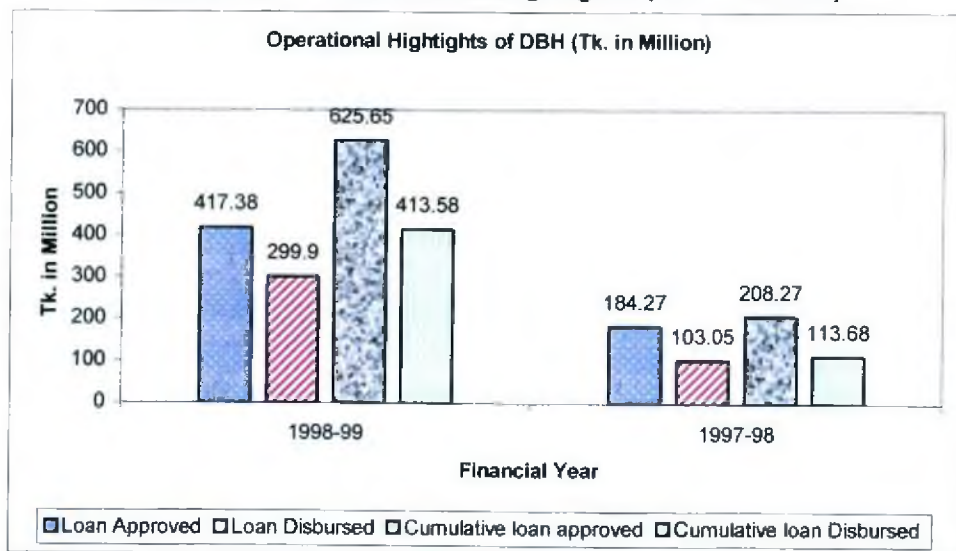
An application fee of 0.8% of the loan applied for at the time of application and 1% of the loan sanctioned on acceptance of the loan offer.

**L. Advantages of DBH loan**

- Interest paid to DBH can be set off against the rental income thus savings on income Taxes
- For mortgage no registration is required
- No commitment charges
- Prepayment without any charges, interest or penalties
- Property selection advice

**M. Performance of DBH:** The performance of DBH loan is depicted in Figure-4.6 and Table 4.8.

**Figure 4.6: Operational Highlights (Tk. In million)**



Loan approval during the year 1998-99 was Tk.417.38 million as compared to Tk. 184.27 million in the previous year representing a growth of 126%. Disbursement during the year 1998-99 was Tk. 299.90 million against Tk. 103.05 million in the previous year. Cumulative approvals and disbursements of DBH as on June 30, 1999 were Tk. 626 million and Tk. 414 million respectively.

Table 4.8: Year Wise Summary, Date: 02.08.2000 (Amount Taka in million Taka)

Year	Received		Closed & Rejected		Under Process		Sanctioned			Cancelled		Net Sanctioned		Disbursed	
	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1997-1998	274	287	52	93			206	184	0.89	20	20	186	164	125	103
1998-1999	477	506.9	37	64			405	402.8	0.99	24	20	361	383	331	300
1999-2000	885	789.8	76	88.4	36	37.15	817	712.5	0.87	42	34.1	775	678	646	533
2000-2001	93	88.23	3	1.51	59	54.86	59	48	0.81	1	0.5	58	47.5	42	34.6
Total	1729	1672	170	247	95	92.01	1487	1347	0.91	87	74.6	1400	1273		970
	1801	1764	194	288	95	92.01	1511	1371	0.91	87	74.6	1424	1297		981

2 = No.

6 = No.

10 = Average

14 = Amount

3 = Amount

7 = Amount

11 = No.

15 = No.

4 = No.

8 = No.

12 = Amount

16 = Amount

5 = Amount

9 = Amount

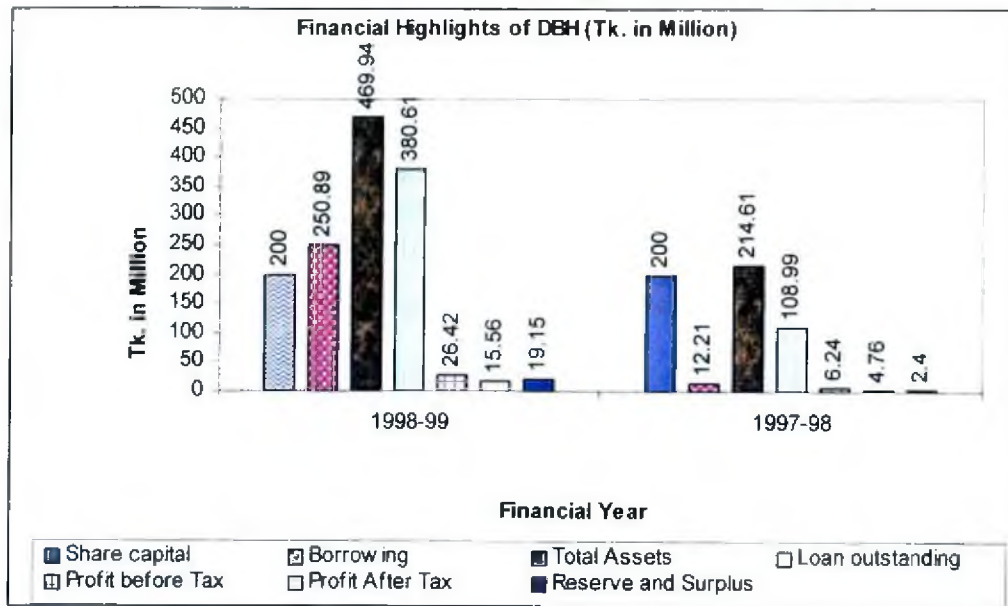
13 = No.

#### N. Repayment and non-performing loans

During the year 1998-99 under review, Tk. 28.30 million was received by way of repayment of principal on loans through monthly installments and redemption ahead of schedule, as compared to Tk. 4.70 million received last year. The Company did not have any non-performing loans i.e. loan installments overdue for more than 6 months, as on June 30, 1999.

#### O. Term loans Deposits

During the year 1998-99 DBH obtained sanction of term loan of Tk. 250 million from commercial banks. Out of which DBH availed itself of Tk. 60 million and the balance was utilized in the next year. DBH also started Deposits scheme on limited scale and raised Tk191 million

**Figure 4.7: Financial Highlights (Tk. In million)**

The company earned pre-tax profit of Tk. 2,64,18,536 during the year 1998-99 compared to Tk. 62,39,880 in 1997-98, an increase of 323%. Out of which, provision for taxation has been made for Tk. 1,08,58,820.

#### **P. Loan case processing**

As soon as the application for loan is scrutinized by the dealing officer to be acceptable, it is sent to the Legal Advisor for his opinion. The Legal Consultant deals with the case expeditiously and expresses his opinion in the following format.

##### **Step-1**

He lists the legal documents received and examined by him. He indicates the defects noticed by him as well as measures to rectify them. He also indicates if additional information is necessary and identifies the information required. He gives a clear opinion as to whether the application is acceptable. He also gives a clear opinion in case the application cannot be considered at all.

When the Legal Consultant raises the question of additional information or responses to queries, the dealing officer ensures that all the queries are met and information received. He then directs the case back to the Legal Consultant for scrutiny of the responses and documents submitted. The Legal Consultant furnishes further opinion in such a case.

Once the Legal Advisor gives a clear opinion that the legal papers are in order and can create security in favour of DBH, dealing officer sends the application and engineering details to the Engineering Firm for the opinion.

If the Legal Advisor gives the opinion that the application cannot be considered at all, dealing officer informs the applicant and stops further processing.

## **Step – 2**

There are three kinds of engineering scrutiny of loan applications. First of all, in the case of apartment complex: scrutiny of the complex as a whole. Second: scrutiny of construction project. Third in case of construction project there are field inspections for release of installments of loan.

In respect of every application Engineering Consultant examines the following points.

- Soil test report;
- Structural Design;
- Observance of building code or rules of approving authorities, e.g. RAJUK, Cooperative Society.
- In case of built/ready apartment, construction performance and in case of construction project arrangement for project execution i.e. how well has been the construction work is commented upon. What arrangement for supervision of construction has been made is examined.
- In case of built/ready apartment comments on finishing features of the unit or the complex is given.

- In case of construction project the stage of civil works is indicated. For example it is seen as to whether the access road has been built, foundation work has been commenced and other mobilization has been made. An estimate is given of the percentage of works done for the project.
- An estimate of unit cost of construction is provided.
- In case of construction a schedule of works is prepared and requirement for the disbursement of loan installments is prescribed. This schedule will form part of the sanction letter/ mortgage deed.
- He suggests the probable rent of the dwelling.

### **Step – 3**

#### **1. Income Estimate**

In order to determine the credit worthiness of a borrower, an assessment is made of his current income and expenditure as well as his liabilities including the level of monthly normal expenditure. This judgement is necessary to offer the applicant any loan and then to determine the amount of loan.

For salaried employees the capacity of a person is based on his salary income. It is easy to establish the level and such a level is usually reliable as a regular source of income. It is also easy to project possible promotions and future salary levels.

For self- employed person such an indication can be provided by tax assessment for a period of three years. Claims unsupported by tax statement are not relied upon.

The income thus estimated is added to the position in respect of savings. Savings can be in terms of real estate holdings, savings in banks, holding of public savings instruments, stocks and shares or even consumer durables. Real Estate is evaluated at current market price. Consumer durables are valued at depreciated market price. Stocks and shares in



share market will continue to be volatile for some time to come. They are valued at 60% of the average market price of a period of six months.

If a unit is being purchased or built for the purpose of renting it, the possible rental income is estimated and this will be additional income of the borrower.

## **2. Guarantor's Role**

In order to augment such an assessment of income, the income of the guarantor is looked into. When the guarantor is a blood relation with claims of succession, it is given special consideration.

## **3. Expenditure Estimate**

Once income level is fixed, the next exercise is to estimate expenditure level taking into consideration all liabilities as well as monthly consumption needs. The size of the family, the demand for educational or health expenses, the consumption habit as revealed by possession of consumer durable and other elements are scrutinized. Monthly expenditure level has a relationship with income, the higher the income the lower expenditure is likely to be in proportion of the total income. In determining consumption level and habits, the propensity to save is specially noted. There may be cases where regular savings in some form or other is made. Expenditure on rent is high in Dhaka and if the project involves substitution of rent, it is also given high weightage.

## **4. Credit Record**

Individuals who already have credit records are examined on their record. Do they repay their dues properly? Information on them is checked with credit bureau of Bangladesh Bank.

## 5. Loan Amount

In order to determine the loan amount to be given, there are two considerations. First, what is the requirement of fund to acquire or build the housing unit? A cost estimate is made which is based essentially on engineer's report. Then it is examined as to how the project will be financed in full. DBH finances a maximum of 80% of the estimated construction cost.

Next a decision on DBH's own level of exposure is made. This is the second consideration: how much the DBH's exposure should depends on two factors:

- One, how much the borrower can pay per month and
- Two, whether the loan will complete the project

It should be possible for a borrower to pay 65% of his income for housing loan repayment, if he is renting accommodation for himself.

## 6. Secondary Consideration

When the repayment capacity according to proven income does not come up to the mark, consideration is given to secondary sources of income like tuition income of a teacher or undeclared income from small business. Taking into such income the repayment liability may be fixed at nearly 80 to 90 percent of the total income of an applicant.

Another item to consider in such a case is the exposure of DBH in the enterprise. When a borrower is putting up substantial amount from his own resources, say up to 75%, he will not normally default on a small loan taken to top up the deal.

#### **Step – 4**

Once the loan proposal is approved and borrower has accepted the conditions stipulated in the sanction letter, the dealing officer goes ahead with preparation of various loan documents like letter of Agreement, Irrevocable Power of Attorney, Declaration of Deposit of Title Deeds, Deed of Mortgage, Affidavit and other necessary documents. Whenever there is any confusion legal Advisor is consulted.

After the disbursement, dealing officer keeps track of the installment payment of the borrower and takes necessary action whenever required.

#### **Q. Corporate Culture**

There is a friendly working environment in DBH. Both authority and responsibility is delegated to everyone. There is no imposition of work from superior. Everybody takes initiative and feels responsible for his work. As a result, there is a strong group cohesiveness and commitment towards the company goal.

The company's policy is that it will always recruit fresh graduates, as executives from universities, be they either MBA or other commerce graduates or Engineers. These executives will grow up with the company.

The company is committed to providing prompt and quality service as it is run by highly qualified and dynamic executives.

As there is a huge default culture in the country, DBH will pursue a very conservative investment policy.

## **R. SWOT Analysis**

### **Strengths:**

The biggest strength of DBH is that it is the pioneer housing finance company in the private sector. It is trying to create reputation and build up confidence in the minds of people very easily and within a short time.

Being the pioneer company it could avail itself of the corporate guarantee against loans for their employees, thereby enabling the company to have a big client base and a very sound market share before any other company could enter the industry.

Promptness in discharging client services is a point of strength. A maximum of one month is taken to process a loan application.

DBH is a professionally managed organization with a board of directors consisting of top executives of the sponsoring companies. The Chief Executive Officer (CEO) of the company is an expert in finance. He is the ex-Finance Minister and Finance Secretary of the Govt. of Bangladesh. Besides, the executives of the company are all MBAs with good academic background and strong analytical skill. All these are expected to redound to efficient and prompt services to clients.

The company is a consortium of local and foreign sponsors. The local sponsors are Delta Life Insurance (DLICL) Company, Green Delta Insurance Company and BRAC. The foreign sponsors are – IFC of World Bank and Housing Development Finance Corporation of India. In Addition to equity participation, HDFC will impart training to DBH” officials and provide

them with technical assistance. All these will make DBH a technically and financially sound organization.

**Weaknesses:**

In the face of a huge default culture, DBH follows a conservative policy in sanctioning loans. Most of the pieces of land are very small and the owners try to utilize the whole land without leaving much space around as per RAJUK plan. Consequently, the loan applications of these landowners can't be accommodated as DBH follows the regulations of RAJUK very strictly.

Since it has started with a small amount of capital and is pursuing a conservative policy, its objective is to primarily concentrate on financing dwellings of salaried employees of big corporations in the first two years of operation.

In ascertaining the credit – worthiness of an applicant, DBH emphasizes upon his/ her income tax return. Since most of the businessmen do not disclose their accurate income in the tax return just to evade tax, their true income can't be assessed to support EMI (even though they are genuine), which renders their application rejected.

**Opportunities:**

It is the pioneer private sector mortgage finance company. It has so far no competitor in the long-term mortgage finance except HBFC and recently established National Housing Finance and Investment Ltd.

There is a huge potential demand of house building finance. Only 5% of the total houses are built through institutional credit and the rest 95% are financed through personal

resources. In Dhaka City, nearly 20,000 houses are being built every year. From the statistics of HBFC it is found that the average amount of each loan sanctioned is around 1 million. If only 1% of these owners could be provided with this average figure of loan amount it would amount to Taka 20 crores, which is a huge amount for DBH.

It has potential opportunities for expanding its business in other areas, namely,

Deposit facilities- Individual Deposits, Trust Deposits, Corporate Deposits etc.

Loan for purchase of property.

Group loan for construction of residential building.

Bridge financing for purchase / construction and sale of building.

Property valuations

Home furnishing loans

Property Development

Facilities to Developers

Short term construction finance

Financial guarantees

Advanced Processing Facilities

#### **Threats:**

- Many have already established financing and leasing companies and also new companies are coming in the finance industry.
- Funds are getting costlier and if bank rate keeps on rising, demand for loan may be reduced.
- There is acute land shortage in the country and the high cost of land development in a low altitude flat terrain.
- There is serious problem with records of land holding rights.
- There are the problems with housing regulations, particularly in Dhaka.

- Indigenous construction materials are in short supply and the reliance on imports turns out to be expensive.
- There is problem with construction technology where low cost housing is a rarity.
- Finally, a controversial issue is the norm for housing, which does not give priority to affordability; the expectations or sights are too high. A related problem is the low rate of savings in the economy, which hinders housing investment. This is not only a function of low level of per capita income but also the weakness of financial intermediation. For low income housing both concessional finance and implementation mechanism are absent.

#### **4.4.4 National Housing Finance and Investments Limited (NHFIL)**

##### **4.4.4.1 Introduction**

The initiative to set up the Company came from Mr. Rezaur Rahman, Chairman Shaw Wallace Bangladesh limited, who was joined by like-minded people to create this unique institution to operate on the model of Building Societies in UK. The Company was registered under the Companies Act 1994 in August 1998 when it also received the Certificate of Commencement of business from the Registrar of Joint stock Companies. The Bangladesh Bank issued licence under the Financial Institution Act 1993 in December 1998 and released the subscription deposit money in February 1999. After initial staff recruitment and putting the basic system and procedures in place, the company made its first loan disbursement in June 1999 in favour of a non-resident Bangladeshi couple.

##### **4.4.4.2 Objectives of the Company**

Following are the basic objectives of NHFIL:

###### **a) Core activities relating to home finance**

- 1) To grant loan for the purpose of acquisition of land, purchase or construction of building for industrial, commercial, residential units

- 2) To provide for the purpose of extension or improvement of existing commercial, residential units
- 3) To provide financing for companies, institutions or other corporate bodies for on-lending to their employees or any other housing programs implemented by such companies, institutions, and corporate bodies
- 4) To promote directly or by sponsoring subsidiary units, property development covering land acquisition, sites and service development, habitation planning and housing development

**b) Activity relating to Investment:**

- 1) To issue all types of mutual funds, manage assets, portfolios as debenture trustees, and generally perform merchant banking functions
- 2) To carry on the business of an investment company and take part in the formation, management, supervision or control of business or operation of any industrial, commercial, or financial undertakings
- 3) To take over or acquire the business including the capital assets and liabilities of any business concern within or outside Bangladesh

**4.4.4.3 Capital and Shareholders of National Housing Finance and Investments Ltd.**

National Housing is a unique savings and loan institution. It is promoted with a subscribed capital of Tk. 400 million by a consortium of 18 corporate entities including 7 insurance companies, 4 banks, and 2 non-resident Bangladeshi overseas investors' forums. National Housing is engaged in the core business of promoting savings and home ownership in Bangladesh.

National Housing's solid foundation is reflected in the distinguished shareholders as listed below:

**Banks (20%)**



Arab Bangladesh Bank Ltd. (5%)

IFIC Bank Ltd. (5%)

National Bank Ltd. (5%)

United Commercial Bank Ltd. (5%)

**Insurance Companies (35%)**

Eastern Insurance Co. Ltd. (5%)

Eastland Insurance Company Ltd. (5%)

Jiban Bima Corporation. (5%)

National Life Insurance Co. Ltd. (5%)

Progati Insurance Ltd. (5%)

Reliance Insurance Ltd. (5%)

Sadharan Bima Corporation. (5%)

**Development Finance Company (5%)**

Industrial Promotion and Development Company of Bangladesh Ltd.(IPDC ) .(5%)

**Local Corporate /Business Groups (30%)**

Bangladesh Lamps Limited (5%)

Borak Travels (Pvt.) Limited (5%).

HRC Bangladesh Limited (5%).

Shaw Wallace Bangladesh Limited (5%).

Square Pharmaceutical Limited (5%).

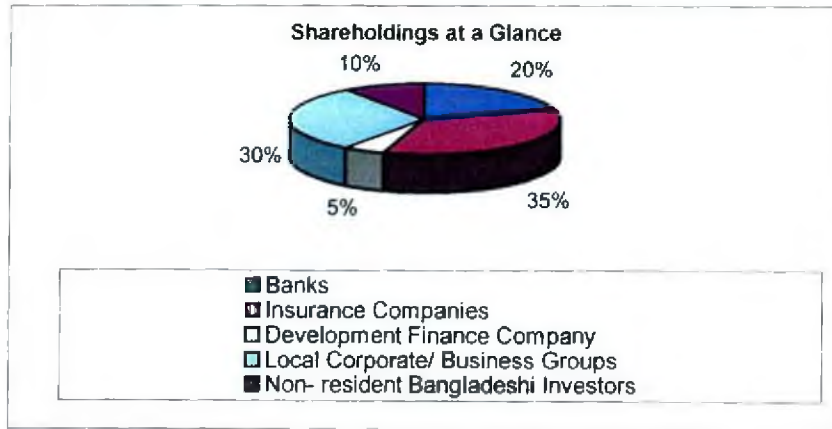
Unicorn Equities Limited. (5%)

**Non-resident Bangladeshi Investors (10%)**

Overseas Investors' Forum (UK). (5%)

Overseas Investors' Forum (Zambia). (5%)

**Figure 4.8: NHFIL Shareholding at a Glance**

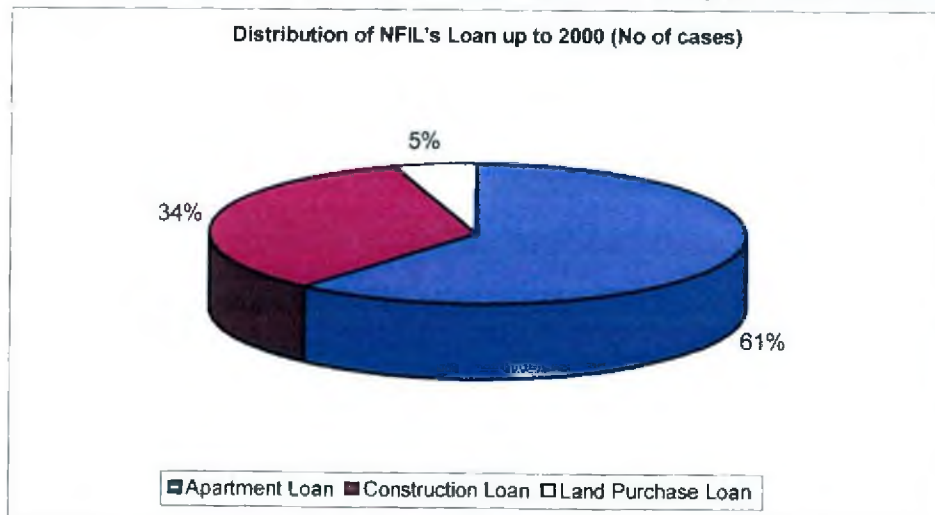


**4.4.4.4 Performance of NHFIL:** The performance of NHFIL in respect of sanction and disbursement of loan is shown in Table 4.9:

**Table 4.9: Sector wise Sanction and Disbursement of Loan (Up to 11.08.2000)**

Year	Total		Apartment		Construction		Land purchase/ Development	
	No	Amount (Tk. Million)	No	Amount (Tk. Million)	No	Amount (Tk. Million)	No	Amount (Tk. Million)
1999	66	100.00	46	73.60	17	22.35	3	4.20
2000	194	280.54	113	165.97	71	104.20	10	10.37
<b>Total</b>	<b>260</b>	<b>380.54</b>	<b>159</b>	<b>239.57</b>	<b>88</b>	<b>126.55</b>	<b>13</b>	<b>14.57</b>

**Figure 4.9: Distribution of Loan Sanctioned by NHFIL up to 2000 since inception**



Total cumulative sanctioned amount up to 11.08.2000 was Tk.380.54 million against 260 cases. Total disbursed amount was Tk.20.30 million at the same date. The percentage of apartment loan cases out of total loan cases was 61%. In 1999 the percentage was 70% and in 2000 the rate of apartment loan was 58% of total loan. But in general, maximum demand was for apartment loan. The Table-4.8 shows that the apartment loan was 73% out of total loan in 1999 and it was 59% in 2000. Total apartment loan was 63% in aggregate during two years.

The company sustained loss amounted to Tk.40,31,261 in the period of 4.5 months from 18 August, 1998 to 31 December 1999. This occurred because it was the year of commencement of the company and the period was fractional. The company made provision for loan loss @ 1% of the outstanding home mortgage loans of Tk. 6,89,496 as per Bangladesh Bank's guidelines in this regards.

#### **4.4.4.5 Savings Schemes of NHFIL**

National Housing Priority Account (NHPA): This scheme is a good way to save with NHFIL for acquiring a home. Deposits into NHPA account (in minimum multiples of Tk. 5000) will earn interest at the rate of interest 10% per annum. Each deposit with interest will qualify for withdrawal any time after 12 months of the date of the deposit. If a depositor wishes to buy or construct a new home or extend or improve an existing home, NHFIL will give him priority in extending a Home Mortgage Loan once his deposits level reaches 30% or more of the amount he wishes to invest in his home. No deposit has been collected since start and up to the date of annual accounts.

#### **4.4.4.6 National Housing Bonds**

With three years maturity, in multiples of Tk. 50000/- offer attractive yield of 12% per annum to the long - term investors. At the same time, to give National Housing Bonds a high level

of liquidity, they are issued in the form of Promissory Notes so that the bond-holders can discount them in the secondary market.

#### **4.4.4.7 National Housing Fixed Deposit Accounts (NHFDA)**

NHFDA are available to savers for terms in excess of a year. Applicable current effective rate of return per annum for minimum deposits of Tk.10,000/-is :

11.00% for one year deposit

11.25% for 2 year deposit

11.75% for 3 year deposit

For longer- terms and / or large amounts, special rate may be available, subject to money market situation.

#### **4.4.4.8 National Housing Income Accounts (NHIA)**

NHIA is available for deposits of a year or more in sums in excess of Tk. 1,00,000/- Savers can choose to receive interest income monthly, quarterly or half-yearly to suit their convenience.

**Special Savings and Financial** needs of client can be structured into attractive and flexible saving schemes.

#### **4.4.4.9 Home Mortgage Loans (HML)**

Investing in a home by way of HML will probably be one of the most important commitments a person will make

HML are available for:

- Construction of houses
- Purchase of houses or apartment
- Renovation, extension or addition to existing houses or apartments
- Purchasing of housing plots from approved land developers or government agencies.

#### **4.4.4.10 Loan Eligibility**

This depends upon a number of factors the most important of which is their assessment of the clients' ability to repay the loan. While making this assessment, NHFI takes into account the following matters:

- 1) Clients' income and that of his/her co-applicant's or partner's income
- 2) Clients' commitment and his/her regular living expenses
- 3) Clients' previous handling of his/her financial affairs which may be based upon information obtained by way of references from employers, his/her previous landlords and other lenders
- 4) Other information supplied by the applicant to NHFIL including verification of identity.
- 5) NHFIL also considers the age of applicants in considering the length of the term.

#### **4.4.4.11 Security of loan**

NHFIL takes into consideration the security, which is being provided for the loan and in particular the type of property, its age, condition and value etc.

#### **4.4.4.12 Loan Amount**

Maximum amount of HML is Tk.30,00,000/- or 70% of the value of the property as assessed by NHFIL.

#### 4.4.4.13 Repayment of Loan

**Repayment term:** The maximum term of repayment depends mainly on the age of the applicant and the tenure and condition of the property. Normally, the terms will be arranged to ensure that redemption of the mortgage will take place not later than normal retirement age. A longer term may be acceptable to NHFIL if one can satisfy them that the applicant will have sufficient income continuing beyond normal retirement age. The maximum repayment term is 15 years, but not extending beyond the borrower's 65<sup>th</sup> birthday.

#### 4.4.4.14 Repayment procedures

Equated Monthly Installments (EMI) are calculated to repay the principal and interest. It progressively reduces the amount borrowed over the agreed term so that, at the end of the term, the amount borrowed, has been repaid. It is the borrowers' responsibility to arrange life assurance to repay the loan in the event of borrowers' death.

#### 4.4.4.15 Interest of Loan

Prior to commencement of payment of EMI, borrowers are required to pay interest on a monthly basis on the amount disbursed by NHFI. Current interest rate is 15.75% calculated on an annual basis.

#### 4.4.4.16 Interest savings of early repayment

If anybody decides to make pre-payments of principal either regular or at an interval, NHFIL's counselors, will be able to assist the borrower in working out the interest savings that will accrue from such payments. The borrowers revised EMI prepared by NHFIL's counselors, following receipts of pre-payments, will show a reduced monthly installment payment.

#### 4.4.4.17 Other costs are involved in obtaining HML

**Loan application fee:** This fee is to be paid to NHFIL to offset their fees in investigating borrower's application and to carry out the valuation of the property. The rate of loan application fee is 0.75% of the amount borrowed.

**Loan administration fee:** NHFIL charges a loan administration fee calculated at 1% of HML amount.

**Insurance charge:** As a condition of the mortgage the lender requires that building insurance be taken out to safeguard against perils of fire, earthquake, flood damage etc. NHFIL will need to be satisfied that the insurance policy adequately protects their financial interest.

**Other fees:** In addition everybody should remember that there are the costs in buying houses such as legal fees, Land Registry fees, Stamp Duty (unless exempted by the Govt.), Local search fees etc.

#### 4.4.4.18 Standard Variable Rate

The current rate of interest is 15.75% calculated on annual rates. Interest charged to loan account is linked to their base rate and may vary during the repayment period of the mortgage loan in line with market conditions and with interest rate generally. However, the borrower can expect that the rate of interest charged to the borrower's account will be reviewed once a year, e.g. on each anniversary of HML. Table 4.10 shows loan fees and Equated Monthly Installments.

**Table 4.10: Borrower's Front-End One Time Loan Fees and Equated Monthly Installments (EMi) on Loan Amounts with Various Maturities**

Amount of Loan	Fees	Years	EMI
Tk. 1 lac	Tk.1750	5/10/15	Tk2530/1708/1477
Tk. 5 lac	Tk.8750	5/10/15	Tk.12651/8541/7386
Tk. 10 lac	Tk.17500	5/10/15	Tk.25303/17082/14772
Tk. 15 lac	Tk.26250	5/10/15	Tk.37954/25622/22158
Tk. 20 lac	TK.35000	5/10/15	Tk.50605/34163/29543
Tk. 25 lac	Tk.43750	5/10/15	Tk.63256/42704/36929
Tk. 30 lac	Tk.52500	5/10/15	Tk.75908/51245/44315

#### 4.4.4.19 Changes in Circumstances

Some circumstances set out below commonly arise and have financial consequences and are taken into consideration by the borrowers:

##### a. Redemption of Mortgage

If a borrower wishes to redeem his/her mortgage NHFIL will charge him interest on the outstanding loan amount up to the date of full payment. In addition, depending on the terms of Home Mortgage Loan, there may be further charges payable on redemption. Obviously, before one commits oneself to the mortgage, one should be fully aware of any such provisions.

##### b. Financial Difficulties

If one falls in financial difficulties and is unable to maintain mortgage loan repayments, one should inform the lender as soon as possible. NHFIL will do all they can to help the borrower to overcome his difficulties. The sooner NHFIL discusses the borrowers' problems, the easier it will be for both of them to find a mutually acceptable solution. NHFIL will, with borrowers' cooperation, develop a plan for dealing with borrowers' financial difficulties in clearing the arrears consistent with their respective interests. NHFIL will take



possession of borrowers' property as a last resort when attempts to meet alternative arrangements with borrower have become unsuccessful.

#### **4.4.4.20 Property Related Services**

National Housing provides Estate Management Services and can help the clients in locating a suitable residential plot or accommodation. Additional services provided by National Housing include evaluating the reliability of the developer of the residential projects, perusal of legal documents concerning the property, periodic visits to the project sites to ascertain the progress of work, assistance in completion of the purchase transaction and other allied services.

#### **4.4.4.21 Application procedures of HML**

The first step is to fill in a National Housing Home Mortgage Loan Application to provide them with the relevant information about the borrowers and his co-applicant. Normally, the spouse of the applicant should join as a co-applicant. The co-owners of the property must join as applicants. The HML Application Form lists all the documents that must accompany the particular borrower's application. The borrowers are welcome to provide any additional information in a covering letter in support of their application. If the applicant has any queries or requires any assistance in filing the HML application, any one of their many counselors at NHFIL will be pleased to help the applicant.

#### **4.4.4.22 Various Housing Loan of NHFIL**

National Housing provides loan to housing complexes sponsored by Corporate Bodies and other institutions for construction or purchase of residential housing by way of:

- 1) **Loans for Company owned Housing:** For construction or purchase of staff quarters for employees;
- 2) **Loans for on-lending to Employees:** It is done in accordance with approved housing loan schemes of NHFIL;
- 3) **Loans to sponsored Employees:** Where the scheme is designed to enable the organization to provide financial assistance to its employees for housing, without any investment on its part.

#### **4.4.5 Private Sector Commercial Banks (PCBs)**

The Nationalized Commercial Banks (NCBs) faced almost no competition in respect of banking operation until 1983 when Government of Bangladesh allowed the operation of private commercial banks. The share of NCBs in deposits was 62% and that of private commercial banks was 27% on December 1994. So PCBs also has been playing a vital role for housing credit since 1993 and their disbursement increased according to the demand of housing sector. It is seen that about 20% of demand of housing credit was met by the PCBs. From their inception to December, 1995 the total disbursement of housing credit was Tk.1,563.01 crores which is 22.85% of the total housing disbursement.

##### **4.4.5.1 Urban Housing and Islami Bank**

**A. Housing Investment Scheme:** The Bank has introduced 'Housing Investment Scheme' to ease and minimize the housing problem and assist service holders and professionals with limited income in materializing their dream of becoming owner of houses.

**B. Objectives of the Scheme:** The main objectives of the scheme are: to extend the benefits of the investment of the bank under the scheme to different sections of the people; to assist in solving the existing housing problem of the country; to assist the service

holders and professionals with fixed income to arrange for houses of their own; to extend the investment facilities of the bank to every nook and corner of the country on the basis of geographical area; to make investment facilities easily available under Islamic Shariah to those people who do not want to avail investment facilities from interest- based financial institutions.

### **C. Eligibility**

Initially the following categories of people shall be eligible to apply for availing investment facilities under this scheme: officials of the defense forces; permanent officials of government, semi-government and autonomous organizations, teachers of the established universities, university colleges & medical colleges; graduate engineers, doctors and established professionals; officials of reputed multinational companies; international financial organizations, donor agencies & foreign embassies etc. local established & reputed public limited companies; wage earner professionals like doctors, engineers, accountants, teachers and any other professionals doing good job abroad with handsome pay- package.

The client must have exclusive and unproblematic possession & ownership title over the land on which the proposed house will be constructed. The leased property must be on lease for 99 years and must be legally acceptable for mortgage to the Bank. If the investment client is a service holder then he must have at least 5 years of service prior to retirement.

Bank will select the client on the basis of the following criteria: Percentage of Bank investment is less than the clients investment, amount of Bank investment is comparatively small; nature, size & quality of construction & value of the property; constructed house / apartment is in good location & the price is reasonable; return from the property (rented

income) & other known sources of income of the applicant, satisfactory debt- servicing capacity of the client.

#### **D. Target Area**

At the initial stage, the scheme is being implemented in metropolitan areas of Dhaka, Chittagong, Rajshahi, and Khulna and Sylhet, later on the scheme will be implemented in other areas in phases.

#### **E. Scope of Investment**

Investment is being extended to build new houses on the client's own land, to purchase built houses / apartments/ flats and for extension/ completion of the house constructed / under construction.

The amount of investment will be limited to the following: a) in case of construction on land owned by the client: maximum 60% of the total cost of the construction of the building. Maximum ceiling of the Bank investment will be not more than Tk. 30.00 lac. b) In case of purchase of apartment/ flat/ ready- made house: maximum 50% of the value including purchase related cost. Maximum ceiling of the Bank investment will not exceed Tk. 20.00 lac.

#### **F. Investment in excess of ceiling**

If any client intends to provide the following securities to the Bank duly discharging / completing necessary formalities, Bank will allow further or additional investment in excess of the aforesaid ceiling to the extent of 100% of the value of the securities: TDR / fixed Deposit of any scheduled Bank, Mudaraba Saving Bond of Islami Bank. Wage Earners

Bond, ICB Unit Certificates, National / Defense Savings Bonds / Sanchay Patra etc. Bank Guarantee from any scheduled Bank. The building to be constructed on the land must be as per approved plan of the competent Authority of that area, viz. RAJUK, CDA, RDA, KDA, etc.

#### **G. Mode of Investment**

In case of construction of house on the client's own land: 'Bai- Muajjal'; in case of purchase of apartment / flat built- house: Hire Purchase 'Shirkatul Melk' mode of investment is followed.

#### **H. Period of Investment**

The maximum period of investment under all the investment shall be generally 15 years. However, the period of investment shall be determined on the basis of the proposal of the client, the amount of investment (for which the client has applied) and the ability of the project of client to repay the dues. Reasonable gestation period for construction is allowed considering the size of construction and Bank investment. The clients, who will repay the entire dues in time or before the stipulated time, will be allowed rebate on the profit/ rent.

#### **I. Disbursement Procedure of Investment**

Bank will pay the sanctioned money through Pay Order directly to the supplier of construction materials/ owner of apartment / owner of the built house. However, the following points shall be taken into consideration in disbursing the investment.

In case of purchase of apartment/ flat / built house, the client shall have to deposit the equity money in the Branch or produce documentary evidence in support of his investment up to the satisfaction of the concerned Branch.

In case of construction of house on the client's own land or for extension of the existing house, the valuation of the Bank as regards client's investment shall be considered final. The client shall have to submit to the Bank, the construction plan approved by the competent authority and also the required permission to mortgage the property, where necessary.

The client must execute all necessary documents including mortgage deed and complete all necessary documentation formalities to avail the investment. Related documents of mortgage, arrangement of sale and other documents must be approved by the panel lawyer of the Bank.

#### **J. Recovery of Bank Investment**

The client shall have to make repayment of the Bank's investment by monthly installment immediately after the expiry of the period of construction. To ensure repayment as per stipulation of sanction, a client shall have to deposit post-dated cheques to the Bank for the amount of each monthly installment covering the entire period of investment. The Bank shall realize the amount of monthly installment by depositing the cheque of a particular month on the first week of every month. The client shall have to execute irrevocable power of attorney in favour of the Bank authorizing the Bank to collect monthly rent from the tenants when necessary in-case of failure of the client to pay the monthly installment

#### **K. Rebate for regular payment**

Rebate will be given @ 2% to the borrower who will be able to repay installment in time.

## L. Security

- In case of investment under 'Bai- Muajjal': Mortgage of land and building to be constructed thereon in favor of the Bank.
- In case of investment under Hire Purchase 'Shirkatul Melk': The ownership of the apartment/ flat house shall remain in the name of the Bank on behalf of the client till the full repayment of dues to the Bank.
- In case of clients who are service holders: Lien has to be given legally in favor of the Bank on the provident fund, gratuity and other retirement benefits of the client. However, in case of extreme necessity, the client may be allowed to draw money from his provident fund subject to prior clearance from the Head Office of the Bank. After retirement from service, the client can draw his retirement benefits subject to repayment of entire dues to the Bank. For the above purpose, the client shall have to furnish to the Bank, necessary permission/ surety bond from his employer.

## M. Procedure for Application

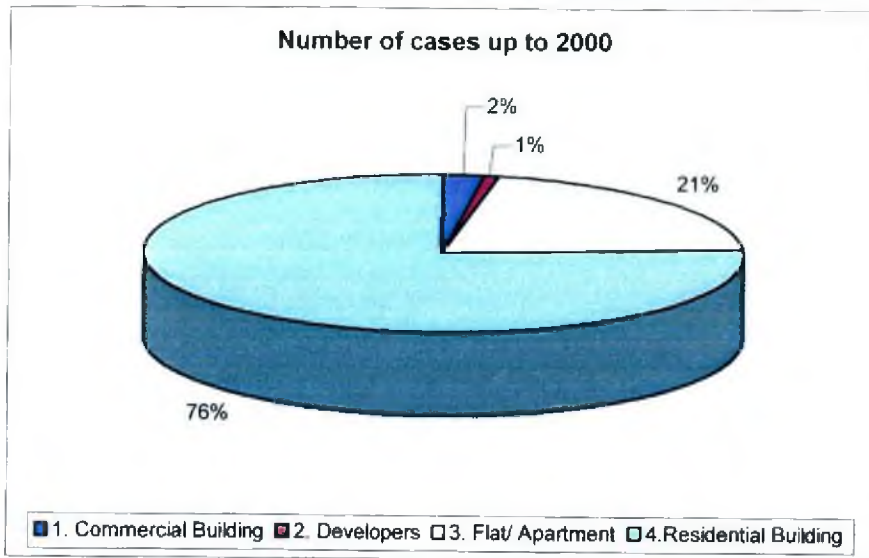
Interested persons shall have to apply in prescribed form of the Bank through the Branch of the concerned area. The Bank shall sanction investment if the proposal is found acceptable after examination of its viability and profitability. The Bank reserves the right to sanction or reject any investment proposal.

**N. Performance of Real Estate Finance of IBBL:** Table-4.11 shows real estate investment sanctioned by IBBL from the inception of the scheme to now.

**Table 4.11: Real Estate Investment Sanctioned by IBBL since Inception:  
(up to 25.08.2000)**

Mode of investment	Number of cases	Amount sanctioned (Tk. In Lac )	No of cases (%)	Amount of Loan (%)
1. Commercial Building	34	3421.50	2	06
2. Developers	11	3137.00	1	05
3. Flat/ Apartment	321	33512.69	21	58
4. Residential Building	1169	18127.71	76	31
Total Real Estate	<b>1535</b>	<b>58198.90</b>	<b>100</b>	<b>100</b>

Figure: 4.10: Real Estate Investment Sanctioned by IBBL



In terms of number of cases IBBL sanctioned maximum loans to the informal sector for residential purpose (76%). But if we consider loan amount then the above table shows that its investment portfolio is the highest in apartment or flat loans (58%). The recovery rate is 81% of IBBL investment in the apartment sector, which is satisfactory. The following table shows the sector- wise investment of IBBL.

Table 4.12: Shows That the Sector Wise Investment of IBBL

Sector	1999		1998	
	Amount (in million Tk.)	% of total	Amount (in million Tk.)	% of total
Commerce	8968.94	49.13	4063.88	30.25
Industry	4153.46	22.75	5417.30	40.32
<b>Real Estate</b>	<b>1142.13</b>	<b>6.25</b>	<b>557.82</b>	<b>4.15</b>
Transport	702.23	3.85	545.02	4.06
Agriculture	108.94	0.60	104.12	0.78
Others	3180.23	17.42	2746.43	20.44
<b>Total</b>	<b>18255.93</b>	<b>100.00</b>	<b>13434.57</b>	<b>100.00</b>

The above table shows that the portfolio of real estate was 4.15% of total investment in 1998 and it increased to 6.25% in 1999. So it is clear that IBBL has extended its hand increasingly in real estate sector.



#### **4.4.6 Industrial Development Leasing Company of Bangladesh Limited (IDLC)**

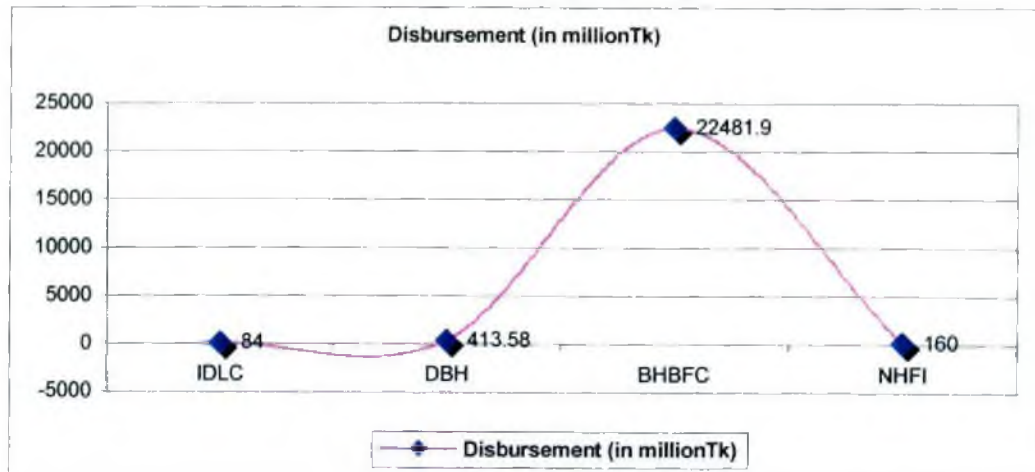
##### **4.4.6.1 Introduction**

The IDLC is the pioneer and still the leading leasing company among the 12 leasing companies (December 1999) in Bangladesh. It was incorporated in May 1985 with a view to contributing to the development of private enterprises through providing lease financing services and it commenced its business activities in February 22, 1986. IDLCs primary focuses are in the area of 3-5 year term financial leasing with particular emphasis on Balancing, Modernization, Restructuring and Expansion (BMRE) of existing units. In 1997 it diversified its service and included short-term finance, Housing finance and Merchant Banking. The study has given emphasis on housing finance scheme of IDLCs.

##### **4.4.6.2 Products of IDLC are shown below: (December 1998)**

- 1) Leasing: a) Equipment ( 57%)  
              b) Vehicle ( 20% )
- 2) Housing Finance ( 05% )
- 3) Short-term Financing (18%)
- 4) Merchant Banking. ( 0% )

**Figure: 4.11: Shows the proportion of IDLCs housing finance as compared to its competitors: (up to 1999)**



**Table 4.13: Market Share of IDLC**

Name of Institution	Disbursement (in million Tk )	Market Share (%)
IDLC	84.00	0.36
DBH	413.58	1.79
BHBFC	22481.90	97.16
NHFI	160.00	0.69

#### 4.4.6.3 Area of Housing Financing

IDLC started their operation from May 27, 1997. Its business volume is increasing day by day and it is looking forward to diversifying its services. The services of Housing Finance department include providing financial assistance to the very selective customers only for purchase of apartment. In 1999 IDLC extended its operation regarding Real Estate Financing by granting loans to:

- Individuals for purchase of apartments
- Individual for house construction
- Individuals for house renovation and extension
- Employees under corporate house finance scheme

- Business house/ professionals / for purchase of commercial spaces (office space/chamber/display centre etc.)
- Real Estate developers for construction.

IDLC's amount of housing loan is shown in Table 4.14

**Table: 4.14: IDLC's Housing Finance: (Tk. In million)**

YEAR	Housing Loan	Growth %
1997	1.9	-
1998	41.6	2090
1999	84.0	202

The activities of IDLC about housing finance include:

- Receipt of formal application after mutual conversation
- Preparing appraisal and making decision
- Delivering sanction letter
- Signing tripartite loan agreement
- Documentation
- Disbursement of loan

**4.4.6.4 Area Covered:** Only Dhaka and Chittagong Metropolitan Cities.

**4.4.6.5 Determination of loan amount**

Based on borrowers' applied amount and submitted documents supporting the applicant's income. Then IDLC assesses repayment capacity. Borrowers' repayment capacity determines the amount of loan, which he/she is eligible for. The lender's objectives are to fix the borrower a loan amount on which he/she can comfortably repay the installment.

**4.4.6.6 Duration of loan and rate of interest:** In the year 1997 loan period was 7 years but since 1998 the loan period had been reduced to 5 years. In 1999 the loan period was increased to 15 years. The rate of interest of IDLCs loan is 17.5%, which is the highest rate in this sector. The interest is compounded annually.

**4.4.6.7 Maximum loan amount:** IDLC offers Tk. 50 lac or 50% of the price of apartment / office space/show room, whichever is lower. Loan limit is flexible for corporate bodies. In case of individual construction or renovation / extension the maximum loan amount is Tk.50 Lac or 50% of the construction/ extension/repair or renovation cost of a house, whichever is lower.

**4.4.6.8 Loan application procedures:** The prospective borrowers are required to fill in the prescribed application form of IDLC and submit it with required supporting document and an application fee of Tk. 3000 to any of the IDLCs offices in Dhaka or Chittagong. On receipt of the application IDLC will inform its borrower after necessary inquiries/investigations. A documentation fee of Tk. 15000/ is payable only after borrowers' proposal is sanctioned by the Management.

**4.4.6.9 Moratorium period:** Maximum 12 months from last disbursement or 3 months from last disbursement or 1 month after handing over of the possession of the apartment whichever is earlier.

**4.4.6.10 Fees and expenses of IDLCs loan:** Loan application fee is fixed and amounts to Tk.3000 and documentation fee is Tk.15000. No other charges, such as application form fee, inspection fee etc. are required for IDLC's loan.

**4.4.6.11 Loan disbursement procedures:** Loan is disbursed after completion of all legal formalities to the satisfaction of IDLC and upon the borrowers' own investment (total cost of the property concerned less IDLC's loan amount). Loan may be disbursed in one or more installment as per the borrower's requirement based on the progress of construction.

**4.4.6.12 Repayment of loan:** The borrowers are required to repay the loan amount on EMI over the period of loan term. The EMI commences from the month following the month in which the borrower takes full disbursement. There is an option to pay the monthly interest earlier or to start repaying the installment amount on the fund disbursed till the final disbursement is made. There is an option to the borrower to prepay the loan in full or in part. In case of part payment the lender will fix for the borrower a revised loan installment.

**4.4.6.13 Monthly Loan Installment:** This is known as Equated Monthly Installment (EMI). The monthly installment amount depends upon the term of loan and amount of loan. The monthly loan installment for a loan of Tk. 100000 for different loan terms is:

No. of Installment	60 Months	84 Months	120 Months	180 Months
EMI	Tk. 2480	Tk. 2050	Tk. 1750	Tk. 1560

**4.4.6.14 Security of IDLC Loan:** Mortgage of the property concerned is usually the security. However, one can offer other securities acceptable to IDLC. They accept the following securities other than mortgage:

- Cash deposit (the deposits bears interest equal to the interest offered by the commercial banks against term deposit).
- Lien on FDR, Sanchay Pattra, ICB unit certificate, Bank or Insurance guarantee.

In addition to the prime security the borrowers are also required to provide one personal guarantee. In case of corporate bodies personal guarantee of all Directors is required.

**4.4.6.15 Insurance:** Borrowers are required to ensure the property financed by IDLC to cover the risk such as fire and other appropriate hazards during the term of the loan with IDLC being the principal beneficiary of the insurance policy.

**4.4.6.16 Growth of IDLCs loan (Tk):** IDLC sanctioned Tk.26 million in 1997 and disbursed Tk.2 million. In 1998 the sanctioned figure was Tk.70 million and the amount disbursed was Tk.49 million. In 1999 the disbursed amount went up to Tk.84.0 million. The growth of sanction amount is 250%.

**4.4.6.17 Default culture in IDLC:** Though DBH and IDLC (Housing units) have still no default client, whereas, default is a regular practice in our finance sector and the situation is precarious in cases of government owned institutions. In 1993, BHBFC's default amount was Tk.3,795 million and in 1996 and 1997, it was Tk.1976 million and Tk.2,424 million respectively. In case of IDLC, total overdue amount was Tk.127 million and Tk.181 million in 1997 and 1998 respectively.

**4.4.6.18 Comparative advantages of IDLC's Loan**

- i. IDLC provides 50% of the purchase price of apartment which is always much higher than BHBFCs 60% of the apartment cost according to their method of cost calculation.
- ii. For a loan term of 5 years, IDLC offers much cheaper effective interest rate of 17.58% than DBH's 19.41%.
- iii. BHBFC provides loan for a maximum of 50% of the total number of flats. But IDLC does not have any such restriction. As a result developers can arrange loan facilities for large number of clients and therefore, ensure quick and timely fund for more flats.
- iv. It requires about two months to arrange a loan from BHBFC but it can be availed within two weeks from IDLC.

- v. IDLC offers prompt service, quick documentation and fast disbursement. The borrower does not need to spend time to pursue the IDLC officials as one has to do in the case of BHBFC officials.
- vi. Taking loan without giving BHBFC's officials some private monetary satisfaction is considered unbelievable. But clients of IDLC do not have to face any such harassment.

#### 4.4.6.19 Prospects of IDLC

**Table 4.15: SWOT analysis of IDLC as Housing Finance Institution**

<p><b>Strength:</b></p> <ul style="list-style-type: none"> <li>▪ Strong base of customer</li> <li>▪ Experience in financing</li> <li>▪ Skilled Professionals</li> <li>▪ Goodwill</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>▪ Terms of financing</li> <li>▪ Marketing</li> <li>▪ Narrow segmentation</li> </ul>
<p><b>Opportunity:</b></p> <ul style="list-style-type: none"> <li>▪ Strong and ever growing demand for financing need</li> <li>▪ Foreign investment in real estate business</li> <li>▪ Less competition in the financing market</li> <li>▪ Supply of finance is too small relative to demand</li> <li>▪ No legal barriers to be in the business</li> <li>▪ Diversification</li> <li>▪ Joint venture with foreign investors</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>▪ Default culture</li> <li>▪ Scarcity of low cost long term fund</li> <li>▪ Unplanned supply of housing units</li> <li>▪ Delay in the completion of project</li> <li>▪ Lengthy legal procedures</li> <li>▪ Rent</li> <li>▪ Natural calamity</li> </ul>

From the SWOT analysis, it is apparent that IDLCs internal strength can overcome external threat and opportunity can overcome its weakness.

#### 4.4.7 Comparative Analysis of Housing Finance institutions

In private sector some banks and insurance companies are financing the housing sector. But period of loan given by these financial institutions is comparatively shorter than that of HBFC. Interest rate is also higher than that of BHBFC.

Following are the interest rates charged by various financial institutions on loans given to housing sector.

**Table 4.16: Comparative Rate of Interest**

Name of the Institutions	Rate of Interest (%)
BHBFC	9%- 15%
SONALI BANK	15%
AGRANI BANK	14%
UTTARA BANK	15%
AB BANK	15%
IFIC BANK	15%
PRIME BANK	15%
SOUTH EAST BANK	16%
DELTA BRAC HOUSING	14%- 16%
NATIONAL HOUSING	15%-16%

Apart from HBFC a few commercial banks extended finance for housing but the volume is very insignificant. Recently the Delta Brac Housing Finance Corporation Ltd., the first private sector housing finance company, launched its operation. Industrial Development and Leasing Company (IDLC) will extend its lease facilities for housing sector. It will launch new product as Real Estate leasing. IDLC will charge 16% of interest, which will be the highest interest charged on housing finance. The premium has been justified by the quality service. South East Bank is also charging 16%.

IDLC and Delta Brac provide finance for buying apartments. They are providing 50% of apartment cost as loan covering a period of 5 to 10 years. The loans are repayable through equal monthly installments. Grace period for them is 8- 12 months from last disbursement or 24 months from the first disbursement whichever is earlier and their processing time is 4- 6 weeks. Ownership will remain with the financing companies till full recovery is made. In case of purchase of apartment a tripartite agreement is made among financing company, borrower and the developer. The process of loan / lease execution to an individual; is as follows:

Application received → Scrutiny → Sanction letter → Agreement  
 Documentation → Disbursement in phases → Monitoring



The applicant has to furnish an amount of Tk.3,000 with the application form which is non refundable. After scrutiny if the companies sanction the loan then the applicant has to deposit an amount of Tk.15,000 as service charge. The management of these two companies has a plan to go for aggressive marketing in near future. At present they will avoid any mass advertisement media and will concentrate mainly on personal selling.

#### 4.4.8 Comparative analysis of different housing finance institutions from various aspects

A comparison of services and operation areas is depicted in Table 4.17

**Table 4.17: Comparison of service and Operation area**

Institutions	Services	Operational Area
BHFC	1.General Loan (Construction of Houses) 2.Group Loan (Construction of Apartment Building in a Plot of a group) 3.Flat or Apartment Loan 4.Adjustment Loan 5.Multi Loan (1000sqft.) 6.Loan for constructing semi- pucca building	Dhaka and Chittagong city, Barishal, Sylhet, Sunamgonj, Habigonj, Moulavibazar, Khagrachari, Chandpur, Feni, Pabna, Sirajgonj, Bogra, Dinajpur, Nawga, Natore, Chapainawbgonj, Panchaghar, Shrimangal and Fulbaria Thana sadar.
DBH	Apartment Purchase Home Construction Home Extension Home Improvement Plot Purchase	Dhaka
NHFI	Apartment Purchase Home Construction Home Extension Home Improvement Plot Purchase Project Loan to the developer	Dhaka and Chittagong
IDLC	Individuals for purchase of apartments Individual for house construction Individuals for house renovation and extension Employees under corporate house finance scheme Business house/ professionals / for purchase of commercial spaces (Office space/chamber/display centre etc.) Real Estate developers for construction.	Dhaka and Chittagong

Table 4.18: Comparison of Interest Rates

Year	Yearly Interest Rate and Maximum Term in Yrs							
	BHBFC		DBH		NHFIL		IDLC	
2000 Dec.	13% up to 15 lac 15% for above 15 lac	15yrs	Up to 2 lac 15.25% and above 2 lac 15.75%	15 years	15.75%	15 years	17.5%	15 years

Table 4.19: Interest rate and period of loan in commercial banks

Institution	Interest Rate (%)	Highest ceiling (Lac)	Max Term (yrs)
AB Bank Ltd.	16	20	7
Agrani Bank	15.5	70% of project cost	20
Sonali Bank	14	10	20
Islami Bank	15	40	15
South East Bank	16	75% of cost	6
National Bank	16	70% of cost	5

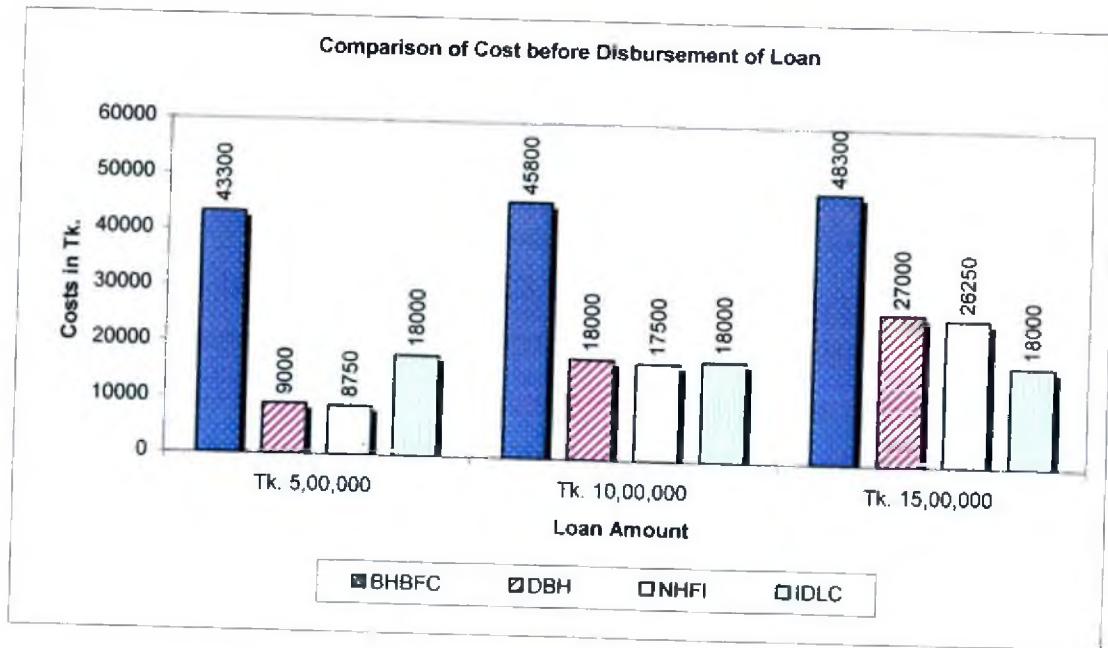
Table 4.20: Comparison in the terms of financing

Particulars	BHBFC		DBH	NHFIL	IDLC
	Apartment Purchase	House Construction			
% of cost to be financed	60% of Apartment price	75%-80% in case of house construction.	80% of cons. Cost or 70% of the purchase price	70% of the value of the property	50% of the price of apartment /office space etc.
Cost per sqft.	Tk.700-1000 per sqft.	GF. Tk.725 per sqft Super structure Tk. 590 and below	Face value or assessed value	Face value or assessed value	Face value or assessed value
Highest ceiling	VIP- 9 to 12.96 and 7.8 for other areas	15-25 for VIP and 12-12.65 other areas	40 lac	30 lac	50lac
Mode of interest charging	Simple interest rare		Yearly compounding	Yearly compounding	Monthly compounding
Mode of repayment	Monthly principal and interest separately		Monthly P and I unitedly	Monthly P and I unitedly	Monthly P and I unitedly
Interest rate per annum	13% up to 15 lac and 15% above 15 lac		15.25% up to 2 lac and 15.75% above 2 lac	15.75%	17.50%
Maximum terms of Loan	20 years		15 years	15 years	15 years
Apartment criteria	Only for under construction apartment of under construction projects		Completed or under construction	Completed or under construction	Completed or under construction
Moratorium period	12 months from the last disbursement limited to 18 months from the first disbursement.		Are the days of the month in which the full disbursement is done	Following the month in which last loan disbursement has been made. One year moratorium period could be granted only for principal	The EMI commences from the month in which the borrower take full disbursements. option is available to pay either the monthly interest or to start repaying the installment amount.
Percent of flats to be financed in a project	50% flats of projects		No restriction	No restriction	No restriction

**Table 4.21: Comparison in different charges other than interest**

	BHBFC	DBH	NHFI	IDLC
Provisional Application Form	Tk.400	N/A	N/A	N/A
Formal Application Form	Tk.300	N/A	N/A	N/A
Guarantor form	Tk.100	N/A	N/A	N/A
Application fees	0.2% of the loan applied	0.8% of the loan applied	0.75% of the loan applied	Tk.3000
Inspection fee	0.3% of loan applied	N/A		N/A
Documentation fee	N/A	1% of the loan sanctioned	N/A	Tk. 15000
Loan administration fee	N/A	N/A	1% of the loan sanctioned	N/A
Others charges	Tk. 40000	N/A	N/A	N/A

**Figure 4.12: Comparison of Costs before Disbursement**



Loan application fee is comparatively high in case of BHBFC. Other incidental costs are also higher in case of BHBFC. But lowest fees in case of IDLC and fees of IDLC remain constant even if applied amount of loan varies.

This chapter has elaborately discussed the various financial institutions who have been playing an important role in apartment business. On the one hand, the apartment developers need a huge amount of money for buying land and constructing

apartment on it and on the other hand, the apartment buyers also need large amount of money for buying the apartment. So, a sound and efficient finance system can accelerate the smooth development of this business. The next chapter will cover the main part of the study i.e. apartment business in Bangladesh. Socio economic background of the promoters of apartment business, nature of the business, financing procedures, operational problems, cost of making apartment, selling procedures and finally profitability etc. will be covered. The next chapter will be based on survey findings.

## CHAPTER-5

# APARTMENT BUSINESS IN BANGLADESH

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## CHAPTER – 5

### APARTMENT BUSINESS IN BANGLADESH

#### 5.1 INTRODUCTION

In Bangladesh apartment business is a recent phenomenon, although such activities were initiated sometime in 1964. Ispahani group was the pioneer in this sector. But in early 1980s with the inception of Eastern Housing Ltd., the business started flourishing. Now this is a booming sector of the economy. From late 1980s it came under the purview of business field. As a fast growing city of Bangladesh, such business was initially concentrated in Dhaka; some activities on a limited scale started later on in Chittagong and Khulna. At present there are about 400 firms in real estate business in Dhaka City.<sup>59</sup>

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 12000 families in Dhaka Mega City. In addition, 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.

Since 1985 this sector has procured construction materials worth over Tk.1000 crores. It gives employment to about 12,000 construction workers and pays wages to construction workers amounting to about Tk.45 crores annually approximately, Tk.2 crores is paid annually by this sector towards professional fees for architects and consultants; the sector employs about 5,000 management staff like accountants, sales personnel, engineers,

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<sup>59</sup> REHAB News letter, October,2000

supervisors, administrative staff and others and pays approximately Tk.25 crores to these people in annual salaries.<sup>60</sup>

Apart from the VAT and taxes paid by the Real Estate Development to the government exchequer; the government should have collected vat amounting to approximately Tk.150 crores from importers and manufacturers of construction materials since 1993.

The fact that many cement manufacturing industries have now been set up in Bangladesh is a reflection of the impetus the Real Estate Development sector has given to our economy. In the last decade many steel mills would have shut down had it not been due to the support of the Real Estate Development sector and several new mechanized construction material manufacturing industries have recently come up due to the existence of this sector. Today about 200 architects and consulting engineers are directly supported by this sector; over 200 graduate engineers are holding management positions in this sector and almost 500 diploma engineers are engaged in this sector.

It is a recognized fact that the health of the Real Estate Development sector is the barometer of the national economy. Housing is indeed one of the most important priorities of any government. It is very unfortunate that today the Real Estate Development sector of Bangladesh is in the doldrums. Many construction projects are left incomplete; many people who have invested their money, face uncertain future, and many related industries will face the brunt of this depression in the near future.

In an estimate real estate represents more than 40%<sup>61</sup> of the national wealth. Therefore, the manner in which the resources of this magnitude are used has an important effect on the

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<sup>60</sup> REHAB News letter, 2000

well being of our people, the success or failure of business firms and the general prosperity of the country.

People's expectation about government's role in meeting the urban housing needs has gradually diminished. This has happened because of two reasons. Firstly, the failure of the government to meet the increasing demand due to resources constraints and gross inefficiency, and secondly, because of the increasing role of the private formal sector in delivering housing, particularly to the middle income groups. People have become more aware that government intervention in the housing sector has favored the richer class more than the target group and increased inequality and social tension.

On the other hand, privileged class of people, who previously had only one option of getting better housing, namely through government programs, now have an alternative option of getting more or less equal standard of housing in the formal commercial sector. Government does not face the pressure for housing from this group as strongly as it did in the past.

## **5.2 APARTMENT DEVELOPMENT PROCESS BY THE COMMERCIAL DEVELOPERS**

The process of the apartment development:

1. Initial search for land, prior to purchase or co-sharing with the landowner.
  2. Acquisition, possession and registration of land.
  3. Signing agreement with the landowner in case of co-sharing arrangement.
  4. Obtaining relevant planning and building permissions.
  5. Initial planning and designing of the apartment.
  6. Overall financial management and programming.
-



7. Obtaining a loan, if necessary, for part of expenditure.
8. Ordering for and purchasing of building materials.
9. Filling of land above normal flood levels
10. Provision for and connection of basic infrastructure service
11. Actual construction of dwelling with or without assistance.
12. Transfer of title to buyers of flats/ Apartment

At each stage in the process the potential builders has to rely on his or his family's knowledge and understanding of what processes to be done. There is no opportunity to obtain permissions that are required or how to navigate through the various bureaucracies. At each stage difficulties are faced in the way of the developer. All but the really determined and those with suitable funds survive the course.

### **5.3 FACTORS AFFECTING APARTMENT DEVELOPMENT**

Interview with various resource persons related to the apartment business, the researcher's personal observation and data collected through structured questionnaire helped identify some factors that have influenced apartment business. These have been classified into nine heads and are discussed below:

- 5.3.1 Socio -economic characteristics of people;
- 5.3.2 Macro-economic factors;
- 5.3.3 Legal frameworks;
- 5.3.4 Competing housing institutions;
- 5.3.5 Fiscal policies;
- 5.3.6 Cost-benefit factors;
- 5.3.7 Financing opportunities;

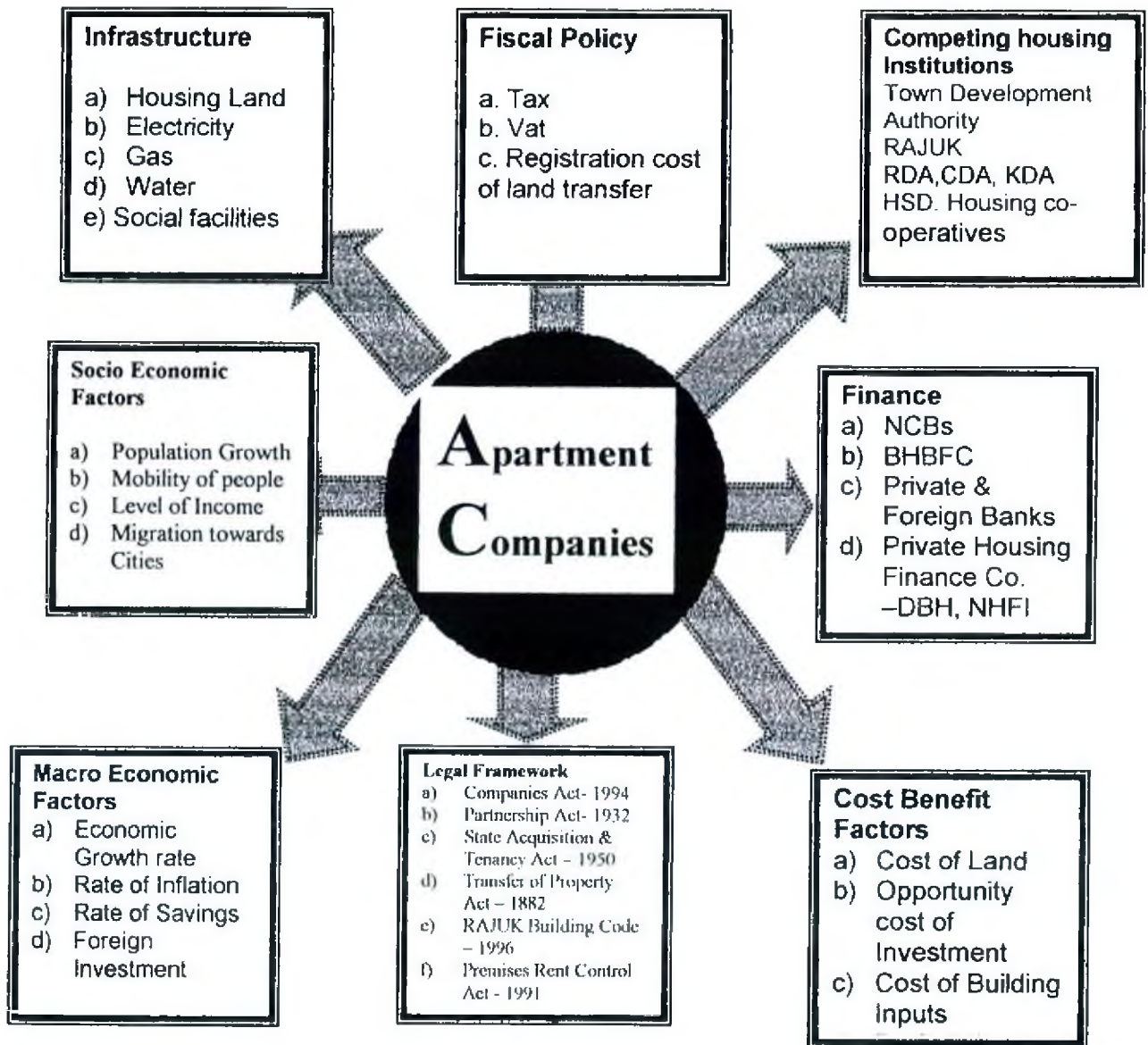
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<sup>61</sup> Hyot Weime, Principles of Real Estate, 4<sup>th</sup> Edition, p-5

5.3.8 Infrastructural facilities; and

5.3.9 Social facilities

Figure: 5.1: Factors leading to the successful growth of Apartment Companies



### 5.3.1 Socio-Economic Characteristics of People

The demand for housing is one of the major factors that led to the development of apartment projects. Socio-economic characteristics of people influence the demand for permanent houses. There are four major socio-economic characteristics of population that

influence the demand for houses: mobility of people, population growth, income level of people, and the degree of migration towards cities.

Population growth is the major factor that necessitates increased number of residential houses. Bangladesh experienced high growth of population over the decades, which led to high demand for residential houses. Though the rate of population growth has slowed down, the backlog in the creation of residential houses is still significant.

The growth of population in urban areas is affected not only by birth rate but also by the rate of migration from the rural and suburban areas and other towns. Migration towards major cities is increasing because they are the hub of business activities and offer employment opportunities. The rate of migration is acute in Dhaka City, as it is the capital city of Bangladesh. Most of the migrated people in major cities (especially in metropolitan cities) do not like to move to other places (especially to rural areas). Comparing the facilities in major cities, they try to settle there permanently, because culturally people in this country are less mobile.

#### **a. Urbanization**

The growth of urban population in Bangladesh prior to the twentieth century, however, cannot be termed in the truest sense. With the beginning of English rule some new urban centres began to spring up as collecting and exporting centres and some lost their urban characteristics. However, large- scale urbanization did not take place until very recently.

Population estimates by the United Nations (1998) suggest that just after the turn of the millennium urban dweller will outnumber his or her counterpart in rural areas as the global urban population will double from 2.6 billion in 1995 to 5.1 billion in 2030. By that time three

of every five persons in the world will be living in the urban areas. It is already well known that Bangladesh is a rapidly urbanizing country where the urban population has expanded from 7.6 percent to nearly 20 percent between 1970 and 1995. A combination of socio – economic, political and demographic factors are responsible for this. It reflects the re-distribution of the rural and urban population. Also the growth in the magnitude of urban economy, changes in the scale and nature of economic activity and distribution of income between regions and among classes. Demographic transition and change in the scale of governance are likely to be influenced by rapid urbanization and urban settlement pattern in Bangladesh.

The following Table 5.1 shows the share of incremental population between urban and rural areas.

**Table 5.1: Share of incremental Population (Rural and Urban) of Bangladesh**

Year	Population ( in million )		Share of incremental population ( in million )		Percent of total population	
	Rural	Urban	Rural	Urban	Rural	Urban
1950	40.0	1.8	-	-	95.7	4.3
1960	48.8	2.6	8.8	0.8	94.9	5.1
1970	61.6	5.1	12.8	2.5	92.4	7.6
1980	78.2	9.9	16.6	4.8	88.7	10.3
1990	92.5	17.2	14.3	7.3	84.3	15.7
2000	101.1	27.2	8.6	10.0	78.8	21.2
2010	110.1	41.7	9.0	14.5	72.5	27.5
2020	113.1	58.3	3.0	16.6	66.0	34.0
2030	112.1	76.8	-0.9	18.5	59.4	40.6

**Source:** The Daily Star, Date: February 9, 2000. Afsar Rita, BIDS. Completed from UN (1998).

It is important to realize that the rural share of incremental population showed declining tendency since 1990 and is likely to become negative between 2020 and 2030. By way of contrast, urban share of incremental population increased significantly since the second half of the century and with the dawn of the 3<sup>rd</sup> millennium. its share is likely to be larger compared to the rural areas . Thus for example, in the year 2000, the urban share of incremental population was 10 million compared to rural share of 8.6 million, More

importantly, whereas urban areas are likely to absorb nearly 50 million incremental population between 2000 and 2030, rural area will not only lose its share of incremental population in each census year, but even in absolute terms, its share of incremental population is estimated at 11 million and it is likely to decline from 113 to 112 million between 2020 and 2030. Therefore the whole question of urbanization and the urban growth deserves serious attention of the planners, and the policy makers, more so because there is no explicit policy on urbanization since the Reorganization and Decentralization policy of 1982/83.

The following table shows that an annual urban growth in selected countries of SAARC and ESCAP regions during 1990 and 1991:

**Table 5.2: Annual Urban growth in selected countries of SAARC and ESCAP Regions '90 & 91**

Name of the country	Year	Population ( in million)	Annual total growth Rate	Annual Urban Growth Rate
Bangladesh	1991	111.5	2.17	5.54
Bhutan	1990	1.5	2.3	5.9
India	1991	853.1	2.1	3.8
Nepal	1990	19.1	2.3	5.5
Pakistan	1990	122.6	2.9	2.4
Srilanka	1990	17.2	1.3	4.6
Indonesia	1990	184.3	1.8	4.1
Malayasia	1990	17.9	2.3	3.2
Mayanmar	1990	41.7	2.1	4.0
Thailand	1990	55.7	1.4	1.1
Singapore	1990	2.7	1.1	0.1
Japan	1990	123.5	0.4	-0.1
Maldives	1990	0.2	--	--

**Source:** BBS Bangladesh Population Census 1991, Volume-3, Urban Area Report.

It is evident from the table that Bangladesh ranked third in terms of the volume of annual urban population growth rate, Bhutan and Nepal occupies the first and second positions respectively.

Table 5.3: Incremental Growth Rate of Urban Population, 1901-1991

Census year	Population (urban)		Decadal variation		Average overall growth rate
	Number	% of total	Number	Percent	
1901	702035	2.43	--	--	--
1911	807024	2.55	104989	14.59	1.39
1921	878480	2.64	71546	8.85	0.85
1931	1073489	3.02	195009	22.20	2.00
1941	1537244	3.66	436755	43.20	3.59
1951	1819773	4.33	282529	18.38	1.69
1961	2640726	5.19	820953	45.11	3.75
1974	6273602	8.78	3632877	137.57	6.62
1981	13535963	15.54	6954560	115.76	10.63
1991	22455174 (20872204)	20.15 (19.63)	9227011 (7644041)	65.89 (54.20)	5.43 (4.67)

Source: BBS, Bangladesh Population census 1991, Volume-3, Urban Area Report.

**Note:** Figures in parenthesis indicate enumerated population.

The proportion of urban population of Bangladesh reached 20.15 percent (Adjusted) in 1991 from 2.43 percent in 1901. The proportion of urban population was almost similar during the period 1901-1921. After that it started increasing and the rate of increase was relatively high during 1961-1974 (137.57%) and 1974-1981 (115.76%). Though the urban population shows substantial rise during the last two decades even then Bangladesh by and large continues to be predominantly rural country having about 80% of its population living in villages.

Urbanization has been taking place in Bangladesh in three ways:

- 1) Urban area expansion;
- 2) Rural to urban migration; and
- 3) Natural growth of population.

Urban area expansion during the last 2 centuries is depicted in Table 5.4.

Table- 5.4: List Of Various Urban Centres

Years	1872	1881	1891	1901	1911	1921	1931	1941	1951	1961	1974	1981	1991
Size of Population	No. of Towns												
Over 100000				2	2	2	2	2	2	4	6	13	23
50000-99999	1	1	1					2	2	5	14	23	20
25000-49999						5	7	13	14	15	23	45	34
10000-24999	14	14	17	21	23	20	21	20	20	23	49	114	17
5000-9999	5	9	10	15	13	13	17	19	18	21	12	129	16
Below 5000	2	7	6	10	10	10	11	3	7	10	4	168	1
Total No. of UC	22	31	34	48	48	50	58	59	63	78	108	492	522*

Source: Urban Bangladesh Geographical Studies. Centre for Urban Studies, Dhaka.

The above table shows that there is an increasing tendency of urban centre. This tendency is very high in the last two decades.

#### b. Delimitation of Urban Area<sup>62</sup>:

In Bangladesh the urban areas have been classified into four distinct classes according to their size and functions:

- **Mega city:** City having more than 5 million of population has been defined as Mega city. Dhaka the capital city of Bangladesh is the only Mega city comprising of Dhaka City Corporation, whole of Narayangonj, Bander, Keranigonj, Uttara, Savar and Gazipur Thanas. The population of Dhaka Megacity was 64,87,459 (Population Census 1991)
- **Statistical Metropolitan Area:** The three outlying divisional headquarters – Chittagong, Khulna and Rajshahi are termed as statistical metropolitan areas (SMA). These are delimited as follows:
  - a) Chittagong SMA: Chittagong City Corporation, whole of Hathazari Sitakunda , Pahartali and part of the Anowara and Patya Thanas.

<sup>62</sup> GOB, Ministry of Planning, Bangladesh Bureau of Statistics, The Urban Area Report 1997.

b) Khulna SMA : Khulna City Corporation and whole of Rupsha and Dighalia Thanas.

c) Rajshahi SMA: Rajshahi City Corporation and whole of Paba Thana.

- **Municipality:** Municipality includes areas designated as such under Municipality Ordinance. Municipality is a statutory town. There are 107 municipalities in Bangladesh. (Urban Area Report Nov. 1997)
- **Thana Headquarters:** The mauzas containing the Thana and adjoining urban and sub-urban areas constitute Thana headquarters, development centre and / or Thana police headquarters.
- **Other Urban Area:** These are non-municipal towns, which conform more or less to the urban characteristics by definition. Usually these are places of commercial, industrial, educational and tourist importance.

The country shows a quite uneven urban population distribution at the Zila level. In 1991, 30 areas were added to the urban frame, which were rural areas. Moreover all the SMAs expanded their areas and formed new cluster and out growth. As a result Dhaka SMAs emerged as Mega City. Between the Mega City and SMAs, Khulna SMA has the highest rate of urbanization with 65.08% followed by Chittagong SMA with 59.22%, Dhaka Mega City with 50.26% and the Rajshahi SMA with 46.58%.

Chittagong and Khulna, two industrial and port cities, have greater influences on the surrounding areas and districts and are pulling the population hastening the process of urbanization.

Dhaka, being a capital city, has the highest interaction with other districts, especially the surrounding districts resulting in the expansion of areas. Rajshahi, being a divisional headquarter and the only biggest urban centre in the northern part of the country, has the highest influence on the surrounding areas: One characteristics of urbanization in



Bangladesh is that few major urban centres (cities), are receiving a large population from the rural areas and small towns.

The population of one Mega City and three SMAs accounts for 47.19%<sup>63</sup> of the total urban population. If the trend continues, then the housing problem will be more severe in the Mega City and three other SMAs than other urban centres at the beginning of the millennium.

Among the districts, Dhaka is the most urbanized District of the country with 24.64% of its population living in the urban areas.

The growing pressure of the population of the major urban centres can be seen from the following Table 5.5:

**Table 5.5: Decadal Growth Rate of Mega City, SMA s and other Important Cities**

Name of the city	Population		Decadal growth rate
	1981	1991	
Dhaka Mega City	3446147	6950920	102.05
Chittagong SMA	1390684	2079968	49.56
Khulna SMA	652000	1016140	55.85
Rajshahi SMA	253726	549350	116.51
Mymensing	98726	188713	91.15
Sylhet	100514	117398	16.80
Nowabgonj	57351	130577	127.68
Jamalpur	91815	103556	12.79
Tangail	77518	106004	36.75
Brahmanbaria	87570	109032	24.51
Comilla	128212	135313	5.24
Jessore	115495	139710	20.97
Barisal	142098	170232	19.80
Bogra	68749	120170	74.80
Dinajpur	88967	127815	43.67
Noagoan	52975	101266	91.16
Pabna	78371	103277	31.78
Rangpur	121888	191398	57.03

**Source:** Population census, 1991, BBS. Pp60

The decadal growth rate of urban population according to 1991 census is 69.75%. The decadal growth rate in the 14 cities (excluding SMAs) was uneven. The highest growth was 127.68% in Nawabgonj and the lowest growth was 5.24% in Comilla. It indicates that

between 1981 and 1991 the population variation in the 14 cities (excluding SMAs) was highly uneven. Between the Megacity and SMAs the variation is also quite uneven, the highest being in Rajshahi with 116.51% followed by the Dhaka with 102.05%.

**c. Migration:**

Migration has been defined as the movement of persons who change their place of residence or intend to settle in the enumeration area, which is different from the previous place of residence for at least six (6) months. There is no time limit for the migrant who changes his place of residence for marriage.

Here only internal migration has been discussed with special emphasis on rural to urban migration and intra- urban migration. For lack of data, international migration has been omitted from consideration.

According to the population census 1991, 20.15% of the total population lived in urban area. This indicates a sharp increase of 59.33% in urban population during the inter-census period<sup>64</sup>. The rapid growth in urban population may be due to rural- urban migration as well as area reclassification.

**Table 5.6: Internal Migration Rate by Division**

Direction	Migration rate
Rural to urban	51.80%
Urban to urban	4.36%
<b>Total Urban Migration</b>	<b>56.16%</b>

In 1991 census the total urban immigration rate was 56.16% where rural urban migration rate was 51.80% and that of intra-urban migration rate was 4.36%<sup>65</sup>.

<sup>63</sup>GOB. Ministry of Planning, BBS., Population Census Report 1991.

<sup>64</sup>GOB.: BBS, Ministry of Planning, Population Census 1991.

### 5.3.2 Macro-Economic Factors

Macro – economic factors influence the choice of entering apartment market. There are three major macro- economic factors that affect the development of apartment projects:

(a) rate of economic growth (b) rate of inflation and (c) rate of savings etc. Higher rate of economic growth leads to increased income to people. With the economic growth of the country more people are likely to be economically able to afford a house with necessary facilities. Savings are also an important factor for the people to buy apartment. Because, in the absence of institutional loans for purchasing apartment, personal saving is the source of finance for their real estate investment

Apart from economic growth and savings, the rate of inflation also affects the decision to make real estate investment. Inflation leads to the loss of purchasing power. To cope with inflation, people try to hold those assets, which have less purchasing power risk. Real estate is the most widely chosen asset that is believed to have least purchasing power risk in Bangladesh. Therefore, in the presence of high rate of inflation, people are likely to invest more in real estate.

### 5.3.3 Legal Framework

There are so many laws, which affect the behaviour and functions of housing establishment.. These are National Housing policy, 1993 (As amended in 1999), Premises Rent Control Act, 1991, Companies Act, 1994, Partnership Act 1932, Building Construction Act 1952 (E. B. Act. 11 of 1953) amended in 1987, RAJUK Building Code 1996 (RAJUK Imarat Nirman Bidhimala 1996), the State Acquisition and Tenancy Act 1950, the Transfer

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<sup>63</sup> GOB. Ministry of Planning, BBS, Urban Area Report 1997.

of Properties Act 1882, and the Non- agricultural and Tenancy Act 1949 and Stamps Act, 1991.

Apartment Companies function under the legal status of companies or a firm, like any other Public or Private Companies or a Firm, Apartment Company has to abide by the Companies Act, 1994 or Partnership Act 1932 .The Companies Act 1994 defines legal framework for formation, management, responsibilities and winding up of companies.

As a part of their functioning, apartment companies are to procure land for housing at the primary stage. They procure mostly vacant high land at city centre. The State Acquisition and Tenancy Act 1950 allows Transfer of Ownership of land or part thereof to any other persons. This Act requires that every transfer of agricultural land take place through a registered deed. It defines the legal framework for the purchase of land by the apartment companies from others to accumulate and develop the land under its planned area. The Non-Agricultural and Tenancy Act 1949 defines the legal framework for the transfer of non-agricultural land and it should take place through registered deed. The procurement of non-agricultural land by the apartment company, the transfer of land and apartment to the apartment buyer and subsequent sale of apartment (if any) by the apartment owner are governed by this Act. The Transfer of Properties Act 1882 defines the legal provisions relating to the sale, lease and mortgage of immovable properties. This act requires that every sale of immovable property take place through a registered document.

Objectives of the Building Construction Act 1952 (as amended in 1987) are to provide for prevention of haphazard construction of building, excavation of tanks (Digging), cutting of hills etc. The principal piece of legislation is the Premises Rent Control Act 1991 (The legislation has been prepared in Bengali and is known as Bari Bhara Niayantran Ayin 1991) The Act is based on numerous previous Acts with various amendments starting with the

Bengal House Rent Control Act 1942. Rent Control Act comprising 36 sections describes mainly: Provisions regarding Rent and Salami (Advance), suits and proceedings for eviction, deposit of rent when land lord refuses to accept, making of repairs and taking of measures for the maintenance of essential services and penalties for charging rent, higher than the standard rent

#### **5.3.4 Competing Housing Institutions**

A person intending to build a house for his accommodation may approach any organization, which will ensure less cost, more facilities and better service. Apartment companies can be a choice for a person. But there are few other alternatives, which a person may consider for owning a house. These are housing schemes of town development authority like Rajdhani Unnayan Katripakkha (RAJUK), Other city development authority like RDA (Rajshahi Development Authority), KDA ( Khulna Development Authority) and CDA ( Chittagong Development Authority). All of them are engaged in the development of their respective city areas. Housing and Settlement Directorate (HSD) and housing cooperatives are other alternatives. Rajdhani Unnayan Katripakkha (RAJUK) undertakes housing schemes in the Dhaka City as a part of its town planning efforts. Its housing schemes are well planned and incorporate adequate physical facilities. Generally its housing schemes are located nearer to the city centre. Allottees of RAJUK's housing schemes can obtain land at lower price than the market and as a result, demand for such plots are far higher than RAJUK can supply .RAJUK's housing schemes include Dhanmondi, Banani, Gulshan, Uttara, Baridhara and Nikunja.

Housing and Settlement Directorate (HSD) of the Government of Bangladesh undertakes housing schemes mostly for middle- income people. Its plots are smaller in size. Its plots

are also cheaper and demand for these plots is very high. But physical facilities of these housing schemes are not adequate compared to those of RAJUK's schemes.

Apartment projects have been growing enormously since liberation to play a greater role in the housing sector. These are mostly involved in bringing low and swampy areas under improvement, development of existing land by terracing, leveling etc. and in the construction of multistoried flats and apartments with a view to reselling them.

### **5.3.5 Fiscal Policies**

The fiscal policy of the government has some impact on the development of apartment business. Fiscal policy affects the housing business in many ways- Value Added Tax (VAT) is to be paid @ 15% on apartment company at the time of purchasing materials, machinery and equipment. The registration charge for transfer of land has to be borne by the apartment company. This is required for the apartment companies when they buy land from private parties for the housing site and subsequently when titles of flats are transferred to the buyers. Secondly, VAT is to be paid by the apartment buyer on the purchase price of apartment @ 4%. Again the net income of apartment companies will be taxed at normal income tax rate.

### **5.3.6 Cost Benefit Factors**

The rental income from houses would be considered adequate by the apartment buyer if their investment involved in house building fail to earn higher return compared to other investments. In other words, buyers will be reluctant to buy more houses for rental income if the opportunity cost of their investment is higher than the rental income. If the house

building investment is financed by loans, rental income must be sufficient to service interest expense.

### **5.3.7 Financing Opportunities**

In developed countries, institutional loans are available both for land and building. In Bangladesh, loans are available for house building but generally not for the purchase of land. Bangladesh House Building Finance Corporation (BHBFC) and a few commercial banks provide loans subject to a margin and a maximum ceiling. The only government owned housing finance institution, BHBFC's loans are generally cheaper than other commercial loans. Recently private sector housing finance institutions have come forward in this sector. These are Delta Brac Housing Finance Corporation (DBH) and National Housing Finance and Investment Ltd. (NHFIL). The two companies are licensed from Bangladesh Bank as financial institutions. They are involved in financing the apartment buyers at 15%-16% simple interest rate. They are not expanding their hands to the developers. But very recently NHFIL has sanctioned project loan to the few developers. DBH is thinking of providing finance to the developer. In a very few cases, employers of various organizations provide loans to their employees for both land and building. Government employees are entitled to get some house-building loan, which is very insufficient.

### **5.3.8 Infrastructure**

Necessary infrastructure is a precondition for developing apartment companies. First, there must be adequate and cheap land for a housing site within the main city or city areas. Second, there must be road connections from the housing site to the city centre. Without good or potentially good road connections, people will be reluctant to buy apartment in that

area. Third, utility services must reach or are expected to reach project site. In the absence of utility services like electricity, water and gas, people will not build their houses in the site, even if they purchase a plot there.

### **5.3.9 Social Facilities**

The project must be situated where standard educational institutions, hospitals, mosque and shopping centers will be available. If these social facilities are not available in the projects site then the prospective buyer will lose their interest to buy an apartment in that site.

## **5.4 PROMOTERS OF APARTMENT COMPANIES**

Dependable statistics of Promoters of the real estate companies of Bangladesh are rare. It was estimated that around 500 real estate companies were existed in the country. They were contributing to solve the housing scarcity in Bangladesh. Though their motive was business oriented but the ultimate goals of such business was to strengthen the housing settlement programs of United Nations all over the world for the welfare of the urban populations where severe housing crises were exists. Being a member of United Nations, Government o Bangladesh was also trying their heartiest efforts to solve the urban housing crisis through taking initiatives of different housing projects. GOB also initiatives to involved private entrepreneurs for investing in this sector since '80s. Most of these types of companies were enrolled as Private Ltd. Companies. Some were Public Ltd. Companies. But how many promoters are there in exists in these companies are unknown. The study of the promoters of the real estate companies revealed that out of 500 companies. Only prominent 19 companies were selected as sample for the study to determine the promoters' number and theirs' socio-economic characteristics.

### **5.4.1 Number of Promoters**

Fifty- four (54) promoters have drawn as sample from the sample developers. The highest number (7 promoters) of promotes was in Builders and Developers Company. Second in Eastern Housing (6 promotes), 5 in NEER Ltd. 4 in Sheltech, Shubastu, and Building for



future respectively. The table below shows (Table-5.7) the mean numbers of the promoters from the sample companies were 2.84, where standard deviation was 1.74.

**Table-5.7: Promoters of the Real Estate Company**

Name of the Real Estate Companies	No. of Promoter	Percent
Amin Mohammad Housing	1	1.9
Bashati Housing	2	3.7
BTI	1	1.9
HAL	1	1.9
Hamid Real Estate	2	3.7
BORAK	2	3.7
Sheltech	4	7.4
Structural	2	3.7
Shubastu	4	7.4
Urban Design	2	3.7
Eastern Housing	6	11.1
Building for future	4	7.4
Builders and Developers	7	13.0
NEER Ltd.	5	9.3
Rupayan	3	5.6
Rangs	2	3.7
The Tropical Homes	3	5.6
ADT	2	3.7
Concord	1	1.9
Total	54	100.0
<b>Mean numbers of Promoters 2.84, Std. deviation 1.7405</b>		

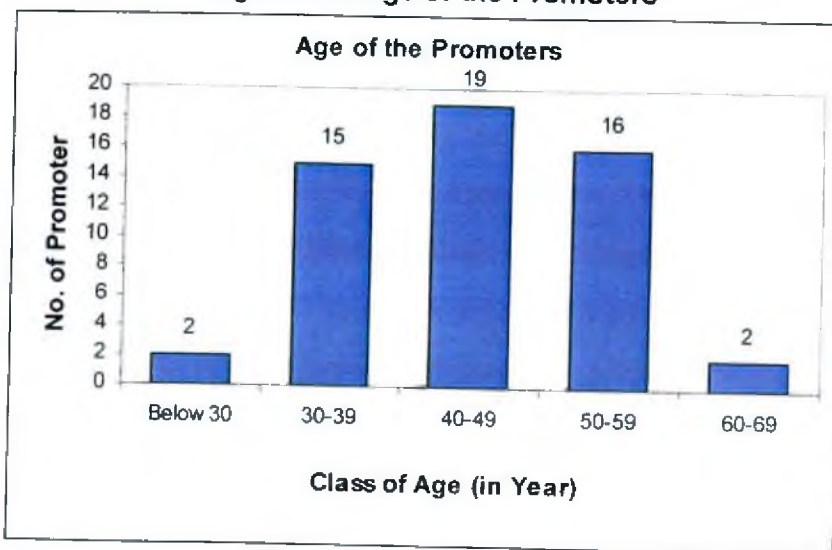
#### 5.4.2 Socio-economic Characteristics of the Promoters

Respondents have been used to construct profiles of the socio-economic characteristics of the promoters of real estate companies. Only age, education and previous occupation have been selected for analysis.

### 5.4.3 Age Distribution of the Promoters of the Apartment Companies

Across the 19 real estate companies were surveyed. Table 5.2 below shows that 19 respondents (35.2%) were aged 40 to 49 years. A further 16 (29.6%) between 50 to 59 years. And 15 (27.8%) were aged between 30 to 39 years. Only 2 (3.7%) were aged less than 30 years and 60 years and above respectively. The figure below shows the mean age of the promoters of apartment companies were around 45 years with a standard deviation of 8.73.

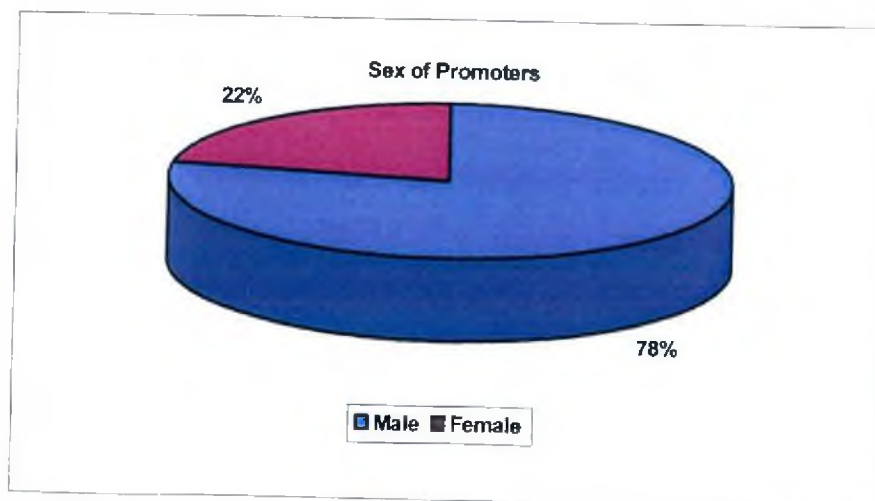
Figure-5.2: Age of the Promoters



### 5.4.4 Sex Distribution of the Promoters of Apartment Companies

Overall 79 percent promoters of the real estate companies were male, more than three times higher than their female counterparts (Figure-5.3)

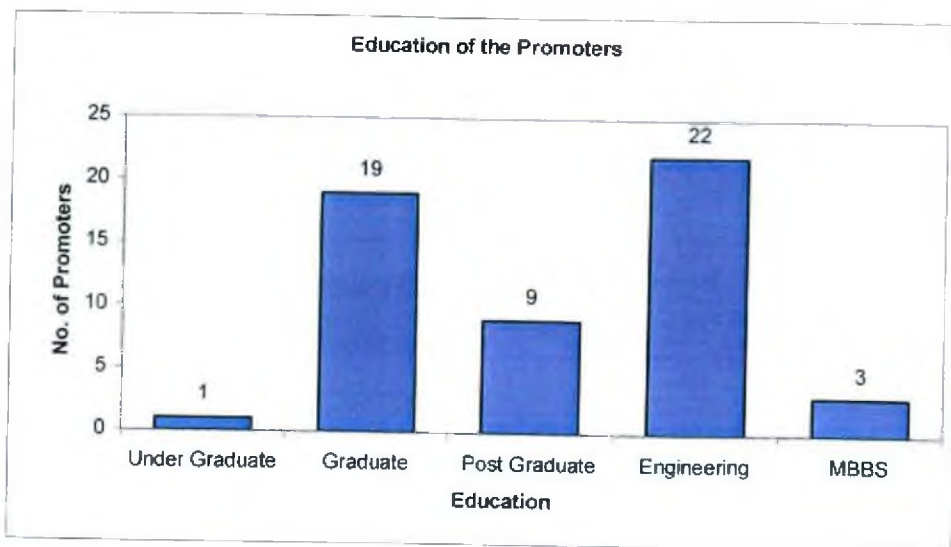
Figure-5.3: Sex Distribution of the Promoters



### 5.4.5 Educational Status of the Promoters of Apartment Companies

During the interview the educational qualifications of the promoters of apartment companies were recorded. The educational profile of the promoters is presented in the following Figure-5.4. Among the promoters from the 19 real estate companies, 22 (41 percent) had engineering degree. Nineteen (35.2 percent) had a graduation degree and further 9 (16.7 percent) had a master's degree. Three (5.6 percent) promoters were found having MBBS degree. Only one promoter was under graduate. So, engineering degree holders are showing interest to the apartment business.

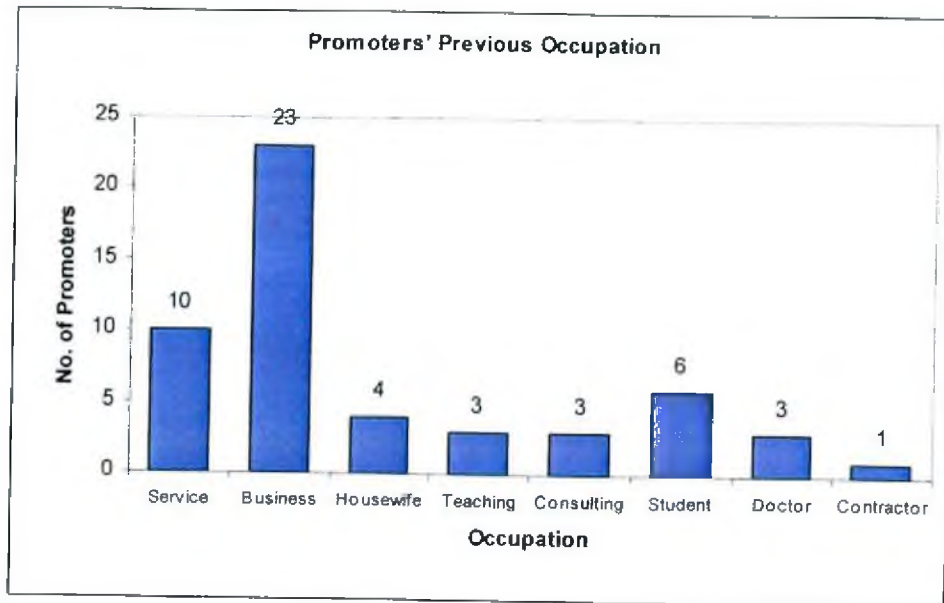
Figure-5.4: Educational Status



### 5.4.6 Previous Occupation of the Promoter

Previous occupations of the promoters of the apartment companies were found as follows: about 43% (23 out of 43), 19% (10 out of 53) and 11% were found as business, service holders and students before the promoters of the apartment companies entering in this business. Seven point five percent (7.5%) were found from housewives, and 5.7% from teaching profession, consulting and doctors respectively. Only one promoters' previous occupation was contractor. One promoter did not respond in this connection and he is excluded from the analysis (Figure-5.5).

Figure-5.5 Previous Occupation



The study surveyed 54 numbers of entrepreneurs from the sample developers. The average number of entrepreneurs was 2.85 or 3. The average age of promoters is 45 years. Forty- one (41%) percent of promoters is engineer. Some promoters are found the student of BUET. A few doctors are also doing apartment business.

## 5.5 APARTMENT DEVELOPER

### 5.5.1 Number of Companies Selected for this Study

About 500 companies are working in housing business especially apartment business in Bangladesh for the solution of shelter situation. During the study period it was found that only 87 members are enlisted under an association named Real Estate and Housing Association of Bangladesh (REHAB). They are actively working in this sector. From the members of this association 21 developers were selected purposively, which covers one fourth of the total member,

### 5.5.2 Type of the Company

The study shows that the majority of the sample companies (18 out of 21 companies) are private limited companies (86%), whereas only 14% companies are public limited

companies (Table-5.7). Out of 3 public limited companies, one is a non-traded public limited company and the other two companies are listed in DSE and CSE. The reason behind such pattern of ownership may be due to the fact that the capital market in our country is yet to flourish. So it can be concluded that the apartment business is being controlled by private limited companies (Table 5.8).

**Table 5.8: Type of Apartment Companies**

Type of the Company	Frequency	Percent
Public Ltd. Company	3	14.3
Private Ltd. Company	18	85.7
<b>Total</b>	<b>21</b>	<b>100.0</b>

### 5.5.3 Age of Companies

The present study shows that the age of a large proportion of the sample apartment companies (62%) was between 5-9 years. On the other hand, 19% of them were 0-4 years old. Fourteen percent of the sample companies were in the age group of 15 and above. So it appears that the most of the housing companies were newly established. The apartment business is a recent phenomenon in our country (Table 5.9).

**Table 5.9: Age of Companies**

Class of Age	No. of companies	%
0-4	4	19
5-9	13	62
10-14	1	05
15 & above	3	14
<b>Total</b>	<b>N=21</b>	<b>100</b>

### 5.5.4 Number of Shareholder of the Company

The survey reveals that most of the private companies, that is 15 (83.3%) out of 18 private companies are partnership type and the range of the members of those companies are between 2 to 7. It can be said that many companies are involved in apartment business but the owners are not numerous compared to the number of companies. Three public limited

companies had minimum of seven shareholders and maximum number is dependent on the maximum number of shares of the company. Table No-5.10 shows the number of shareholders of the private companies:

**Table 5.10: Number of Shareholder of the Private Companies**

# of Shareholder of the Com.	Frequency	Percent
2	7	34.0
3	4	19.0
4	3	14.0
5	3	14.0
6	1	05.0
7	3	14.0
<b>Total</b>	<b>21</b>	<b>100.0</b>

Source: Field Survey

### 5.5.5 Objectives of Entering into Apartment Business

The study identified various reasons for which the present apartment companies came into this business. Table-5.11 shows that all sample companies came into this business as they thought it had lucrative profit potential. Eighty six percent (86%) of the apartment companies opined that they came into the apartment business as they thought it would help to solve housing problems of the urban areas. It also shows that 48% of the companies had taken into account that apartment business would create job opportunities.

**Table 5.11: Objectives of the Company Entering into Apartment Business**

Objectives	Frequency	Percent	Valid Percent
Potential lucrative profit	21	43.0	100.0
Solve housing problems	18	37.0	86.0
Create job opportunity	10	20.0	48.0
Total (N=21)	49	100.0	234.0
* Percentage distribution exceeded 100% due to multiple responses.			

Source: Field Survey

### 5.5.6 Year of Establishment of the Company

The apartment companies of Bangladesh started investment in housing sector since 1964 with a view to solving housing need in urban areas. Only one company (Eastern Housing Ltd.) was established before the emergence of Bangladesh. The survey shows that 19% of the companies were established before 1990, but most of the companies were established during 1993-1995 (42.9%). After 1996 the growth of apartment companies slowed down and only 19% of the companies came up during this period. Table 5.12 depicts that there was a growing tendency of apartment companies since 1990 but slowed down from 1996.

**Table 5.12: Distribution of Apartment Companies According to the Year of Establishment**

Year of Establishment	Frequency	Percent
Before 1990	4	19.0
1990-1992	5	23.8
1993-1995	8	38.1
1996-1998	4	19.0
<b>Total</b>	<b>21</b>	<b>100.0</b>

Source: Field Survey

### 5.5.7 Investment of the Sample Companies in other Business besides Apartment Business

An attempt was made to identify whether the promoters of apartment companies had any other business and the nature of their additional business. Forty eight percent of the companies did not have any other business. On the other hand 52% of the companies have other business such as consulting firms, trading and manufacturing, food processing and building materials etc. (Table 5.13). This indicates that they are doing this business professionally.

**Table 5.13: Company Engaged in Other Business**

Response	Frequency	Percent
Positive	11	52.4
Negative	10	47.6
<b>Total</b>	<b>21</b>	<b>100.0</b>

Source: Field Study

### 5.5.8 Nature of Business Other Than Apartment

Majority of the apartment developers were engaged in other businesses besides apartment business. The study tried to identify their types of business. Their businesses are not related with apartment business. One hundred and nine percent of the apartment companies are industrialist (Textiles, Ceramics, paper Poultry, Toiletries, Hatchery, Garments, Food etc). Eighty one percent samples responded that they are engaged in IT business, Air Lines, Buying House, Recruiting Agent, Oil & Trading. Fifty five percent developers responded that they had land business besides apartment. Twenty seven percent of the samples also engaged themselves in consultancy regarding plan and design of apartment (Table 5.14).

**Table 5.14: Nature of Business other than Apartment**

Type of Business	Frequency	Percent	Valid Percent
Land Project	6	20	54.5
Consulting	3	10	27.3
Industry (Textile, Ceramics, paper Poultry, Toiletries, Hatchery, Garments, Food etc)	12	40	109.1
Others:(IT, Air Lines, Buying House, Recruiting Agent, Oil & Trading)	9	30	81.8
Total	30	30	272.7
Not Applicable	10	100	
<b>Total (N=11)<sup>a</sup></b>	<b>21</b>	<b>47</b>	

<sup>a</sup> Out of 21 Developers 11(52.4%) are engaged with other than apartment business, rest 47.6% Developers are exclusively doing apartment business. Hence they are excluded from the percent distribution. Percentage distribution exceeded 100 because the sample developers had multiple businesses

Source: Field Survey

### 5.5.9 Factors Considered for Selecting the Site of Apartment by the Developers

When a developer decides to start a housing project, he usually considers various factors. Table No- 5.15 shows these factors. Seventy six percent (76%) of the sample developers have given maximum emphasis on the prime location i.e. location in the center or heart of the city. Sixty seven percent (67%) of the sample developers replied that they considered the communication facilities. Sixty two percent (62%) of the respondents opined in favor of marketing aspect, while some have given emphasis on social facilities.



**Table 5.15: Factors Considered for Selecting the Site of Apartment by the Developers**

Serial No.	Factors considered for selecting the Project site	Frequency	Percentage	Valid Percentage
1	Availability of Land	2	3%	9%
2	Scope of Utility Services	4	5%	19%
3	Elite Area	7	9%	33%
4	Communication / Location	14	19%	67%
5	Cost of Land	5	7%	24%
6	Densely Populated Area	2	3%	10%
7	Center of the City	16	21%	76%
8	Social Facilities	12	16%	57%
9	Marketing Aspect	13	17%	62%
<b>Total</b>	<b>N=21<sup>a</sup></b>	<b>75</b>	<b>100</b>	<b>357</b>

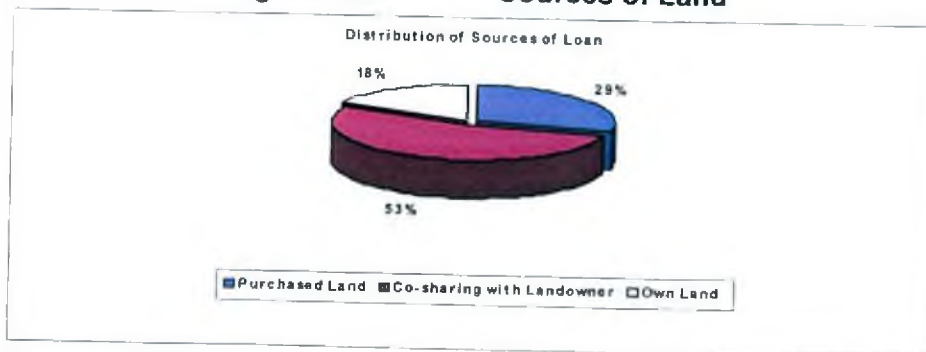
a Valid percentage is exceeded 100 because one respondent gave more than one response.

Source: Field Survey

### 5.5.10 Land

Land is the basic component for making apartment. But the supply of land is limited. Both public and private sector face its scarcity. The apartment developer collects land from various sources. The Figure-5.6 shows the sources of land. In 53% cases land was obtained on co-sharing with the landowner. The second important source was the purchase of land (29%). Some developers have used own land for their project. The single project developers normally use their own land.

**Figure 5.6: Sources of Land**



Source: Field Survey

### 5.5.11 Co-Sharing with the Landowner

The Developer enters into an agreement with the landowner to develop the land. The basis of agreement may be the sharing of apartments or cash payments or both. Sometimes the landowner may take initiative and find a suitable developer for development of his land with

the aforesaid agreement. But the very recent phenomenon is different. The developers are searching for vacant land for developing projects because number of developers increased compared to vacant and suitable land in the urban areas. Another phenomenon has been observed in the study that due to shortage of open space the developers develop the existing building or house from the foundation after demolishing the existing building as per agreement with the landowner for sharing apartments. Table 5.16 shows the co-sharing percentage of the landowner. The average share enjoyed by the landowner is 48.2% with the standard deviation of 21%. The modal rate is forty percent for the landowners. But this sharing ratio is influenced by the other factors, i.e., size of land, location, number of floors and flats, quality of construction and utility provided and reputation of the developers etc.

**Table 5.16: Co-sharing percentage of Landowner**

Co-sharing % of Landowner	Frequency	Percent
30	3	14
33	1	5
35	1	5
37	2	10
40	13	61
60	1	5
Total	21	100.0
<b>Mean = 48.20%, Mode=40%, Std. Deviation =21%</b>		

Source: Field Survey

#### 5.5.12 Co-sharing % of Developer

Table 5.17 shows that the sharing ratio of the developers. The developer enjoyed major portion of the share, which averaged 67% with small standard deviation of 12%. The modal percentage was 60%.

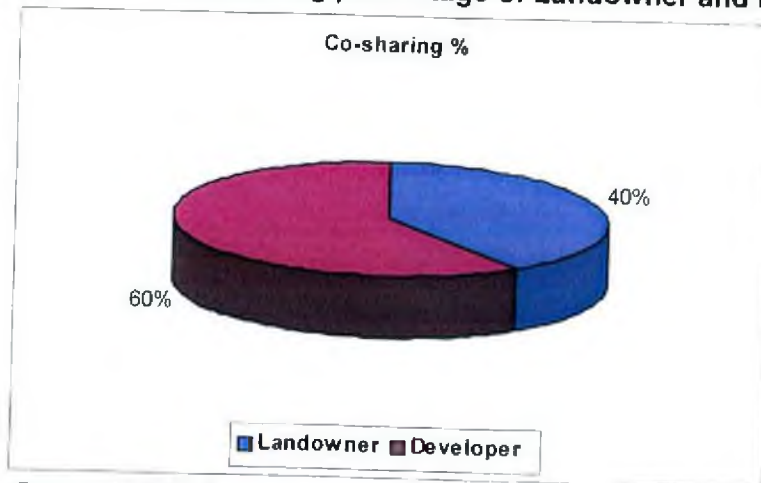
**Table 5.17: Co-sharing percentage of Developer**

Co-sharing % of Developer	Frequency	Percent
40	1	5.0
60	10	48.0
63	6	28.0
65	1	5.0
67	1	5.0
70	2	9.0
Total	21	100.0
<b>Mean = 67%, Mode=60%, Std. Deviation =12%</b>		

Source: Field Survey

It was found that the co-sharing ratio between developer and landowner was 60:40. Initially the developers' portion was higher. Land scarcity reduced the developers' portion gradually. Now this ratio is more or less fixed (Figure 5.7).

**Figure 5.7: Co-sharing percentage of Landowner and Developer**



Source: Field Survey

### 5.5.13 Status of Land before Construction

Attempt was made to identify the status pattern of land used for apartment projects. Apartment projects were developed generally in the prime location of Dhaka City. Most of these lands were vacant and high. The survey showed that 95% of developers used vacant high land. Due to scarcity of vacant land in the suitable areas, the developers also used the land with constructions. Fifty seven percent of the sample developers used these type of land. A negligible percent of swampy and agricultural land were used for some projects by the developers. Very recently many developers switched over from the prime location of the main cities and extended their operation in the outskirts of the city and used swampy and agricultural land for developing their projects (Table 5.18).

**Table 5.18: Status of the Land at time of Purchase**

Status of the Land	Frequency	Percent	Valid Percent
Vacant High Land	20	58.8	95.2
Land With Construction	12	35.3	57.2
Others : (Agricultural Land, Swampy Land)	2	5.9	9.5
<b>Total (N=21)<sup>a</sup></b>	<b>34</b>	<b>100.0</b>	<b>161.9</b>

<sup>a</sup> Percentage distribution exceeded more than 100 because of multiple status of land at the time of purchase.

### 5.5.14 Total Number of Apartment Units in a Project with various Location

The average number of apartment units in a project was 59 units with a minimum of 10 units and a maximum of 220 units. The standard deviation of apartment units was 60.41. Number of apartment units in a project was very high in Economy area where 32% projects lie in the class of 20-29 units class. Twenty two percent projects in Economy area contained more than 80 units in a project. In Moderate area 88% projects contain 20-29 units in a project. In Luxury area most of the projects lie between 20-29 units but modal number is 20 units. In conclusion it can be said that projects of Luxury area contained a small number of units in a project whereas large number of apartment units in a project are in Economy area (Table 5.19).

**Table 5.19: Cross- Tabulation of Total Number of Apartment Units in a Project with Location**

Total Number of Apartment Units in a Project	Count	Location of the Apartment Project			Total
		Luxury Area	Moderate Area	Economy Area	
Below 20	Count		3	11	14
	% of Total		2.5%	9.2%	11.7%
20-39	Count	7	22	28	57
	% of Total	5.8%	18.3%	23.3%	47.5%
40-59	Count	1		15	16
	% of Total	.8%		12.5%	13.3%
60-79	Count			14	14
	% of Total			11.7%	11.7%
80 & above	Count			19	19
	% of Total			15.8%	15.8%
Total	Count	8	25	87	120
	% of Total	6.7%	20.8%	72.5%	100.0%

Source: Field Survey

### 5.5.15 The Size of Apartment Units on Location basis

The average size of the apartment units was 1593.45 sqft. The size of sample apartment units varies from 775sft-2700 sqft. The standard deviation of the apartment size was 475.95 sqft. In Luxury areas the apartment size was bigger than other areas. The survey revealed that all apartment units in Luxury area were of more than 1400 sft, where 50% was more than 1800sqft. In Moderate area the size of 20% apartment units was less than 2200 sqft and 32% apartment size was more than 2200 sqft. In Economy area the size of 63%

apartment units were below 1800 sqft. A small percentage (11.5%) of apartments are above 2200sqft size. So it can be concluded that in luxury area apartment size was larger and in Economy area the apartment size was smaller (Table 5.20).

**Table 5.20: Cross-Tabulation of the Size of Apartment Units on Location**

Size of the Apartment Unit (in SFT).		Location of the Apartment Project			Total
		Luxury Area.	Moderate Area.	Economy Area.	
Below 1000	Count			15	15
	% of Total			12.5%	12.5%
1000-1399	Count		2	26	28
	% of Total		1.7%	21.7%	23.3%
1400-1799	Count	4	7	22	33
	% of Total	3.3%	5.8%	18.3%	27.5%
1800-2199	Count	4	8	14	26
	% of Total	3.3%	6.7%	11.7%	21.7%
2200 & Above	Count		8	10	18
	% of Total		6.7%	8.3%	15.0%
Total	Count	8	25	87	120
	% of Total	6.7%	20.8%	72.5%	100.0%

Source: Field Survey

#### 5.5.16 Means of Financing of the Projects

Finance is the main strength of a business organization. The apartment business is much more capital intensive. It requires for both long-term and short-term finance. But in apartment business huge amount of long-term capital is required at the commencement of the projects. The apartment developers mostly used their own resources and advances received from the prospective buyers as booking money. In the study, out of 21 developers, 16 (76.2%) obtained loan and the rest (23.8%) used own sources of finance. The study revealed that all the apartment developers used booking money as a major source of finance. All of them used private commercial banks as their sources. Only 14% developers enjoyed the loan from Nationalized Commercial Banks (NCB). Rest 14% developers used informal source, which includes loan from relatives and friends, loan from family members. Those (14%) developers did not disclose their sources, and they basically enjoyed advance money taken from the prospective buyers (Table 5.21)

Table 5.21: Sources of Getting Loan

Sources	Frequency	Percent	Valid Percent
Loan from NCB	2	11.1	14.3
Loan Private Banks	14	77.8	100.0
Loan from Informal Sources	2	11.1	14.3
<b>Total (N=21)<sup>a</sup></b>	<b>18</b>	<b>100.0</b>	
NA	5	23.8	
Total	5		

<sup>a</sup> Out of 21 Developers, 16 (76.2%) have been getting loan and the rest 23.8% of the sample developers used own sources of finance. Therefore, 5 developers were excluded from the percent distribution. Percentage distribution exceeded 100 because of getting loan from multiple sources.

**Source:** Field Survey

### 5.5.17 Loan for Financing Projects

Apartment project loans are not available in our country's perspective. Some private sector commercial banks finance apartment project loan on a limited scale. As a huge capital-intensive industry the apartment developers always are seeking project loan at a minimum cost and on easy terms and conditions. But all the developers did not enjoy loan facility. In the survey, out of 21 developers, 16 developers, (76%) obtained loan from formal and or informal sources. The remaining 24% samples used their own source.

### 5.5.18 Potential Sources of Loan

The respondents were asked to list the potential sources of loan for the apartment developers. Their views are shown in Table 5.22. Major sources of loan are private and foreign banks (95.2%). Private Housing Finance companies, Leasing and Insurance companies are the second potential source. Thirty eight percent of the respondents viewed that the foreign Investors, NGO and other loan giving agencies may be potential sources. Advance from the customers is the very interesting source (9.5%). The newly established private housing finance companies may be the dominating suppliers of the project loan. DBH has not yet sanctioned apartment development loan to the apartment developers. NHFIL is the first housing finance company, which has started apartment project loan to the apartment developers.

Table 5.22: Potential Sources of Getting Loan

Sources	Frequency	Percent	Valid %
Govt. Sector (NCBs & BHBFC)	9	17.6	42.3
Private & Foreign Banks	20	39.2	95.2
Private Housing Finance Co., Leasing Co. & Insurance Co.	12	23.5	57.1
Foreign Investors, NGOs & Different Loan Giving Agency	8	15.7	38.0
Advance from Customers & Personal Loan	2	4.0	9.5
Total	51	100.0	242.1
<b>Total (N=21)<sup>a</sup></b>	51	100.0	

<sup>a</sup> Percentage distribution exceeded more than 100 because of multiple potential sources of getting loan.

Source: Field Survey

### 5.5.19 Loan sources, Duration and Cost of Loan

#### A. Amount of Loan

Only one company, Eastern Housing Ltd. has been enjoying the loan from government sector,. Total amount of loan was Tk.2512.6 Lac. Ten companies (48%) had taken loan from private banks and the average amount of loan was Tk.656.1 Lac with a minimum loan amount was Tk.25 Lac and a maximum of Tk.2500 Lac, the standard deviation of loan being Tk.798 Lac.

#### B. Duration of Loan

Apartment companies require huge amount of loan with large amortization period. But the commercial banks never showed their interest about loan sanctioning on the long-term sector. NCBs are guided by the government policy, which is normally executed through Bangladesh Bank and the MOF. But the NCB's borrower respondents did not respond about the duration of loan. The study shows that the average loan period of private banks was 3 years and loan period varied from 2 years to a maximum of 5 years and the standard deviation was 1.37 years.

### C. Cost of Loan / Rate of Interest

Cost of loan is the most important factor for the loan seeker. NCBs' average rate of interest was 15.5%. The average rate of interest in case of private banks was 15.70%, with a minimum of 14%, maximum of 17%, and standard deviation was only 95% (Table 5.23).

**Table 5.23: Cost of Loan / Rate of Interest**

Particulars	N	Minimum	Maximum	Mean	Std. Deviation
Amount of Loan from NCBs (Tk. in Lac)	1	2512.60	2512.60	2512.60	.
Amount of Loan from PB (Tk. in Lac)	10	25.00	2500.00	656.1000	798.209
Duration of Loan from NCBs (in Year)	0				
Duration of Loan From P B (in Years)	8	2.00	5.00	3.0625	1.3742
Rate of Interest From NCBS Loan (%)	1	15.50	15.50	15.5000	.
Rate of Interest from Private Bank (%)	10	14.00	17.00	15.7000	0.9487

Source: Field Survey

#### 5.5.20 Employment of Consultants for Planning and Designing

Apartment companies require technical persons for planning and designing of their projects. For this purpose they may employ permanent employees or they can hire consultant firms. The study revealed that the sample apartment companies employed consultant firms for planning and designing. Table No-5.24 shows that 86% of the developers employed consultant firms and 14% did not employ any consultant firm. In the latter case they performed this work through their own consultants. Eighty nine percent of the sample companies engaging consultants employed local consultant firms and 33.33% of them employed foreign consultants.

**Table 5.24: Employment of Consultants Firm for Designing**

Consultant's Firm Employed	Status	Frequency	Percent	Valid Percent
Employed Consultant's Firm	Local	16	72.7	88.9
	Foreign	6	27.3	33.3
	Total (N= 18) <sup>a</sup>	22	100.0	122.2
Not Employed Consultant's Firm		3	14.3	
Total		21	100.0	

<sup>a</sup> Percentage Distribution exceeded 100 because the developers employed both local & foreign consultant's firm.

Source: Field Survey



### 5.5.21 Facilities Provided in the Apartment Project

In addition to physical facilities the apartment companies provided various facilities in the project sites. Some were utility services and some were social services. The **utility services** included water supply, electricity, gas, generator, intercom, lift, garage, security services, community hall facilities, party space and satellite connection. The **social services** included park, mosque, community center, playground, shopping center, health club, school and swimming pool. For meaningful analysis the above services were given 1 point for each service. Table No-5.25 shows that 52.4% of the sample companies provided 12-14 services, 19% of them provided only 9-11 utility services. Only 14.3% of them provided maximum number of utility services ranging between 18-20. The average number of facilities offered by the sample companies was 13 for both social and utility services. The standard deviation of the services provided is only 2.8.

**Table 5.25: Facilities Offered by the Company in the Project**

# of Facilities	Frequency	Percent	Valid Percent
9-11	4	19.0	19.0
12-14	11	52.4	52.4
15-17	3	14.3	14.3
18-20	3	14.3	14.3
Total	21	100.0	100.0
<b>Mean Facilities both for Utility and Social Service : 13.29, Std. Deviation : 2.80</b>			

Source: Field Survey

### 5.5.22 Cost of Construction

Developers of the apartment project constructed their apartment in different areas of Dhaka City. For the advantage of analysis Dhaka City was divided into 3 major areas: POSH area, STANDARD area and ECONOMY area. POSH areas included Baridhara, Gulshan, Banani; STANDARAD areas included Dhanmandi Lalmatia, Mohammedpur. ECONOMY areas included, New DOHS, Uttara, Indira Road, Munipuripara, Paribagh, Eskaton, Moghbazar, Siddheswari, Malibagh, Shantinagar, Kakrail and Palton etc. and Shamoli,

Mirpur, Kallyanpur, Kamalapur, Goran, Hatkhola, Tikatuli, Wari, Gandaria and outskirts of Dhaka City. Because of the variation in the value of land and construction costs from one area to another, Dhaka City was divided into these areas. Generally it was assumed that costs of construction of an apartment project were almost same for each categorized area. The findings of the study strongly supported this assumption. The total mean construction cost including land in POSH, STANDARAD and ECONOMY areas were around Tk.1680, Tk.1360 and Tk.1097 per sqft. respectively (Table No-5.26 to 5.31). The mean total construction cost excluding land, also indicated that cost per sft. was around Tk.1330 for Posh areas, Tk.1030 for STANDARAD areas and Tk.897 for ECONOMY areas.

**Table 5.26: Total Cost including Land per SFT at POSH Area**

	Total Cost (in Tk.)	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1100-1399	2	9.5	10.0	10.0
	1400-1699	8	38.1	40.0	50.0
	1700-1999	8	38.1	40.0	90.0
	2000-2300	2	9.5	10.0	100.0
	Total	20	95.2	100.0	
Missing		1	4.8		
Total		21	100.0		
<b>Mean Total Cost Per SFT Tk. 1679.60</b>					

Source: Field Survey

**Table 5.27: Total Cost Including Land per SQFT at STANDARD Area**

	Total Cost (in Tk.)	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	901-1100	4	19.0	25.0	25.0
	1101-1300	5	23.8	31.3	56.3
	1301-1500	3	14.3	18.8	75.0
	1501-1700	1	4.8	6.3	81.3
	1701-1900	3	14.3	18.8	100.0
	Total	16	76.2	100.0	
Missing	9	5	23.8		
Total		21	100.0		
<b>Mean Total Cost Per SFT at Standard area: Tk.1360.06</b>					

Source: Field Survey

Table 5.28: Total Cost including Land per SFT at ECONOMY Area

	Total Cost (in Tk.)	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	900-999	1	4.8	20.0	20.0
	1000-1099	1	4.8	20.0	40.0
	1100-1199	1	4.8	20.0	60.0
	1200-1299	2	9.5	40.0	100.0
	Total	5	23.8	100.0	
Missing	9	16	76.2		
Total		21	100.0		
<b>Mean Total Cost Per SFT at Economy area: Tk.1094</b>					

Source: Field Survey

Table 5.29: Cost per SFT Excluding Land at POSH Area

	Total Cost (in Tk.)	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	801-1200	3	14.3	20.0	20.0
	1201-1600	6	28.6	40.0	60.0
	1601-2000	5	23.8	33.3	93.3
	2001-2400	1	4.8	6.7	100.0
	Total	15	71.4	100.0	
Missing	9	6	28.6		
Total		21	100.0		
<b>Mean Cost Per SFT at POSH area excluding land: Tk.1331</b>					

Source: Field Survey

Table 5.30: Cost per SFT Excluding Land at STANDARED Area

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	501-800	2	9.5	15.4	15.4
	801-1100	8	38.1	61.5	76.9
	1101-1400	1	4.8	7.7	84.6
	1401-1700	2	9.5	15.4	100.0
	Total	13	61.9	100.0	
Missing	9	8	38.1		
Total		21	100.0		
<b>Mean Cost Per SFT at Standard area excluding land: Tk.1029</b>					

Source: Field Survey

Table 5.31: Cost per SFT Excluding Land at ECONOMY Area

	Total Cost (in Tk.)	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	701-900	5	23.8	62.5	62.5
	901-1100	2	9.5	25.0	87.5
	1101-1300	1	4.8	12.5	100.0
	Total	8	38.1	100.0	
Missing	9	13	61.9		
Total		21	100.0		
<b>Mean Cost Per SFT at Economy area excluding land: Tk.896</b>					

Source: Field Survey

**Table 5.32: Average Cost per SFT and Standard Deviation of Cost on Location basis**

Location	Including Land Cost		Excluding Land Cost	
	Mean Cost	Std. Deviation	Mean Cost	Std. Deviation
Posh Area	1679.60	279.27	1331.33	399.35
Standard Area	1360.06	303.88	1029.23	259.43
Economy Area	1094.00	138.49	896.38	181.13

Source: Field Survey

### 5.5.23 Sources of Construction Materials

Apartment production requires various types of materials. The apartment developers can procure them from either local or foreign suppliers. If they procure maximum materials from foreign market then it would involve spending of huge foreign currency. But if the companies procure their required materials from local market backward linkage industries will be benefited. But if they only use local materials the quality of apartment cannot be ensured, and their product will not be acceptable to all types of customers. So, meeting the well-off customers' demand they are to depend on imported and high quality construction materials, especially floors fittings and electrical fittings. Cost of production depends on cost of the various cost elements. If best quality construction materials are used to the maximum extent, then cost of production will increase. Type of materials to be used depends on various factors, such as location of project, prospective buyers, total price of apartment etc. The survey shows that imported materials are used in case of posh apartment or for making luxury apartment. But in developing standard apartments, the developers use local and foreign materials. But when making economy apartments they use locally produced materials to the maximum level. In civil construction cent percent materials are of local origin, irrespective of location or quality of product. Out of total requirement 73% foreign tiles and sanitary used for posh area, same rate in case of standard areas and 40% in case of economy areas. Floor fittings are used from both local and foreign sources. Mosaic is not available in our country, so, for floor fittings imported mosaics are used. Irrespective of

locations, foreign electrical fittings are mostly used but in economy apartments imported electrical fittings are used to the extent of 22% (Table 5.33).

**Table 5.33: Sources of Construction Materials**

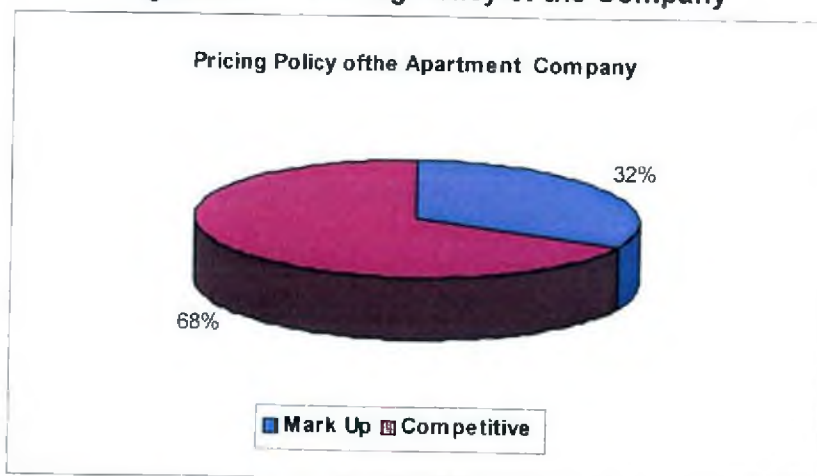
Name of Construction Materials.	Source (In %)					
	Luxury		Standard		Economy	
	Local	Foreign	Local	Foreign	Local	Foreign
Civil Construction material	94.00	6.00	94.74	5.26	91.56	8.44
Tiles & Sanitary	27.00	73.00	42.25	57.75	73.75	26.25
Floor fittings	22.00	78.00	37.50	62.50	53.44	46.56
Electric fittings	14.25	85.75	27.50	72.50	77.67	22.33

Source: Field Survey

### 5.5.24 Pricing Policy of the Company

Before marketing the product, pricing is the most important task for the producer. Many techniques can be used for product pricing. But whatever technique is used for fixing price the market mechanism is the vital factor. The survey shows that the apartment developers used two types of pricing techniques; 1. Mark up policy. (Price is fixed by adding a target percentage of profit / margin with cost of sales) 2. Competitive pricing. (Price is fixed by the interaction of demand and supply) The study found that the apartment developers employed both mark up and competitive pricing policy. Eighty one percent of the respondents replied that they employed competitive policy and only 38.1% respondents followed mark up pricing policy (Figure 5.8). It can be concluded that the developers preferred competitive pricing policy.

**Figure 5.8: Pricing Policy of the Company**



Source: Field Survey

### 5.5.25 Advertising Media Used

The study shows that the apartment companies undertook promotional efforts as a part of their marketing programs. As per **Table 5.34**, 95% of the sample companies used National Dailies as advertising media and 71% of the sample companies used Weekly/ Biweekly magazines for advertising. The companies were found to use different media for advertising, such as 76% of them used Bill - board /Hoarding, 38% of them used Radio, Television, and Brochures were also used as advertising media. Some apartment companies used personal selling strategy. Fairs were also organized by some developers jointly, e.g. "Property Fair2000" in Hotel Sheraton. Very recently many companies are also using web site as a media for sales promotion.

**Table 5.34: Distribution of Advertising Media Used**

Advertising Media Used	Frequency	Percent
National Dailies	20	95.2
Magazines	15	71.4
Radio/ TV	8	38.1
Bill Board/ Hoarding	16	76.2
Fair	2	9.5
Brochure	1	4.8
Web site	4	19.0
Personal Selling	2	9.5
<b>Total (N=21)<sup>a</sup></b>	<b>68</b>	<b>323.8</b>

<sup>a</sup> Percentage distribution exceeded 100 because the respondents used multiple advertising media.

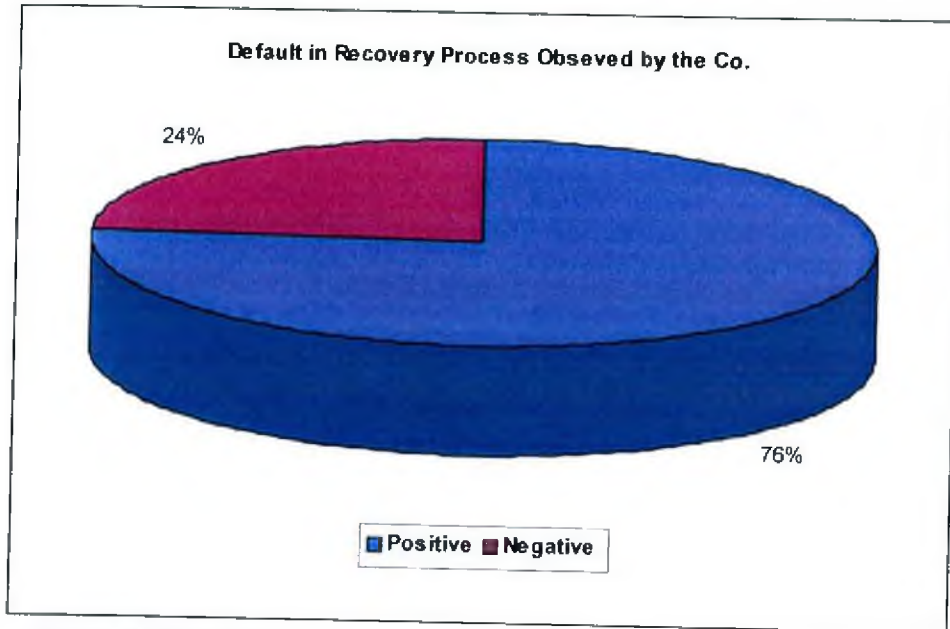
Source: Field Survey

### 5.5.26 Defaults in Recovery Process

Default is a common practice in the financial sector of Bangladesh. Apartment developers sell their apartment on installment payment system. The buyers booked the apartment with down payment. They take possession of their purchased apartment after payment of all the installments. So the developers have no risk. If the buyer fails to pay the installment money then the developers can cancel or forfeit the allotment. It was observed in true sense there was no default in payment of apartment price. Buyers, who defaulted to pay their installments duly, were allowed to pay installments with some amount of penalty and then

the situation became normal. Figure-5.9 shows that 76.2% of the sample developers had positive response about default and 23.8% of them had experience about default.

**Figure: 5.9: Default in Recovery Process**



Source: Field Survey

**5.5.27 Money Deducted from the Deposits**

Out of 21 samples, 5 (24%) samples had no experiences about default. Of the remaining 16 samples experienced default. Buyers who defaulted payment of installment were punished in different ways. Table No-5.35 shows the types of punishment. In 43% of the cases, the developers forfeited the booking money deposited by the buyers. In 19% of the cases the developers deducted 4%-10% of booking money. But in 38% of the cases nothing was deducted from the defaulters' deposits. The newly established developers were liberal in attitude and did not impose any penalty to build up their image.

**Table 5.35: Money Deducted from the Deposits (in %)**

Penalty for defaulter	Frequency	Percent	Valid Percent
4-10 percent deducted from booking money	3	14.3	19.0
Booking Money	7	33.3	43.0
Not Yet Deducted	6	28.6	38.0
Total	16	76.2	100.0
NA	5	23.8	
<b>Total</b>	<b>21</b>	<b>100.0</b>	

Source: Field Survey

### 5.5.28 Cash Discount for Prompt Payment

Offering discount is a common phenomenon in business arena. In the light of present value of money concept a reasonable discount is allowed to the advance payer. The apartment business is not an exception in this regard. In all cases the developers allowed a considerable percentage of cash discount for the prompt payment. The rate of discount was in most cases equal to the conventional bank interest rate the respondents opined.

### 5.5.29 Rebate

Rebate means allowances given by the creditors to his debtors when debt is collected before the due date. Out of 21 samples 12 samples (57%) offered rebate to the buyers and the remaining 9 samples (43%) offered no rebate (Table 5.36).

**Table 5.36: Rebate Allowed to the Buyer**

Whether allowed rebate to the Buyer	Frequency	Percent
Positive	12	57.1
Negative	9	42.9
<b>Total</b>	<b>21</b>	<b>100.0</b>

### 5.5.30 Product Quality Control Mechanism Adopted by the Company

The apartment developers followed various quality control mechanisms to satisfy their prospective buyers. More technical persons were involved in the process of apartment development. To satisfy the prospective apartment buyers, the developers are to apply dependable, acceptable and reliable techniques of control mechanisms. Table-5.37 shows the quality control measures adopted by the sample companies. These include laboratory test for construction materials by BUET, ACI, ASTM, BNBC, BSTI. etc. Cross supervision by skilled engineer (own and hired consultants), employment of skilled manpower and performance of work systematically and ensuring after sale services.



Table 5.37: Quality Control Measures Adopted by the Companies

Quality Control Measures	Frequency	Percent	Valid Percent
Laboratory test for construction Materials (BUET, ACI, ASTM, BNBC, BSTi etc.) <sup>b</sup>	11	44.0	61.1
Cross supervision by skilled engineer (own and hired consultants)	8	32.0	44.4
Using skilled manpower, best quality materials, and through systematic work	4	16.0	22.2
Others ( Warranty, after sale services, and Commitment to the buyer about quality)	2	8.0	11.2
<b>Total</b>	<b>25</b>	<b>100.0</b>	<b>138.9</b>
No Response	3	14.3	
<b>Total (N=18)<sup>a</sup></b>	<b>21</b>	<b>100.0</b>	
<sup>a</sup> Out of 21 developers, 18 (85.7%) responded about maintaining the process of quality control, remaining 3 (14.3%) samples did not mention the process. Hence, they were excluded from the analysis. Percentage distribution exceeded 100 because of multiple responses.			
<sup>b</sup> BUET= Bangladesh University of Engineering and Technology, ACI= American concrete Institute, ASTM= American Standard Testing Materials, BNBC= Bangladesh National Building Code, BSTI= Bangladesh Standard and Testing Institute.			

Source: Field Survey

### 5.5.31 Precautionary Measure Taken for Earthquake

The buyer of apartment buys only the construction and a small portion of land. Major amount is paid for construction or structure. Due to natural calamities the structure may be destroyed partially or completely. Then what would be the assurance of the buyer who has paid a large amount for it. In order to protect the interest of the buyer from earthquake 84.2% of the sample developers took precautionary measures against earthquake up to 6.5 on Richter scale. About 15.8% of them maintained the various test formula from ACSI/ ACI/ASTM (Table 5.38).

Table 5.38: Precautionary Measure Taken for Earth Quake

Types of measures	Frequency	Percent
Maintain Standard Richter Scale (Minimum- 6.5 RS)	16	84.2
ACSI / ACI / ASTM.	5	15.8
Total (N=21)	21	100.0

Source: Field Survey

### 5.5.32 Precautionary Measure Taken for Cyclone

Every year Bangladesh is seriously affected by natural calamities like cyclone, flood, tornado etc. The developers are to ensure the prospective buyers that these types of calamities will not affect their investment. It was observed that 66.7% of the sample developers considered wind velocity of cyclone and also strictly considered Bangladesh National Building Code (BNBC). Thirty three percent of the samples responded that they maintained the resistance capacity of construction up to 220 to 250 km/hour wind velocities (Table 5.39).

**Table 5.39: Precautionary Measure Taken for Cyclone**

Types of Precautionary Measures	Frequency	Percent
Maintain 240 km/hour wind velocity	7	33.3
Maintain BNBC Rules	14	66.7
<b>Total</b>	<b>21</b>	<b>100.0</b>

Source: Field Survey

### 5.5.33 Other Precautionary Measures Taken

The apartment developers took various types of precautionary measures to protect their projects. The Table No-5.40 shows them. Out of 21 developers, only 2 of them responded in this regard.

**Table 5.40: Other Precautionary Measures Taken**

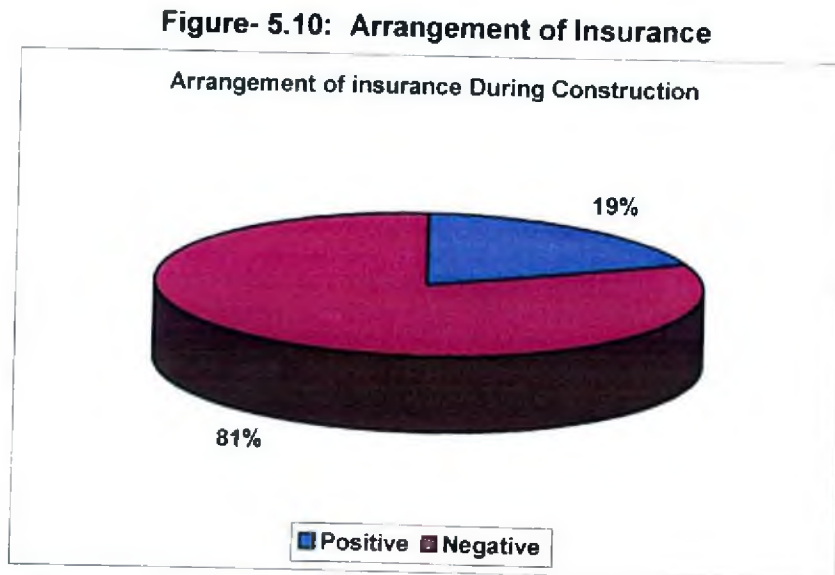
Type of precautionary Measures.	Frequency	Percent	Valid Percent
Shore Protection	2	33.3	100.0
Expansion Joint	1	16.67	50.0
Factor of Safety	1	16.67	50.0
Use of Saline free material	1	16.67	50.0
Structural design made as per ACI & ASTM code	1	16.67	50.0
<b>Total (N=2)<sup>a</sup></b>	<b>6</b>	<b>100.0</b>	<b>300.0</b>
No Response	19	60.5	
<b>Total</b>	<b>21</b>	<b>100.0</b>	

<sup>a</sup> Out of 21 respondents only 2 (9.5 %) respondents took other precautionary measures other than earth quake & cyclone. Remaining 19 (90.5 %) did not take any precautionary measure. So they were excluded from the analyses. The percentage distribution exceeded 100 because of multiple precautionary measures used by the same company.

Source: Field Survey

### 5.5.34 Arrangement of Insurance during Construction

If any abnormal loss occurs during the time of construction then the insurance company will compensate the loss if the project was insured. Seventeen samples (81%) gave negative response about insurance. So, majority of the sample developers avoided insurance. Only 19% of the samples insured their projects against unforeseen losses (Figure 5.10).



Source: Field Survey

### 5.5.35 Number of Installment Allowed

Apartment companies sold their apartment on installment payment basis. In installment selling the number of installment is a vital question. The study revealed that the average number of installments was 16.35 with a std. deviation of 8.96 and the modal number of installments was 24. If the number of installments is increased then it becomes easier for the buyer to pay the installments.

**Table 5.41: Number of Installment Allowed**

No. of Installments	Frequency	Percent	Valid Percent
Below 5	1	5.0	5.0
5-9	6	29.0	29.0
10-14	4	19.0	19.0
15-19	0	0.0	0.0
20-24	7	33.0	33.0
25-29	1	5.0	5.0
30-34	2	9.0	9.0
<b>Total</b>	<b>21</b>	<b>100.0</b>	
<b>Mean number of Installments is 16.35 &amp; Std. Deviation is 8.96 and Mode is 24.</b>			

Source: Field Survey

### 5.5.36 Time Allowed for paying Installment (in Year)

Table No-5.42 shows that the average time allowed by the apartment companies was 1.87 years with a standard deviation of 0.83 years and the modal value is 2 years. So it can be concluded here that the apartment developers mostly allowed 2 years for paying installments.

**Table 5.42: Time allowed for paying Installment (in Year)**

Time Allowed (In Year)	Frequency	Percent
Below 1 Year	3	14.3
1.00	1	4.8
2.00	11	52.3
2.25	1	4.8
2.50	3	14.3
3.00	2	9.5
<b>Total</b>	<b>21</b>	<b>100.0</b>
<b>Mean Time Allowed is 1.87 Years &amp; Std. Deviation is .83 and Mode is 2 Years.</b>		

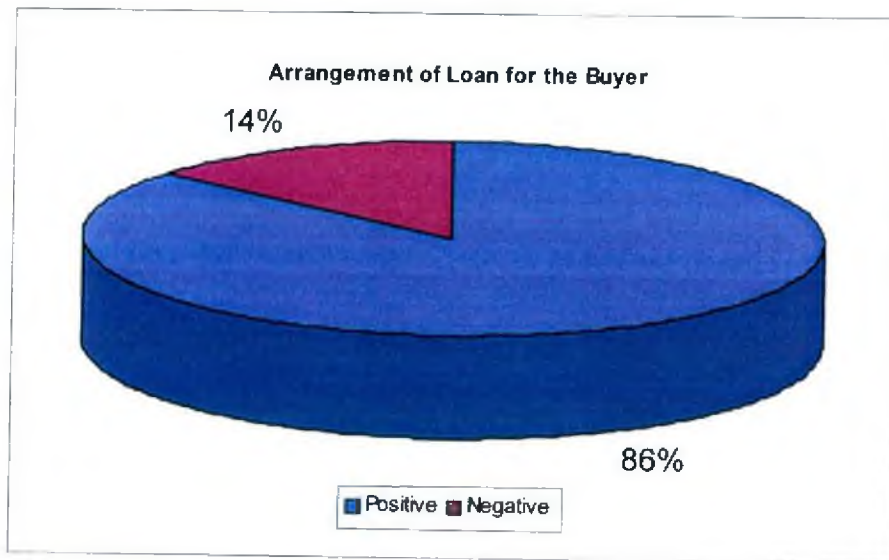
Source: Field Survey

### 5.5.37 Arrangement of Institutional Loan for Buyer

From the very beginning of apartment business in our country the buyers were very interested to buy apartment. As compared to the demand of the buyers of apartment, the number of apartment companies was few. Gradually apartment companies increased. The developers had relaxed their terms and conditions of selling apartment. They (developers)

offered some special facilities to the buyers. Arrangement of institutional loan for the buyer is one of such facilities. Out of 21 samples, 18 (85.7%) arranged institutional loan for the buyers. Fourteen percent of the samples did not arrange loan for the buyers. So it can be said that a majority of the apartment developers arranged loan for the buyers (Figure-5.11)

**Figure 5.11: Arrangement of Institutional Loan for Buyer**



Source: Field Survey

### 5.5.38 Provision of after Sale Service

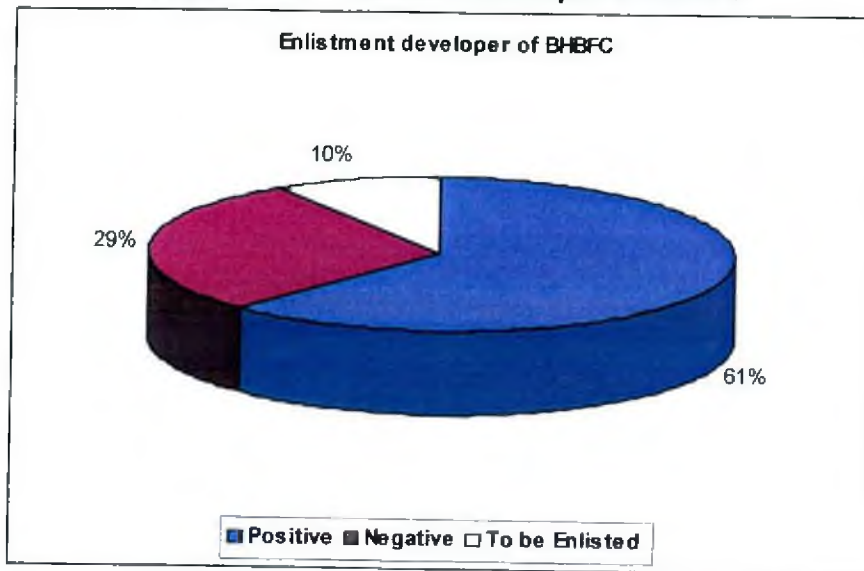
Present marketing technique call for after sale services to the buyer when durable goods are sold. Apartment selling is not exception in this respect. The present survey shows that all the sample companies were committed to provide after sale services to the buyers. The buyers also viewed that the developers were committed to provide after sale services but practically they did not execute it to the fullest extent.

### 5.5.39 BHBFC Enlisted Developers

If a developer is enlisted with Bangladesh House Building Finance Corporation (BHBFC) then the specific developer will be given priority in sanctioning loan to their clients. So apartment developers enlisted their names with the said corporation. The study found that

about 61.9% of the samples were enlisted with BHBFC. Twenty nine percent were not enlisted and 10% of the samples were in the process of enlistment (Figure 5.12)

**Figure 5.12: Enlisted Developer in BHBFC**



Source: Field Survey

#### 5.5.40 Transfer of Ownership of Apartment

After completing due formalities regarding sale, the developers are to transfer legal title of the apartment to the buyer. The developers have practiced multiple mode of transfer as reflected in Table 5.43. Ninety five percent (95.2%) of sample developers transferred the title of apartment forever including proportionate share of land. Eighty one percent of the sample (80.95%) developers leased the apartment for 99 years. Only one sample developer reported the sale of apartment only.

**Table 5.43: Ownership Transfer of Apartment**

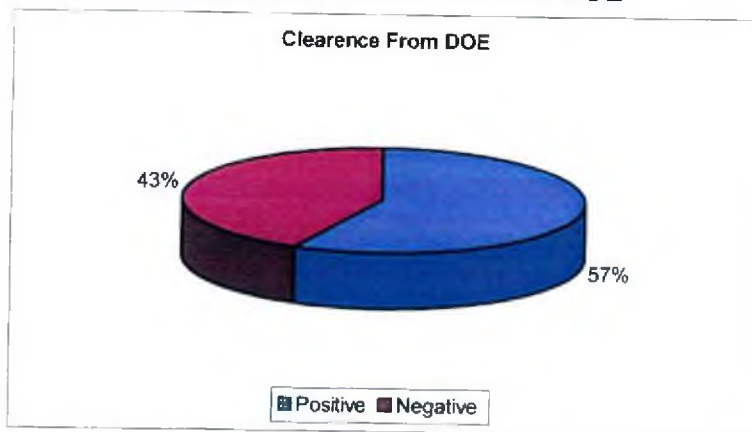
Mode of Ownership Transfer	Frequency	Percent	Valid Percent
Lease for 99 Years	17	44.7	80.9
Sale for ever (land & construction)	20	52.6	95.2
Outright Sale of Apartment only	1	2.7	4.8
<b>Total (N=21)<sup>a</sup></b>	<b>38</b>	<b>100.0</b>	<b>180.9</b>

<sup>a</sup> The percentage distribution exceeded 100 because of multiple responses.  
Source: Field Survey

### 5.5.41 Securing Clearance from Department of Environment (DOE)

Department of Environment (DOE) is the sole authority to look after the environment control of the country. Unplanned apartment development adversely affects urban environment. If the developers do not follow the RAJUK Building Code and guidelines of DOE then it will affect environment. In 1997 a rule was formulated that all apartment developers were to take clearance from DOE before starting a project. But the study shows that 43% of the sample developers did not take permission from DOE. Fifty seven percent of the sample developers reported that they took clearance. But the DOE is not in a position to execute these rules because it is suffering from manpower shortage for a long time. On the other hand, approval of plans by RAJUK does not strictly require the clearance of DOE (Figure 5.13).

**Figure- 5.13: Clearance from DOE**



Source: Field Survey

### 5.5.42 Apartment Registration Procedures

As there is no provision for registration of apartment separately, the title of the land determines the ownership of the apartment. If the companies purchase land in their own name, develop apartment and sell to the buyers then they themselves transfer the title of apartment to the buyer individually. In most cases developers did not purchase land for apartment construction for avoiding high registration cost. Developers and landowner entered into a contract of co-sharing. Due to high cost of land registration and to reduce

investment by not purchasing the land, developers agreed to give some apartments to the landowner. In such a case the landowner issues an irrevocable power of attorney to the developer authorizing him to retransfer ownership to the ultimate buyer of the apartments.

There are two types of ownership adjustment of the apartment:

**A. Joint registration:** In case of joint or proportionate registration the developer directly registers the ownership of the land in the name of the buyers. That is if there are 10 apartments on a 10 katha land then the ownership will be transferred in the name of each apartment buyer by registering 1 katha land. For RAJUK leasehold property, the land is jointly registered in the name of all apartment owners along with a Bantan Nama (apartment distribution schedule) to distinguish ownership of each apartment. However, individual document for each apartment is drawn up so that subsequently each (owner of apartment) may transfer his apartment independently.

**B. Cooperative ownership or shareholding in a limited company:** In this process the buyers form a cooperative society or a limited company. The title of the land is transferred to the name of the society. Each member of the society, being an apartment owner, holds an equal share of the society and is free to transfer the ownership of the apartment with apartment distribution schedule clearly specified.

#### **5.5.43 Expected Change in the Real Estate Business in Future**

Attempts were made to identify the expected changes in the real estate business. The expected changes may be in the direction of building houses for mid-level and lower level income groups; wider market, stringent rules and regulation for apartment sector, recognition of this sector as full-fledged industry. Almost 38% of the respondents replied that they would make apartment for the fixed and middle-income groups. Nineteen percent



expected that the apartment business would be wider. Almost 14% developers commented that the market would take multi-dimensional form. A small segment of respondents felt that rules and regulations would be established for this sector. Some replied that the scarcity of land would be acute in the metropolitan cities and government will invest in this sector (Table 5.44)

**Table 5.44: Expected Change in the Real Estate Business in Future**

Expected changes	Frequency	Percent	Valid (%)
House to be built for Mid-level & lower level peoples	8	34.8	38.1
Market will be wider	4	17.4	19.1
Well reputed and financially solvent co. will sustain	2	08.7	9.5
Rules and regulations will be established for apartment sector	2	08.7	9.5
Govt. will invest in this sector	1	04.3	4.8
The sector will expand in a multi-dimensional form	3	13.1	14.3
Scarcity of land will be acute in major cities	1	04.3	4.8
Real estate sector will be full fledged industry	2	08.7	9.5
<b>Total (Total (N=21)<sup>a</sup></b>	<b>23</b>	<b>100.0</b>	<b>109.6</b>
<b>a</b> Percentage distribution exceeded 100 because of multiple responses.			

#### 5.5.44 Suggestions about Simplification of Transfer Procedure

Suggestions were sought from the developers about the land and apartment transfer procedures. There are many problems in our country in transferring immovable property. Though the buyer purchases the apartments the developers complete the registration and transfer procedures. So they are the proper persons to say about this matter. The study collected the suggestions about this. About 62% respondents suggested the introduction of one stop service in registration. About 23% developers felt that the existing lengthy process of bureaucracy should be checked. Some (8%) suggested the reduction of the registration cost; some (15%) suggested the checking bribery and some (8%) felt that the multi-stage mutation system should be abolished (Table-5.45).

Table 5.45: Suggestions to make Transfer Easier

Suggestions	Frequency	Percent	Valid Percent
One Stop Services	8	50.0	61.5
Mutation in Several Times for Govt. owned Land.	1	6.3	7.7
Bribe should be checked	2	12.5	15.4
Lengthy process of bureaucracy should be checked	3	18.8	23.1
Reduce Registration Cost	1	6.3	7.7
Taxes should be on SFT basis	1	6.3	7.7
<b>Total</b>	<b>16</b>	<b>100.0</b>	<b>123.1</b>
No Suggestions	8	38.1	
Total (N=13) *	<b>21</b>	<b>100</b>	
* Out of 21 Developers, 13(61.9%) suggested measures to make transfer process easier while (38.1%) samples did not offer any suggestions. Hence, they were excluded from the analysis. Percentage distribution exceeded 100 because of multiple suggestions			

Source: Field Survey

### 5.5.45 Suggestions regarding Government Assistance

Suggestions were sought from the developers regarding financial assistance from the Government and its financing organization. The highest percentage (57.1%) of developers replied that loan should be supplied to the apartment project at a nominal or minimum interest rate. Around 33% developers suggested that the government should ensure long-term apartment project loan for the developers. Nineteen percent respondents felt that existing VAT and registration cost should be reduced. A small percentage of respondents suggested the provision of Government loan at the beginning of the project. They also viewed that the loan - giving agency should provide loan to the apartment buyer to increase their buying capacity. Twenty four percent developers expressed their views that the Government should supply land to the developer at a minimum rate. They desired that Government should introduce tax holiday scheme for apartment development, which would accelerate the development of apartment, and mitigate the housing problems. Utility services (Gas, Electricity and Water & sewerage) should be arranged promptly for commercial apartment development (Table 5.46).

**Table 5.46: Suggestions to Govt. for Financial Assistance**

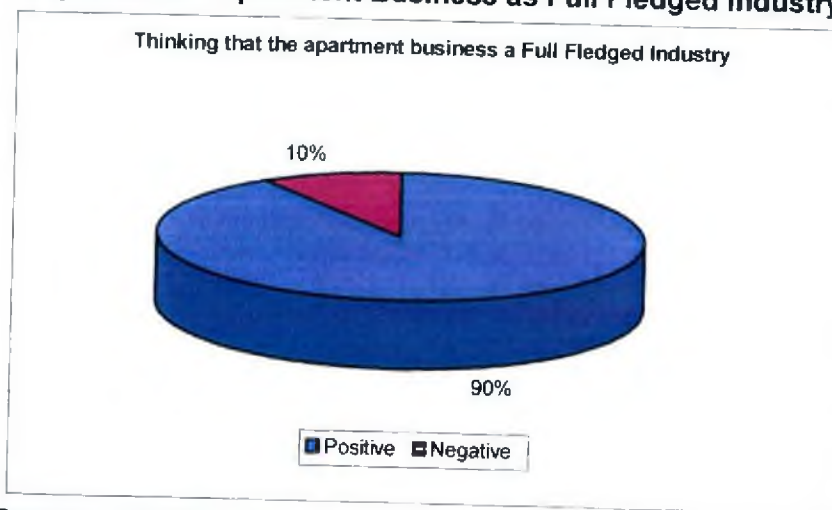
Suggestions	Frequency	Percent	Valid percentage
Facilities of Govt. loan at the beginning of the Project	2	4.4	9.5
Reduction of VAT & Registration cost	4	8.9	19.0
Ensuring favorable environment for foreign investment in housing sector	2	4.4	9.5
To ensure minimum interest rate for apartment project loan	12	26.9	57.1
To ensure loan at low interest rate for apartment buyer	5	11.1	23.8
To ensure long-term loan for apartment project	7	15.6	33.3
Providing loan from employers for increasing buying capacity	2	4.4	9.5
Tax holiday for apartment development	2	4.4	9.5
Low cost Utility services to be provided	2	4.4	9.5
Provision of Land by govt. to the genuine developers	5	11.1	23.8
Govt. should establish more housing finance institution	2	4.4	9.5
<b>Total (N=21)</b>	<b>45</b>	<b>100.0</b>	<b>214.0*</b>

Percentage distribution exceeded 100 because of multiple suggestions  
**Source:** Field Survey

**5.5.46 Apartment Business as Full - Fledged Industry**

Apartment sector has not yet been declared as full-fledged industry. But the apartment developers through their association REHAB are trying to get recognition as full-fledged industry. It was observed that around 91% developers gave affirmative response. So it can be said that they wanted this sector as a full-fledged industry (Figure-5.14).

**Figure 5.14: Apartment Business as Full Fledged Industry**



**Source:** Field Survey

## 5.5.47 Nature of Major Problems Faced by the Developer

Apartment developers have been facing a lot of problems from the very beginning. The survey identified some major problems, which are summarized in Table 5.47. Around 91% of the sample developers said that they faced problems regarding registration, mutation and plan approval from RAJUK. Around 29% of the developers said that they faced problems in getting connections of utilities such as Gas, Water & Sewerage and Electricity. Some faced high registration cost of land and apartment. Thirty three percent respondents viewed that, the financial assistance from FIs was not sufficient. Some identified high interest rate of institutional loans. Disturbances created by local 'mastans', undue toll collectors, frequent 'hartal' and strikes seriously hampered their normal business activities. They also faced lack of quality construction materials, absence of professional developers and instability of the price of the construction materials

Table 5.47: Nature of Major Problems Faced by the Developer

Types of problems	Frequency	Percent	Valid Percent
High Registration cost and VAT Rate	6	9.0	28.6
Bureaucratic process of Registration, Mutation And Plan approval	19	28.4	90.5
High Land Price	2	3.0	9.5
Lengthy Process of WASA, Gas, Electricity etc.	6	9.0	28.6
Inadequate Financial Assistance From FIs	7	10.4	33.3
High Interest rate of institutional loan	3	4.5	14.3
Disturbances from local Mastans	5	7.5	23.8
Frequent Hartal & Strike	3	4.5	14.3
Lack of quality control and Byelaws of apartment development	10	15.0	47.6
Absence of professional Developers	3	4.5	14.3
Scarcity of quality material & Instability of prices of construction materials	3	4.5	14.3
<b>Total (N=21)<sup>a</sup></b>	<b>67</b>	<b>100</b>	<b>319.1</b>

<sup>a</sup> The percentage distribution exceeded 100 because of multiple responses.

Source: Field Survey

### 5.5.48 Sort of Services Expected from RAJUK

RAJUK is the authority to approve the plan of construction in Dhaka SMA and outskirts of Dhaka City such as Narayanganj, Savar, Tongi etc. In this survey the sample extent is only the Dhaka City, so RAJUK is an important organ of apartment development. For this reason the developers were asked as to what types of services they expected from RAJUK. The Table -5.48 reflected their expectation. About 71% of the sample developers desired one stop service from RAJUK where, 33.3% developers expected quick process of plan approval and some said bribery should be checked in plan approval process which, according to them, is undeclared custom in RAJUK. A few respondents (9.6%) claimed that RAJUK should take a relaxed view when approving the plan of high-rise buildings.

**Table 5.48: Sort of Services Expected from RAJUK**

Sort of Services expected from RAJUK	Frequency	Percent	Valid percent
Quick process of Plan approval	7	24.0	33.3
One stop service	15	51.7	71.4
Bribery should be checked	5	17.2	23.8
Leniency in approving high-rise building	2	7.0	9.6
Total (N=21) <sup>a</sup>	29	100.0	138

<sup>a</sup> The percentage distribution exceeded 100 because of multiple responses.

Source: Field Survey

### 5.5.49 Level of Satisfaction about RAJUK Services

The survey tries to know about the developers' satisfaction relating to the services rendered by RAJUK. Five-scale question was set to get their satisfaction level. No respondent was found to be fully satisfied about RAJUK services. About 67% developers opined that they were to some extent satisfied. About 43% of the sample developers were unsatisfied about RAJUK's services. Moderately satisfied developers were only 33.3% (Table-5.49).

**Table 5.49: Level of Satisfaction about RAJUK Services**

Level of Satisfaction	Frequency	Percent	Cumulative %
Totally Unsatisfied	1	4.8	4.8
Unsatisfied	7	33.3	38.1
To some extent Satisfied	6	28.6	66.7
Moderately Satisfied	7	33.3	100.0
Total	21	100.0	

Source: Field Survey

### 5.5.50 Suggestions for REHAB about its basic functions

Real Estate and Housing Association of Bangladesh (REHAB) is formed as a bargaining agent of the apartment developers to ensure their interest. Around 90% of the sample developers are the members of REHAB. The survey was also conducted within the REHAB members. They were asked to know types of functions they would expect from REHAB. The following table shows their expectation about its functions. Seventy five percent developers suggested that the REHAB's functions should be to play its role as bargaining agent of the members. About 42% respondents said that it should secure the interest of both the developers as well as the buyers. About 14% developers desired that REHAB should act as the quality control institute of the developers. Another 14% developers viewed that REHAB should act as the 'data bank' of the developers (Table 5.50).

**Table 5.50: Suggestions for REHAB about its Basic Functions**

Type of Suggestions	Frequency	Percent	Valid percent
Secure the Interest of both Developer & Buyers	5	22.7	41.7
Bargaining agent of the Developers	9	40.9	75.0
Induce all developers as REHAB members	2	9.2	16.7
REHAB should act as a data bank of the developers	3	13.6	25.0
<b>Total (N=12)</b>	<b>22</b>	<b>100.0</b>	<b>183.4</b>
No Response	9	42.9	
<b>Total ( N=21)<sup>a</sup></b>	<b>21</b>		
<sup>a</sup> Out of 21 developers, 12(57.1%) suggested about the basic functions of REHAB, remaining 9(42.9%) samples did not mention their functions. Hence they were excluded from the analysis. Percentage distribution exceeded 100 because of multiple responses.			

Source: Field Survey

### 5.5.51 Types of Encouragement to the Apartment from Govt. Side

Attempts were made to know as to what type of assistance was expected by the developers. The survey showed that 52.4% developers desire to get land and loan facilities from the government. About 33% developers expected the government to protect them from extortion. Around 24% developers expected from government to make the existing

process of land transfer, registration and VAT easier. About 20% developers expected to get timely utility connections (Gas, Electricity, Water & Sewerage, and Telephone). About 24% respondents expected fairness of RAJUK and related dept. Fourteen percent developers desired that government would establish rules and regulations for apartment development. Some also expected tax holiday for this sector (Table 5.51).

**Table 5.51: Types of Encouragement to the Apartment from Govt. Side**

Type of Encouragement	Frequency	Percent	Valid percent
Loan & Land facilities from Govt.	11	23.4	52.4
Protect the developers from local toll collectors	7	14.9	33.3
Easier the existing process of VAT, tax and Registration	5	10.6	23.8
Timely Utility connections	4	8.8	19.0
Establishing specific rules for apartment development	2	4.3	9.5
Easiness of financing facilities	3	6.4	14.3
Fairness of RAJUK & other related dept.	5	10.6	23.8
Tax holiday for apartment industry	2	4.3	9.5
Reduce Tax & VAT	3	6.4	14.3
Project loan interest rate should be lower	5	10.6	23.8
<b>Total (N=21)<sup>a</sup></b>	<b>47</b>	<b>100.0</b>	<b>223.8</b>
<sup>a</sup> Percentage distribution exceeded 100 because of multiple responses			

**Source:** Field Survey

### 5.5.52 Factors considered in selecting Project Sites

The apartment developers considered many factors when they selected the site of apartment project. The main factors were availability of land, cost of land, utility services, location of the project, communications etc. Attempt was made to identify the factors considered by them seriously. The first factor considered was the city center area, second factor was communication, third factor was availability of social facilities, the fourth factor was availability of utility services, fifth was the cost of land and followed by availability of land. The next was densely populated area and eighth and last was the elite area (Table-5.52 and 5.53)

Table 5.52: Factors considered in selecting Project Sites

Factor	R1	R2	R3	R4	R5	R6	R7	R8	Total
Availability of Land	1	-	-	1	2	3(6)	3	5	15
Utility Services	-	1	2	7(4)	5	3	-	-	18
Elite Area	4	3	4	2	2	-	2	1(8)	18
Communication	-	8(2)	4	5	2	-	-	-	19
Densely Populated Area	-	-	1	1	2	1	6(7)	5	16
City center	6(1)	1	2	1	2	6	2	-	20
Social Facilities	6	4	4(3)	3	-	1	1	-	19
Cost of Land	1	3	3	1	3(5)	3	2	3	19
<b>Total</b>	<b>18</b>	<b>20</b>	<b>20</b>	<b>21</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>14</b>	<b>144</b>

Table 5.53: Ranking of the considered factors (1 is top)

Factor	Ranking position
Availability of Land	6
Utility Services	4
Elite Area	8
Communication	2
Densely Populated Area	7
City Centre	1
Social Facilities	3
Cost of Land	5

Source: Field Survey

### 5.5.53 Analysis of Risks in Apartment Business

#### A. Industry Risk

Over last few years it has been observed that investment in housing industry is comparatively less risky than any other industry. The general pattern of risk return interaction is still in favor of investors of housing industry. However, like any other industrial sector, there are some risks involved in this industry also.

#### B. Business Risk

Undoubtedly it can be said that apartment is a business of high return with minimum risks. It has been revealed through the survey that 90% of the apartment companies did not perceive any business risk in this sector. The rationale behind this perception is that a very



high demand is prevailing in this sector. As a result it has become one of the fast growing market in Bangladesh. However, some of the business risks as stated by apartment companies are as follows:

- (i) Delay in construction due to shortage of fund or sudden abnormal increase in the price of construction materials.
- (ii) Improper marketing policy and consequential delay in sale of apartments.
- (iii) Delay in collection of installments from the clients.
- (iv) Hazards and accidents taking place in constructing high-rise buildings but the instances are very rare.
- (v) Wrong selection of target customer group, which does not match with the location, size and type of the apartment buildings.

#### **C. Operational Risk**

There is no significant operational risk involved with this business. The business is not generally affected by cyclone, flood, storm, riot etc. Political turmoil, country- wide strikes hamper communication, transportation of workers as well as construction materials. It causes increase in overhead cost and interest expenses, loss of goodwill of the companies due to delay in construction schedule etc. However, business community of this country is confronting these external environmental factors quite frequently and these have now become part of their routine operations.

#### **D. Financial Risk**

“Housing is less risky in comparison with any other sector.”- Stated by REHAB's ex-Secretary General. The logic behind this thought is that large portion of the sale proceeds is received well before the construction is completed and even at times before the commencement of construction. However, financial institutions must judge each apartment companies individually before committing any fund.

### 5.5.54 SWOT Analysis

The critical appreciation of Housing Industry can be done by analyzing its strength, weakness, opportunity, and threats. Salient features of this industry have been summed up in the following SWOT Analysis:

#### 1. Strength:

- + Expanding market, expanding sales and profitability
- + A healthy industry sector with quality business
- + Good purchasing power of target customer group
- + Govt.'s keen interest to solve housing problem with the rapid increase in urban population
- + Open Market Economy, recent Housing Policy etc. might favour substantial growth of housing industry
- + Dependability of the major housing companies in the market

#### 2. Weakness:

- Strong competition among the existing players of the industry
- Increased price of construction materials will be difficult to pass on to the customers, because the agreement in respect of price and construction standard is made 2 to 3 years before the actual handing over of the apartments
- The industry as a whole does not follow any standard business rules. So, there remains scope of unethical practices by some of the developers

#### 3. Opportunity:

- + A highly profitable investment opportunity for individuals as well as financial institutions
- + A very wide scope is prevailing for foreign investors also
- + Urban population is developing favorable attitude towards apartment living. Although the present market of apartment houses is limited within the high income group of the society, there exists opportunity for middle and lower middle income group

#### 4. Threats:

- Political instability and unrest directly or indirectly threatens all the business sectors including housing industry
- Bureaucratic complexities imposed by RAJUK, DESA, WASA, and many other govt. and semi-government agencies
- Cooperation not rendered by National Board of Revenue in relation to the taxation and import facilities (Tax concessions)

The above SWOT analysis shows that the apartment Industry presents more of opportunity than threats. The analysis also manifests that the enormous strength of this sector surpasses its minor weaknesses. Therefore, we can conclude that the apartment business is economically quite viable and highly profitable for investors and financiers.

Most of the apartment developers are private limited companies. The mission of the major companies is to earn lucrative profit and secondary objective is to render service to the society. Most of the companies are doing another business besides apartment. Their main financing sources are own capital, borrowed from private banks and advance taken from the buyers. Sources of land are mostly (95%) co sharing with the landowner. The standard proportion of co sharing is 60% to the developer and 40% to the landowner (It may vary with some factors, such as number of floors, location of the projects and the size of flats etc). The survey shows that, average cost per square feet of apartment in posh area is Tk.1680, in standard area is Tk.1360 and in economy area is Tk.1100. A little experience of default culture is prevailing in apartment business. All companies have taken precautionary measures for earthquake and cyclone at various levels. On an average, apartment companies allow 24 monthly installments for paying the apartment price to the installment buyers. Ninety one percent companies are facing bureaucratic process of registration, plan approval and high cost of registration and VAT. Various laboratory tests adopted by the company for quality control of its products, such as: BUET, ACI, ASTM and BSTI tests. Cent percent respondents have a plan to make apartment for low and middle-income groups. A case study shows that the return on investment (ROI) is 26.74%, which implies that apartment sector offers high profit margin. Another case study made on 8 apartment projects of 4 real estate companies revealed that the return on turnover of apartment business is around 20% (**Appendix-7**). There is minimum financial risk involved in

apartment business, because 100% sales proceeds is collected before handing over the apartment.

In this chapter the study has tried to reveal the various aspects of apartment business. The next chapter will focus on the main beneficiaries of the study, i.e. the dwellers in the apartments. The socio economic background of the apartment buyers, their financing procedures, problems of buying apartment and problems of dwelling in apartment etc. will be discussed.

## CHAPTER-6

### APARTMENT BUYERS

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## **CHAPTER- 6**

### **APARTMENT BUYERS**

#### **6.1 INTRODUCTION**

Apartment buyers are the ultimate beneficiaries of apartment projects. They are the customers of apartment developers. So, the existence of apartment business is dependant on the buyers of apartments. A structured questionnaire was prepared to know the socio-economic characteristics of the buyers, their sources of finance, factors influencing the purchaser of apartment and various problems they have been facing in apartments living. All aspects of apartment buyers have been explored. The following were the results of the field study about apartment buyers:

#### **6.2 SOCIO-ECONOMIC BACKGROUND OF THE APARTMENT BUYER**

##### **6.2.1 Age of the Apartment Buyer**

The apartment buyers were in the age range of 27 to 78 years. The mean age of the apartment buyers was 46.93 years. Of them, mean ages of male and female buyers were 47.70 and 44.63 years respectively. The majority of the respondents (both male and female) were in the age group of 35-44 and 45-54 years. A considerable number of them were from the high age group of 55-64 years (Table 6.1).

**Table 6.1: Age of the Apartment Buyer (in Years) by Sex of the Apartment Buyer**

Age of the Apartment Buyer (in Year)	% Count	Sex of the Apartment Buyer.		Total
		Male	Female	
Below 34	Count	7	3	10
	% of Total	5.8%	2.5%	8.3%
35 - 44	Count	25	11	36
	% of Total	20.8%	9.2%	30.0%
45 - 54	Count	35	10	45
	% of Total	29.2%	8.3%	37.5%
55 - 64	Count	21	6	27
	% of Total	17.5%	5.0%	22.5%
65 & above	Count	2	—	2
	% of Total	1.7%	—	1.7%
Total	Count	90	30	120
	% of Total	75.0%	25.0%	100.0%

**Combined Mean age =46.93 years, Male=47.7 & Female = 44.63 Years Combined Mean age =46.93 years, Male=47.7 & Female = 44.63 Years**

Source: Field survey

### 6.2.2 Family Size of the Apartment Buyer

The average number of the family members living in each apartment was 4.39. The modal family size was 4. The standard deviation of the family size was 1.3. The range, however, was from 2 to 9. But around 70% of them had 4 and 5 members in their families (Table 6.2). Here it can be concluded that small size families were living in the apartment. Our national family size is 5.5<sup>66</sup> but here the size is about 4.39. The apartment dwellers were highly educated, so they kept their family size to a minimum level.

**Table 6.2: Family Size of the Apartment Buyer**

No of Family member	Frequency	Percent
2	7	5.8
3	14	11.7
4	53	44.2
5	31	25.8
6	7	5.8
7	4	3.3
8	2	1.7
9	2	1.7
Total	120	100.0

**Mean Size 4.39 & std. deviation of family size is 1.3**

Source: Field Survey.

<sup>66</sup> GOB. Ministry of Planning Bangladesh Bureau of Statistics (BBS), Urban Area Report, 1997.

### 6.2.3 Educational Qualification of the Apartment Buyers

The study reveals that most of the sample apartment buyers were either graduates or holders of postgraduate degrees. The percentage of the total samples of the respondents who held graduation and post graduation degrees were 30.8% and 46.7% respectively. However, males (35.0%) and females (11.7%) had post graduation degrees. But only a few respondents (5.8%) were undergraduates (Table 6.3). Therefore, it can be concluded that higher educated people were the major buyers of the apartment. The preponderance of the higher educated people in apartment living culture in Bangladesh was due to quick acceptance of the new ideas prevailing in the developed and developing countries.

**Table 6.3: Educational Qualification of the Buyer by Sex of the Apartment Buyer**

Educational Qualification of the Buyer	% Count	Sex of the Apartment Buyer.		Total
		Male	Female	
Under Graduate	Count	2	5	7
	% of Total	1.7%	4.2%	5.8%
Graduate	Count	27	10	37
	% of Total	22.5%	8.3%	30.8%
Post Graduate	Count	42	14	56
	% of Total	35.0%	11.7%	46.7%
MBBS	Count	10	1	11
	% of Total	8.3%	.8%	9.2%
Engineering	Count	9		9
	% of Total	7.5%		7.5%
	Count	90	30	120
<b>Total</b>	<b>% of Total</b>	<b>75.0%</b>	<b>25.0%</b>	<b>100.0%</b>

Source: Field Survey.

### 6.2.4 Occupation of the Apartment Buyer

Service is the major occupation of the vast majority of the apartment buyers. This indicates that people in service in urban areas in both Government and Private organizations bought apartments. Around 40% of the total apartment buyers were in this group. The second



highest profession of the apartment buyers was business. These two groups of people covered the major portion of buyers that is around 70% of the total samples. The service holders and businessmen prefer to reside permanently in the urban areas because of availability of better facilities of education, income, health, recreation and other civic facilities. For this reason the majority of apartment buyers lie in these two professional groups. A few of the apartment buyers (7.5%) were bankers. They enjoyed benefits from their employers in the form of low cost loan with large amortization period. The cost of fund in case of bankers, was equal to bank rate which is around 5%-7%. For this reasons some low-income group fortunate bank employees could easily enter the apartment markets as buyers. Ten percent (10%) of the sample buyers were housewives. Truly, most of them had no income but their spouses purchased apartment in their wives' name for hiding their unearned income. In our society doctors and teachers also bought apartments, because they had good amount of regular income in addition to the salary income. Their percentage was around 9%. A few retired persons (6%) also bought apartments with money received from gratuity and provident funds (Table 6.4)

**Table 6.4: Occupation of the Apartment Buyer by Sex of the Apartment Buyer**

Occupation of the Apartment Buyer	% Count	Sex of the Apartment Buyer		Total
		Male	Female	
Service	Count	39	8	47
	% of Total	32.5%	6.7%	39.2%
Business	Count	29	5	34
	% of Total	24.2%	4.2%	28.3%
House Wife	Count	--	12	12
	% of Total		10.0%	10.0%
Retired Person	Count	6	1	7
	% of Total	5.0%	.8%	5.8%
Teaching	Count	1	3	4
	% of Total	.8%	2.5%	3.3%
Doctor	Count	7		7
	% of Total	5.8%		5.8%
Banker	Count	8	1	9
	% of Total	6.7%	.8%	7.5%
<b>Total</b>	Count	90	30	120
	% of Total	<b>75.0%</b>	<b>25.0%</b>	<b>100.0%</b>

Source: Field Survey.

### 6.2.5 Income of the Apartment Buyer

It has been observed that range of the monthly family income of the apartment buyers was Tk.8000 – Tk.250000, average income being Tk.40,000 with a standard deviation of Tk.29000. The standard deviation is extremely high because of respondents at extreme points. Whereas the national monthly family income was Tk.4366 in the year 1995-96, the rural and urban family income amounted to Tk.3658 and Tk.7973 respectively<sup>67</sup>. The highest percentages (25%) lie in the class interval of Tk.20000- Tk.30,000. Fifteen percent of the buyers belonged to the income group below Tk.20,000. Only a few (17%) belonged to the highest income group of above Tk 60,000. Around 62% buyers belonged to the income group of Tk.20,000-Tk.60,000. It appears from the study that by and large the apartment buyers were in the higher income group of the society. People with income of less than Tk.8,000 per month could not afford the burden of the large amount of installment for buying apartment. People having income exceeding Tk.60,000 were not much interested to buy apartment because they liked different form of accommodation. So they were not interested in buying apartments (Table 6.5).

**Table 6.5: Monthly Family Income of the Apartment Buyer (Tk.'000)**

Total Family Income of the Apartment Buyer (Tk.in '000')	Frequency	Percent	Cumulative Percent
Low - 9.9.	56	46.7	46.7
10-19.9.	25	20.8	67.5
20-29.9.	16	13.3	80.8
30-39.9.	8	6.7	87.5
40-49.9.	3	2.5	90.0
50-59.9.	4	3.3	93.3
100-Highest.	8	6.7	100.0
Total	120	100.0	

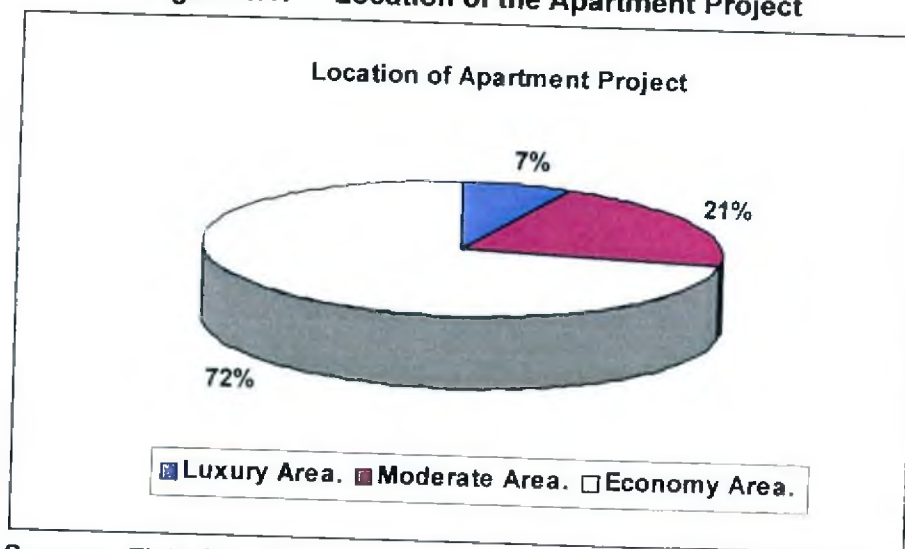
<sup>67</sup> HES: BBS, 1997.

### 6.3 OTHER CHARACTERISTICS OF THE APARTMENT BUYER

#### 6.3.1 Location of the Apartment Projects

The total sample area is divided into three locations. These are: Luxury area ( Baridhara, Gulshan, Banani ), Standard Area (Dhanmondi, Mohammadpur and Lalmatia) and Economy Area ( Eskaton, Elephant Road, Siddeshwari, Shantinagar, Kakrail, Paribag, Tikatuli, Wari and other areas.) The highest percentages (72.5%) of sample were selected from the Economy Area, because they were the highly representative samples. They were the highest in numbers in the urban areas. The next highest percentages (21%) of samples were selected from Standard Area. And least numbers of samples were from the Luxury Areas (8%). The apartment dwellers of Luxury Area were not cooperative and could not be reached in most cases. For this reason samples were taken from easily accessible Economy Areas (Figure 6.1).

Figure 6.1: Location of the Apartment Project



Source: Field Survey

#### 6.3.2 Occupation of the Apartment Buyer By Location of the Apartment Project

Occupation of the apartment buyers of Luxury Areas was business. Their percentage was 75%. The rest (25%) were service holders. In Moderate areas businessmen and service holders were in equal proportion. But in Economy Areas the occupations of most of the

buyers were service, which was 40% and business 21% of them. So apartment developers can identify their target customers for selling their apartments (Table 6.6).

**Table 6.6: Occupation of the Apartment Buyer by Location of the Apartment Project**

Occupation of the Apartment Buyer	% of Total	Location of the Apartment Project			Total
		Luxury Area	Moderate Area	Economy Area	
Service	Count	2	10	35	47
	% of Total	1.7%	8.3%	29.2%	39.2%
Business	Count	6	10	18	34
	% of Total	5.0%	8.3%	15.0%	28.3%
House Wife	Count		4	8	12
	% of Total		3.3%	6.7%	10.0%
Retired Person	Count		1	6	7
	% of Total		.8%	5.0%	5.8%
Teaching	Count			4	4
	% of Total			3.3%	3.3%
Doctor	Count			7	7
	% of Total			5.8%	5.8%
Banker	Count			9	9
	% of Total			7.5%	7.5%
<b>Total</b>	<b>Count</b>	<b>8</b>	<b>25</b>	<b>87</b>	<b>120</b>
	<b>% of Total</b>	<b>6.7%</b>	<b>20.8%</b>	<b>72.5%</b>	<b>100.0%</b>

Source: Field Survey

### 6.3.3 Apartment Buyer According to the Location of Project and Their Level of Satisfaction

About 63% of apartment buyers in Luxury Area were not satisfied about their purchased apartment. No buyers belonged to the highly satisfied group in this area because they were not getting expected facilities. Sixty eight percent buyers of Moderate Areas were satisfied about their purchased apartment. It can be said that the developers were very careful about the satisfaction of their buyers in this area. Sixty seven percent buyers of Economy Areas were satisfied about their apartment. Out of 120 samples only 4 buyers were highly satisfied with their apartment. Of them 3 buyers belonged to the Economy Area.

### 6.3.4 Total Family Income of the Apartment Buyer (Tk.'000) With Location

In Economy Areas most of the apartment buyers' income ranged between Tk.20,000-Tk.30,000. Only 15% of sample apartment buyers of Economy Area fell in the income group of above Tk.60,000. In Luxury Area 50% of the sample apartment buyers monthly family

income was in the range of Tk.40,000-Tk.50,000. But in Moderate Areas 32% of apartment buyers belonged to the monthly income group of Tk.40000-Tk.50,000 (Table 6.7).

**Table 6.7: Family Income of the Apartment Buyer (Tk.'000) by Location of the Apartment Project**

Total Family Income of the Apartment Buyer (Tk. '000)	%	Location of the Apartment Project			Total
		Luxury Area.	Moderate Area.	Economy Area.	
Below 20	Count		1	17	18
	% of Total		.8%	14.4%	15.3%
20-29.99	Count	1	5	19	25
	% of Total	.8%	4.2%	16.1%	21.2%
30-39.99	Count	2	2	15	19
	% of Total	1.7%	1.7%	12.7%	16.1%
40-49.99	Count	3	9	9	21
	% of Total	2.5%	7.6%	7.6%	17.8%
50-59.99	Count	1	2	12	15
	% of Total	.8%	1.7%	10.2%	12.7%
60 & Above	Count	1	6	13	20
	% of Total	.8%	5.1%	11.0%	16.9%
Total	Count	8	25	85	118
	% of Total	6.8%	21.2%	72.0%	100.0%

Source: Field Survey

### 6.3.5 Apartment Registration and VAT

Apartment is a real and permanent asset. As per the law of the country the immovable property must be registered in the name of the transferee. Registered deed is the ownership document of the buyer. But it was found that around 28% of basic apartment price was to be paid by the buyer as registration cost and VAT. So many buyers tried to avoid registration and escape from paying VAT. The following cost incurred for getting clear and legal ownership of apartment:

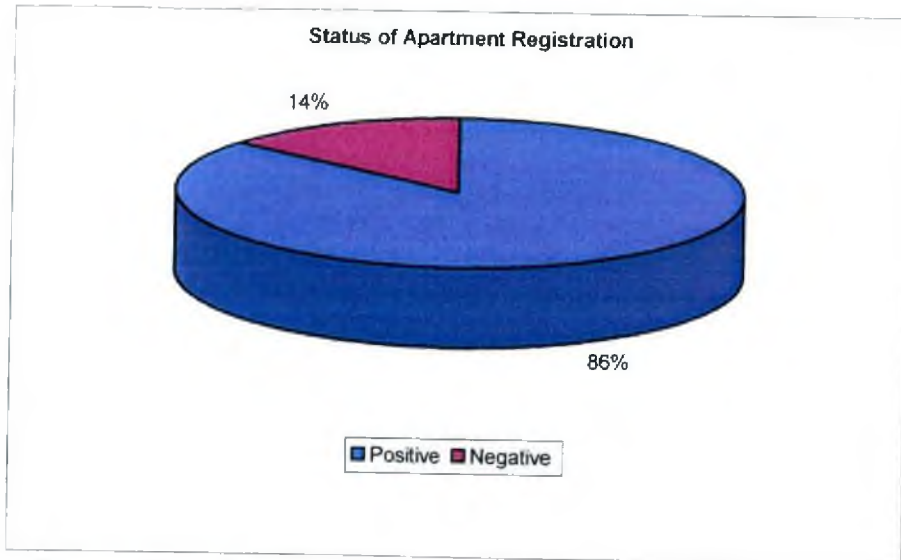
Stamp duty	10% of the value of apartment
Sale registration fee	4.95% of the sale price of apartment
VAT	3% of the sale price of apartment
Gain tax	10%
<b>Total</b>	<b>27.95% or 28%.</b>

Different procedures are applicable for various types of land. Three types of land have been used for making apartment i.e. Freehold land and leasehold land. Again leasehold lands are of two types HSD/PWD's land and RAJUK's land. Registration procedures and cost in case of Freehold land is far better than others. Transfer of leasehold land is very complicated and costly. Transfer permission should be taken simultaneously from RAJUK, PWD and HSD. Both land and apartment is to be registered. For RAJUK' s land transfer fee per katha is fixed at Tk.50,000 and registration cost ranged between 22.5%-25% on apartment price which was made up by adding two components: plot price and construction cost Tk.650 per square foot. Registration cost can be reduced in case of freehold land. Apartment buyer registers only land and pay registration cost only for land price. After construction of apartment he pays only VAT @ 3% showing minimum construction cost Tk.700 per square foot.

### **6.3.6 Registration**

Most of the buyers could not answer about registration procedures and cost of registration. As they pay lump sum amount for registration purpose to the developers in addition to the apartment price. Developers completed registration formalities on behalf of buyers through their legal consultants. It was alleged by buyers that in many cases developers realized excess money from the buyers and they made some spread from it. In most cases the developer took registration cost from the buyers at different rates. The survey revealed that some buyers did not have their apartment registered. Figure 6.2 show that most of the apartment buyers 103 (86%) had their apartments registered. The rest 17(14%) did not register their apartments. There were many causes behind the motive of non - registration of the apartment.

Figure 6.2: Status of Apartment Registration



Source: Field Survey

### 6.3.7 VAT Procedures

The developers collected VAT @3% on the selling price of the apartment including parking space and immediately deposited it to the NBR by treasury chalan against a VAT registration number given by the VAT authority. By interviewing the resource persons of the Real Estate Companies it was learnt that there was no malpractice in VAT collection or payment. Many problems, stated below, were ascertained from the relevant resource persons through in-depth interview about registration procedures and cost:

1. In existing registration procedures no photograph of vendors and buyers are used. Thus there is scope to transfer land of original owner by copying signature by other. So photograph of both parties should be used.
2. Only sellers' signature is required during the time of registration in the deed, so buyer is bound to accept all the conditions imposed by the vendor. Both parties' signature should be used.
3. Buyers' up to date income tax clearance certificate should be produced during registration.
4. Government should fix up uniform registration cost for various lands (freehold and leasehold).

5. Existing registration procedure is lengthy;
6. Many incidental costs are incurred for registration. It should be checked.
7. Prescribed form should be used for writing registered deed. Govt. recently took initiative for introducing prescribed form but due to the pressure from the side of stamp vendors and deed writers it was stopped;
8. Registration cost is too high.

### 6.3.7 Suggestions About Registration

Many suggestions were put forward by the apartment buyers about registration procedures and costs, which are given below in Table 6.8. Most of the apartment buyers (51%) suggested that the existing registration cost was very high, so it should be reduced. Twenty four percent of buyers suggested that the apartment registration process should be simplified. Fourteen percent of the respondents feel the need for checking bribery in the registration process. Eight percent of the respondents viewed that stamp charge should be reduced, which is at present 10% of the apartment price. About 4% samples desired that one stop service method should be introduced in the process of registration. In most of the cases, the developer completed all registration procedures and collected excessive registration cost in advance from the buyers. This undesirable practice was pointed out by 4.4% of the respondents.

**Table 6.8: Suggestions for Registration Procedures & Cost**

Suggestions for Registration Procedures & Cost	Frequency	Percent	Valid Percent
Registration Cost Should be Low	29	50.9	64.4
Registration Process Should be Easier	11	19.3	24.4
One Stop Service	5	8.8	11.1
Stamp Duty Should be Lower	2	3.5	4.4
Bribe Should be Checked	8	14.0	17.8
Company Take Registration Cost Differently	2	3.5	4.4
<b>Total (N = 45 )<sup>a</sup></b>	<b>57</b>	<b>100.0</b>	<b>126.5</b>

Source: Field Study

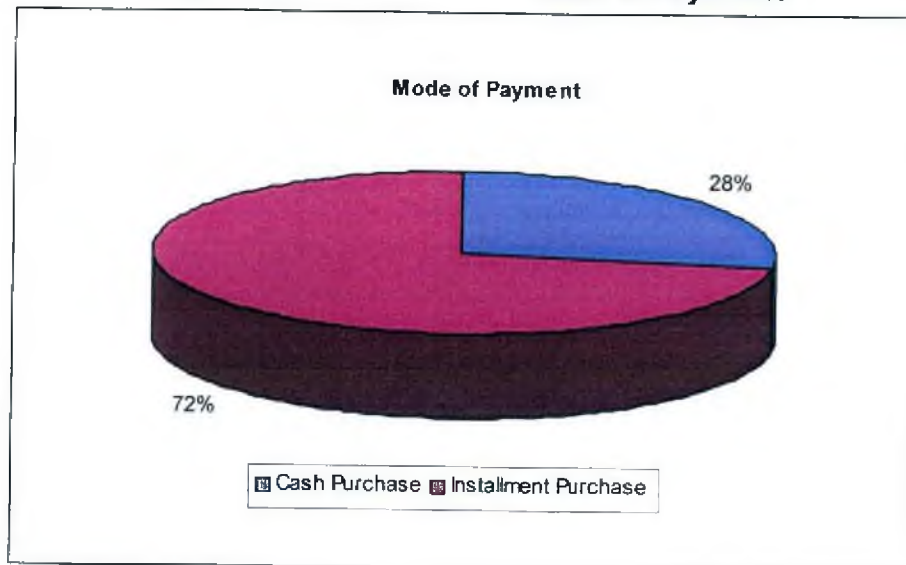
<sup>a</sup> Out of 120 respondents only 45 (37.5 %) respondents offered suggestions about Registration Procedures & Cost. Rest 75 (62.5 %) respondents expressed their inability to suggest. Therefore, 75 respondents were excluded from the analysis. Percentage distribution exceeded 100 due to respondents multiple responses.



### 6.3.8 Price Payment System of Apartment

Apartment can be bought either on cash or on credit basis. Apartment buying is the combination of two. In most cases a portion of cash down payment is made on the date of signing the contract. The balance of apartment price is paid on installment basis. The study revealed that 72.5% buyers bought their apartments on installment basis and the rest 27.5% buyers bought their apartment at 100% down payment basis i.e. cash basis. In installment buying method the buyer get possession of the apartment after paying all the installments (Figure 6.3).

**Figure 6.3: Mode of Payments**



Source: Field survey.

### 6.3.9 Number of Installment

Average number of installments allowed by the developer to the buyer was 11.74 or 12 with standard deviation of 8.27. It was observed in the study that installment number varied from 3-60. So standard deviation was very high, some developers allowed large number of installment and some small.

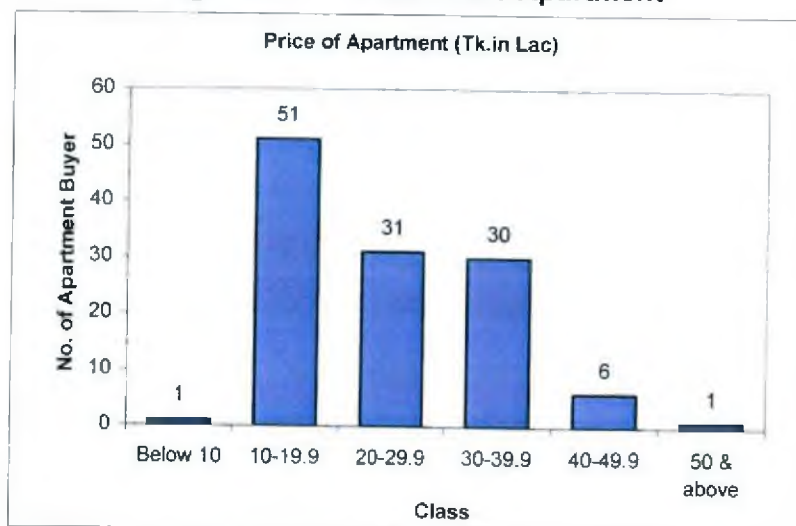
### 6.3.10 Time Allowed By The Developers For Paying The Installments

Average time allowed by the developers was 1.95 years or 2 years with standard deviation of 0.8225 years. The time gap between two consecutive installments is 2.4595 months with a standard deviation of 1.2556 months.

### 6.3.11 Price of the Apartment

It was found that apartment price included registration cost, Value Added Tax (VAT) and cost incurred by the buyers for special fittings. Average price of apartment excluding parking space was Tk.22.79 lac with a standard deviation of Tk.10.21lac. It was observed that buyers paid extra cost amounting to 10% of apartment cost for special fittings. Figure 6.4 shows that 42.5% apartment buyers bought their apartment within the cost range of Tk.10-Tk.20 lac. Negligible percentage of buyer bought apartments paying more than Tk.50Lac.

**Figure 6.4: Price of the Apartment**

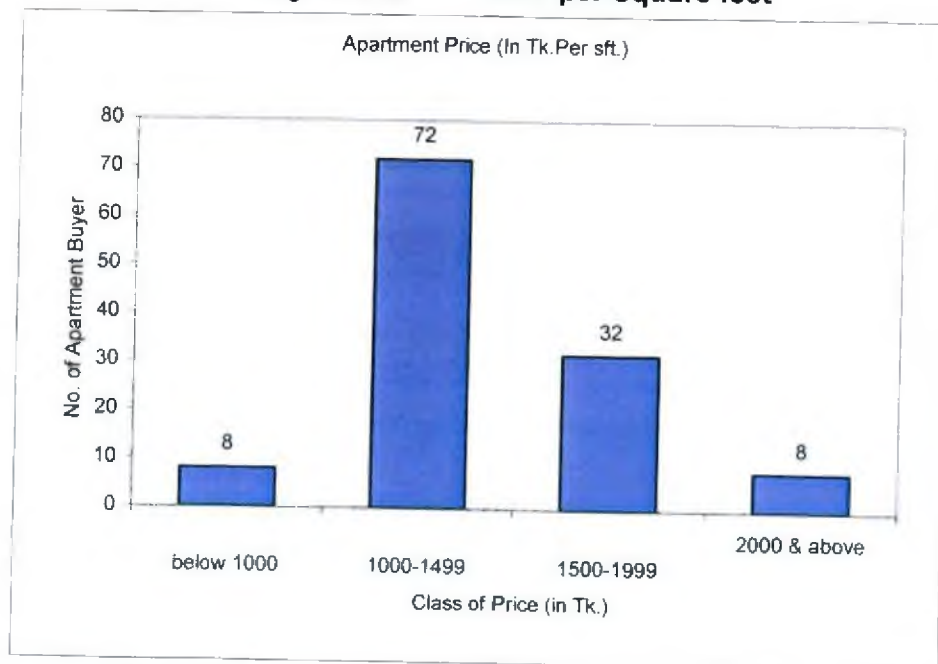


Source: Field Survey

### 6.3.12 Apartment Price Per Square Feet

The study revealed that apartment price per sqft. was Tk.1391.44 with a standard deviation of Tk.342.36. Minimum price per sqft was Tk.750 and a maximum price per sqft. was Tk.2250. Price per sqft. varied because of time gap between the date of purchase. Sixty percent respondents bought their apartments within Tk.1000-Tk.1500 per sqft. Eighty seven percent of the buyers paid per sqft. price ranging between Tk.1000-Tk.2000. A per sqft price below Tk.1000 was paid by 6.7% of the buyers before 1990. For this reason price was low (Figure 6.5).

**Figure 6.5: Rate per Square feet**



Source: Field Survey

### 6.3.13 Rate Per Square Feet (In Tk ) With Location of The Apartment Project

Apartment price per square feet varied with location. In the Luxury area the price per sqft. was very high and comparatively low price in Moderate and Economy area respectively because of difference in land prices, demand ,quality of construction materials, quality of construction etc. It was observed that per square feet apartment price was Tk.1500-Tk.2000 in 75% cases. In Moderate area also highest frequencies lie in that range of price.

But in the Economy area maximum buyers (75%) bought their apartment with in the price range of Tk.1000-Tk.1500 per square feet. About 7% of buyers bought their apartment by more than Tk.2000 per square feet irrespective of location (Table 6.9).

**Table 6.9: Rate per Square feet (In Tk.) by Location of the Apartment Project**

Rate per Square feet (In Tk)	Location of the Apartment Project			Total
	Luxury Area.	Moderate Area.	Economy Area.	
Below 1000		3	5	8
1000-1499	1	6	65	72
1500-1999	6	9	17	32
2000 & above	1	7	--	8
<b>Total</b>	<b>8</b>	<b>25</b>	<b>87</b>	<b>120</b>

Source: Field survey

#### 6.3.14 Sources of Fund

Finance is the most important factor of buying apartment. There are various sources of fund, which a buyer can utilize for buying the apartment. Sources of fund can be divided into two main groups, one is formal and another is informal. Formal sector includes institutional loan where interest rate and duration of loan is pre-fixed. In Bangladesh formal loan can be had from BHBFC, NCBs, Private Banks, Foreign Banks, Private Housing Finance Co.(DBH,NHFI) and leasing companies. Service holder can collect loan from their employers. Informal sources are personal savings, sale of assets, loan from family members, loan from friends and relatives etc. Duration and rate of interest may or may not be pre-fixed in case of informal loan or finance. The survey findings showed that 99.2% of apartment buyers used informal sources of finance. Almost all the apartment buyers used this source. About 18% of the buyers obtained finance from Government sector ( BHBFC & NCBs). About 12%of them obtained finance from private banks. About 11% of apartment buyers obtain loan from the private housing finance companies which is a very recent phenomenon. Foreign banks played an insignificant role in housing or apartment financing (Table 6.10).

**Table 6.10: Sources of Financing for Buying an Apartment**

Sources of Financing	Frequency	Percent	Valid Percent
Informal Sector (Non Institutional)	119	67.6	99.2
Govt. Sector (HBFC, NCBs)	21	11.9	17.5
Private Housing Finance Co (DBH, NHFI, IDLC)	19	10.8	15.8
Private Banks	14	8.0	11.7
Foreign Banks	3	1.7	2.5
<b>Total (N = 120<sup>a</sup>)</b>	<b>176</b>	<b>100.0</b>	<b>146.7<sup>a</sup></b>

Source: Field Study

<sup>a</sup> Percentage distribution exceeded 100 due to multiple responses.

### 6.3.15 Analysis of Various Sources of Finance / Loan

Informal sector is the main source of fund of apartment buying. The survey revealed that average 81.22% of funds came from informal sources. All the buyers used this source for buying apartment. Our formal sector is not strong. The cost of fund in formal sector is very high. Interest rates varied from 12%-16%. The Government sector included HBFC and NCBs (four state owned banks) and their average rate of interest was 12.24%, average duration of loan was 14.38 years. In Government sector loan sanctioning is very cumbersome. Private Housing Finance companies' loan is very costly where average rate of interest is nearly 16% with amortization period of 14.47 years. In formal sector average loan amount was the highest in case of private HFC. (Average loan amount is Tk11.21lac). The second highest contribution was from private banks (42%). Foreign banks duration and interest rate was not encouraging (Table 6.11).

**Table: 6.11: Various Sources of Finance / Loan**

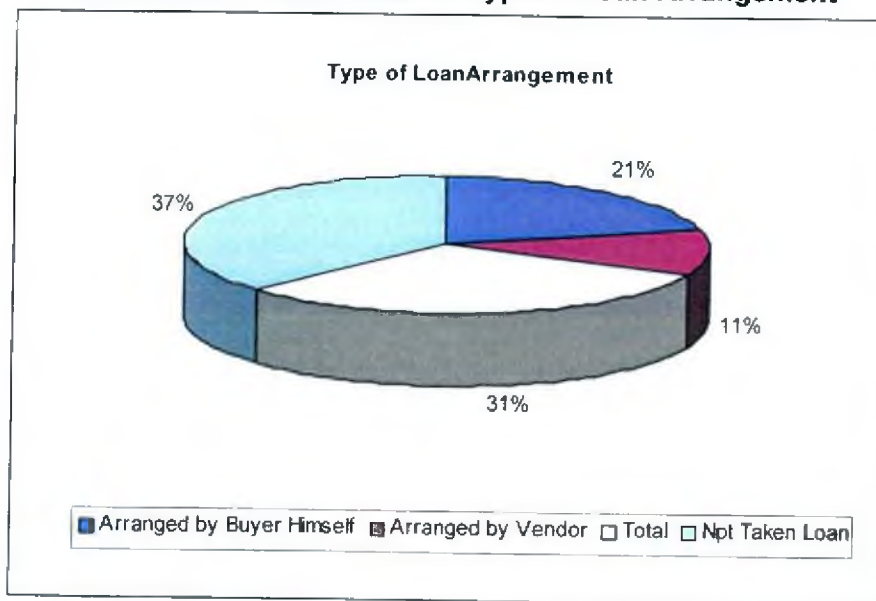
Name of source	Average amount (In Lac Tk.)	Std. of loan (In Lac Tk)	Average contribution from various sources (In %)	Average Rate of interest (In %)	Average duration of loan (In year)
1. Informal source of Finance	23.05	14.01	81.22	-	-
1. Govt. Sector (BHBFC, NCBs)	8.68	3.96	39.95	12.24	14.38
2. Private HFC (DBH, NFHI)	11.21	5.00	41.21	15.91	14.47
3. Private Banks	8.51	4.63	42.00	13.39	12.79
4. Foreign Banks	2.17	0.76	14.33	14.33	4.33

Source: Field Survey

### 6.3.16 Type of Loan Arrangement

Of the total sample forty six percent buyers took formal loan (Institutional loan) and remaining 54% buyers did not take any formal loan. About 66% of the sample buyers who took institutional loan, arranged the same through self- initiative. The rest (34.5%) had the loan arranged by the developers. Now a day, many apartment developers try to inform through bill-board, advertising and brochure that they arrange institutional loan for the buyers (Figure 6.6).

**Figure 6.6: Distribution of Type of Loan Arrangement**



Source: Field Survey

### 6.3.17 Suggestions Regarding Finance For Buying An Apartment

The apartment buyers suggested various sources of finance, which can be used by the prospective buyers. Fifty one percent of the samples suggested that interest rate of institutional loan should be reduced. Thirty percent of the buyers said that loan ceiling and loan period should be increased. Twenty five percent of the buyers suggested that Government loan should be available for the apartment buyers. About 13% of the respondents mentioned the cumbersome formalities of getting loan. Seven percent buyers suggested that VAT, Taxes and Registration cost should be reduced (Table 6.12).

**Table 6.12: Suggestions to Get Finance for Buying an Apartment**

Suggestions	Frequency	Percent	Valid Percent
i) Low Interest Rate from Financial Institutions	49	31.6	51.1
ii) More Loan from Govt. Sector (BHBFC & NCBs).	39	25.2	40.6
iii) Reduce Vat & Taxes for Registration	4	2.6	4.2
iv) Simple Interest Rate from Fis	7	4.5	7.3
v) increase of Loan Ceiling & Duration	29	18.7	30.2
vi) Easy Installment for Apt. Buying	8	5.2	8.3
vii) Formalities of Fis Loan Should be Easier	12	7.7	12.5
viii) Others (Loan from Employer, Insurance Co., Foreign Investors )	7	4.5	7.3
<b>Total (N = 96<sup>a</sup>)</b>	<b>155</b>	<b>100.0</b>	<b>161.5</b>

<sup>a</sup> Out of 120 respondents 96 (80.0 %) respondents offered suggestions to get finance for buying the apartment. Rest 24 (20.0 %) respondents expressed their inability about the matter. Therefore, 24 respondents were excluded from the analysis. Percentage distribution exceeded 100 due to participators multiple responses.

Source: Field Survey

### 6.3.18 Cost of Loan Arrangement

Forty five percent of the buyers took institutional loan. Average cost of the buyers for arranging loan was around Tk.3100. This cost was fully for incidental or bribe given for getting loan. It was observed that incidental cost is a common practice in the case of Government institutions' loan.

Source: Field Survey

### 6.3.19 Year of Booking the Apartment

In Table 6.13, year of purchase of apartments indicates that apartment living and buying is a recent phenomenon in Bangladesh. About 62.5% of the sample buyers bought their apartment after 1996. A few buyers (9.2%) bought their apartments between the years 1986-1990. It can be said that 90.8% of the sample buyers bought their apartments after 1991. It was observed that the practice of apartment living increased day by day.

**Table 6.13: Year of Apartment Booking / Purchase**

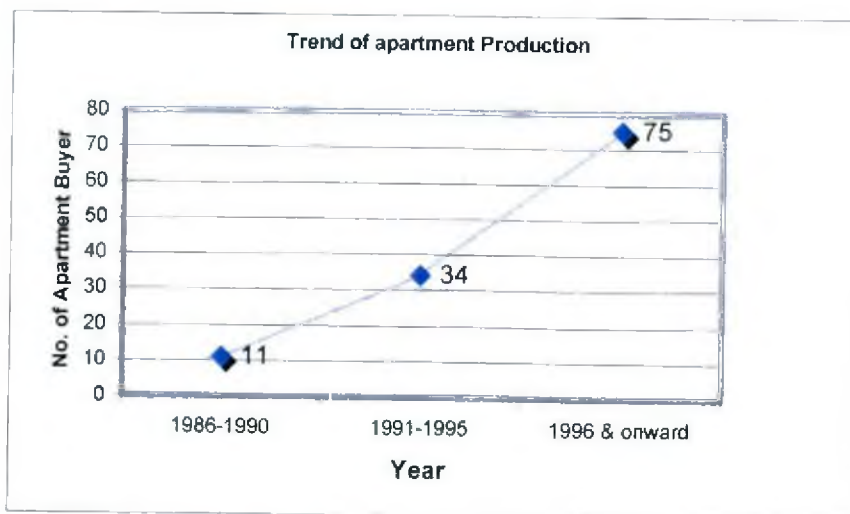
Year	Frequency	Percent
1986-1990	11	9.2
1991-1995	34	28.3
1996 & onward	75	62.5
	<b>120</b>	<b>100.0</b>

Source: Field Survey

### 6.3.20 Trend of Apartment Price (Per Square Feet)

The trend of apartment price is increasing, which is indicated by Figure 6.7. Before 1990, price per sqft. was below Tk.1000 in the case of 64% apartments. No apartment was sold beyond the price of Tk.2000 per sqft.upto1990. During the period of 1991-1995, 34 apartments were purchased, of which 29 apartments (85%) were purchased at a price below Tk.1500 per sqft. Only 15% apartments were bought within the price range of Tk1500-Tk.1999 per sqft. and no apartment was sold within the price range exceeding Tk.2000. After 1996 the price trend increased also. Out of 75 samples, only 1 apartment was sold below Tk.1000 per sqft., 40 apartments (53%) were sold within the price range of Tk.1000-Tk.1499 per sqft. in recent years (1996-2000) and price of 26 apartments (35%) within the price range of Tk.1500-2000 and 8 apartments (11%) price was exceeding Tk.2000 per sqft.

**Figure 6.7: Trend of the Demand of Apartment**



Source: Field Survey

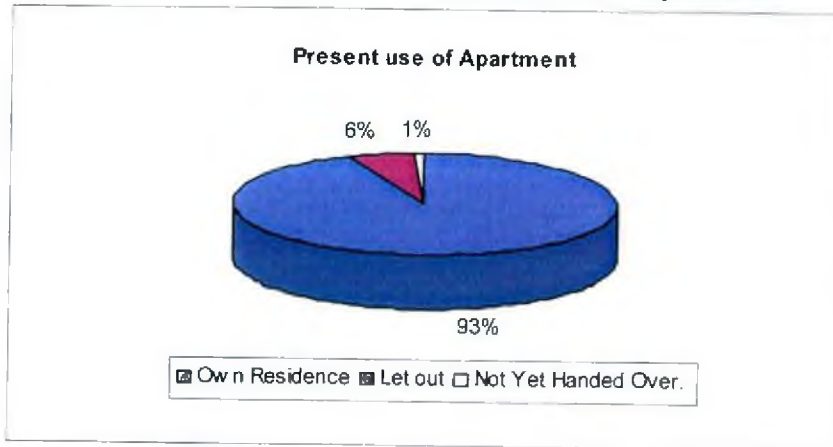
### 6.3.21 Present Use of Apartment

Almost all the buyers (93.3%) used their apartment as their own residences. So it can be concluded that the apartment buyer, bought their apartments for their residence. Only a



negligible percentage (5.8%) of buyers let out their apartments. Less than 1% of the buyers did not take possession of their purchased apartments (Figure 6.8)

**Figure 6.8: Type of Present Use of the Apartment**

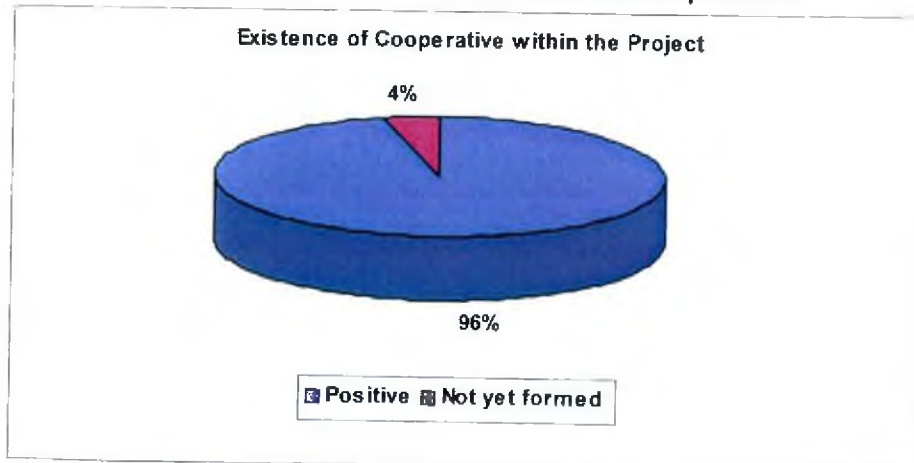


Source: Field Study

### 6.3.22 Flat Owners' Association or Cooperative Within the Project

It was found that there were cooperatives within the apartment projects. Flat owners for their own interest formed association. Common facilities of the flats looked after by the association. It was observed in the survey that there was the elected or selected executive committee or office bearer in all the cooperatives. Figure 6.9 shows that 95.8% respondents reported that there existed cooperative of the flat owners. Only 4.2% sample reported the non-formation of co-operative in their projects.

**Figure 6.9: Existence of Cooperative**



Source: Field Survey

### 6.3.23 Main Functions of the Cooperative

Flat owners formed cooperatives or association within their projects for looking after their common interest. It is the bargaining agent of all the owners. The main functions of the cooperatives in Table-6.14 shows that out of 120 sample only 104 responded about the function of cooperatives. Sixty seven percent of the respondents said that the functions of cooperative were to look after common facilities of the apartment dwellers. Fifty percent (50%) respondents said that maintenance of physical facilities and waste management were the main functions of the cooperatives. Twenty one percent (21%) revealed that the main function of cooperative was to take part in internal management and negotiation with the developers about the flat owners' common interest. Twenty percent (20%) felt that the main functions are to supervise the security guards and payments of various types of monthly bills, such as gas, water, electricity, sewerage bills etc.

**Table 6.14: Main Functions of the Cooperative**

	Frequency	Percent	Valid Percent
Internal Management & Negotiation with Developer.	21	13.3	20.2
Look after Common Facilities.	67	42.4	64.4
Supervision of Security Guards, Payment of Different Bills & Intercom Management etc.	20	12.7	19.2
Maintenance of Physical Facilities & Waste Management	50	31.6	48.2
<b>Total (N = 104<sup>a</sup>)</b>	<b>158.0</b>	<b>100.0</b>	<b>152.0</b>

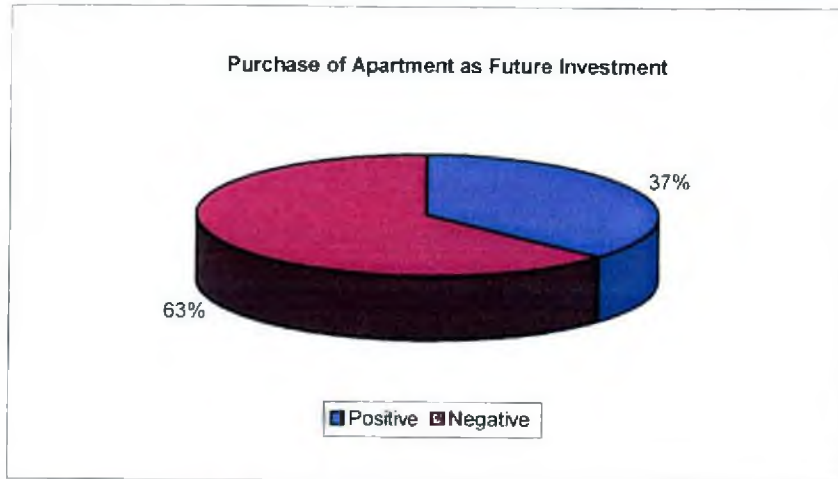
Source: Field Study

<sup>a</sup> Out of 120 respondents 104 (86.7 %) respondents expressed their opinions about the main functions of the cooperative belonging to the project. Rest 16 (13.3%) respondents of which 11 of them did not mention any functions.

### 6.3.24 Considered the Purchased Apartment as Future Investment

Sixty three percent of the apartment buyers did not think that the purchase of apartment is an investment. Because of this type of thinking the opportunity cost is higher in case of apartment buying. Forty four respondents (37%) thought that apartment purchase is the investment for future (Figure 6.10).

**Figure 6.10: Purchased Apartment as Future Investment**

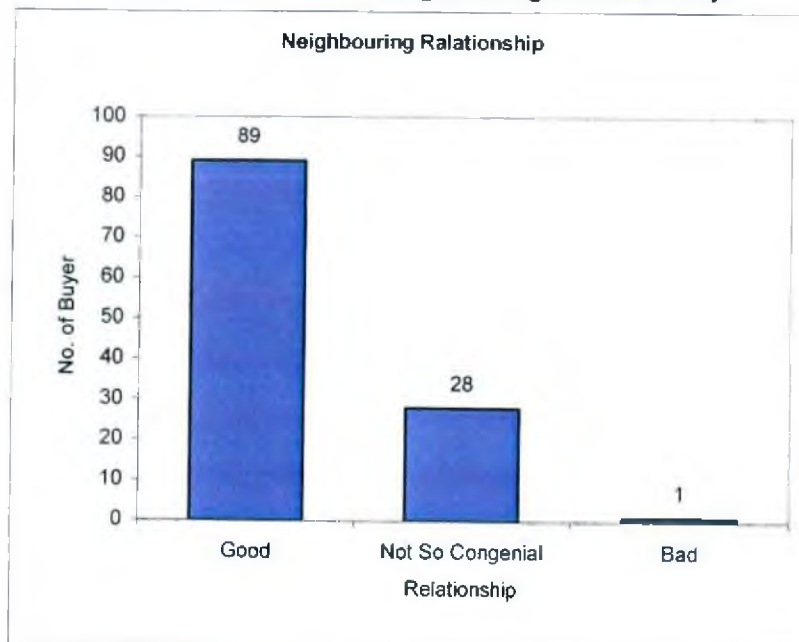


Source: Field Survey

**6.3.25 Neighboring Relationship Among The Apartment Dwellers**

Out of 120 buyers 118 buyers responded about the relationship among the apartment dwellers. Eighty- nine buyers (74.2%) informed that the apartment dwellers relationship was good. Twenty- eight buyers (23.3%) replied that relationship was not so congenial and only one respondent informed that the relationship was bad (Figure 6.11).

**Figure 6.11: Neighboring Relationship**



Source: Field Study

### 6.3.26 Factors Inducing a Buyer to Buy an Apartment

The study attempted to identify the preference of buying apartment as compared to constructing houses. It was reported that 58% of the buyers preferred to buy apartment instead of buying land and constructing a house thereon independently for avoiding various troubles involved in buying land and construction work. The second highest (33%) viewed that they bought the apartment for security reason. On the other hand, 10% of the buyers reported that they bought their apartments, as it would enable them to live in the central area of the city. Living with upper class people of the society was stated to be the reason for buying apartment houses by 7% of the buyers (Table 6.15).

**Table 6.15: Factors Induced a Buyer to Buy an Apartment**

Type of Factors	Frequency	Percent	Valid Percent
Avoiding the Troubles Involved in Constructing a House	70	47	58
Avoiding the Troubles in Buying & Taking Possession of Land	20	13	17
Living in the Centre of the City	12	8	10
Living with Upper Class Peoples of the Society	8	5	7
Security Reason	40	27	33
<b>Total (N=120<sup>a</sup>)</b>	<b>150</b>	<b>100</b>	<b>125</b>

**Source:** Field Study

<sup>a</sup> The percentage distribution exceeded 100 due to multiple responses.

### 6.3.27 Factors Considered By a Buyer for Selecting the Site of an Apartment

Price of apartment is the most important factors for a buyer to select the site of the apartment. Fifty eight percent buyers informed that they bought apartment of a particular site because they got price advantages of the apartment in that area. Forty two percent respondents replied that they bought their apartment by considering communication facilities. Seventeen percent of the buyers informed that they bought the apartment considering the size of the apartment. Ten percent of the respondents selected the apartment by considering the location of the apartment. A few buyers considered physical facilities, utility services and social services available in the site of apartment (Table 6.16).

**Table 6.16: Factors Considered by a Buyer for Selecting the Site of an Apartment**

Type of Factors Considered	Frequency	Percent	Valid Percent
Price	70	43	58
Physical Facilities	6	4	5
Social Service	4	2	3
Communication	50	30	42
Size	20	12	17
Utility Services	3	2	3
Distance from the Main City/Location of the apartment	12	7	10
<b>Total (N=120<sup>a</sup>)</b>	<b>165</b>	<b>100</b>	<b>138</b>

**Source:** Field Study

<sup>a</sup> The percentage distribution exceeded 100 due to multiple responses.

### 6.3.28 Reasons for Selecting the Company By a Buyer

The criteria of selecting developer may be related to the location of the project, goodwill of the company, price of the apartment, experience of the company, status of the company etc. The Table 6.17 shows the distribution of criteria used to select the developer by the buyer.

**Table 6.17: Reasons for Selecting the Company by a Buyer**

Reasons for Selecting the Company	Frequency	Percent	Valid Percent
Goodwill of the Company	70	49	58
Status of the Company	10	7	8
Experience of the Company	15	11	13
Experience about the Company	7	5	6
Price of apartment	40	28	33
<b>Total (N=120<sup>a</sup>)</b>	<b>142</b>	<b>100</b>	<b>118</b>

**Source:** Field Survey

<sup>a</sup> The percentage distribution exceeded 100 due to multiple responses.

It appears that the goodwill of the company was most widely used criterion (58%) for selecting an apartment company. Some (33%) buyers had emphasized the price of apartment. Other criteria included joining of relatives, friends and colleagues in the same project, acquaintance with the promoter of the developer, good social environment with educated buyers and easy payment system.

### 6.3.29 Sources of Information about the Apartment Project

Before purchasing the apartment it is necessary that one should be informed about the project or company. The study revealed that 35.8% buyers came to know about the project through personal inquisitiveness. The second highest (29.2%) source of information was mass media, which included newspaper, journals and magazines and electronic media etc. Twenty four percent buyers informed that they learnt about the project from their friends and colleagues. Whereas, 11.7% of the respondents motivated by their relatives and family members for choosing the project. So it can be concluded that besides self -motivation (inquisitiveness) and mass media other influencing factors were friends, colleagues, relatives and family members who motivated in selecting the developer. Only a few buyers considered bill- board, sign board, brochure, fair, personal selling etc as developer selecting media (Table 6.18).

**Table 6.18: Sources of Information about the Apartment Project**

Sources of Information	Frequency	Percent	Valid Percent
Self Inquisitiveness	43	34.7	35.8
Mass Media	35	28.2	29.2
Bill Board, Sign Board, Brochure, Fair, Personal Selling etc.	3	2.4	2.5
Relatives, Family Members	14	11.3	11.7
Colleagues, Friends	29	23.4	24.2
<b>Total (N = 120<sup>a</sup>)</b>	<b>124.0</b>	<b>100.0</b>	<b>103.4</b>

Source: Field Study

<sup>a</sup> Percentage distribution exceeded 100 due to multiple responses.

### 6.3.30 Time Required for Handing Over the Apartment after Booking (In Year)

The apartment buyers usually get possession of their purchased apartment within 0- 4 years after the date of booking. The average required time was 1.8689 years with standard deviation of 0.889. Those who purchased their apartment on full payment or cash basis they got the possession instantly, or required time was zero year. In case of installment buying the modal time required was 2 years, which was closed to the average required time (Table 6.19).

**Table 6.19: Time Required for Handing over the Apartment after Booking (in Year)**

Time Required for Handing Over the Apartment	Frequency	Percent	Valid Percent	Cumulative Percent
Below 1year	27	22.5	22.5	22.5
1-2	51	42.5	42.5	65.0
2-3	39	32.5	32.5	97.5
3-4	3	2.5	2.5	100.0
Total	120	100.0	100.0	
<b>Average time required for handing over the apartment: 1.8689, STD: 0.889</b>				

Source: Field Study

**6.3.31 Delay in Handing Over Apartment from the Date of Commitment (In Month)**

It is desirable to get possession of the apartment within the stipulated time. But some irregularities were prevailing. The study revealed that out of 120 samples, 43 buyers (36%) replied that they did not face any delay time. This means that they got possession of their apartment within specific time. Thirty three percent of the buyers reported about 6-10 months delay. Ten percent of the buyers faced 11-15 months delay. Average delay time was 4.475 months with a standard deviation of 4.54 months (Table 6.20).

**Table 6.20: Delay Time of Apartment Handing Over from the Date of Commitment (in Month)**

Delay Time of Apartment Handing Over	Frequency	Percent	Valid Percent	Cumulative Percent
0	43	35.8	35.8	35.8
1-5	25	20.8	20.8	56.7
6-10	39	32.5	32.5	89.2
11-15	12	10.0	10.0	99.2
16-20	1	.8	.8	100.0
Total	120	100.0	100.0	
<b>Average delay time: 4.48 months, STD: 4.54 months</b>				

Source: Field Study

**6.3.32 Causes of Delay for Handing Over an Apartment**

The study revealed that the buyer of apartment did not get possession of their purchased apartment in due time. There were many reasons behind it. These were management inefficiency, legal matters, failure of paying installments, natural calamities etc (Table 6.21).

Table 6.21: Causes of Delay

Causes	Frequency	Percent	Valid Percent
Inefficiency of Management	62	78.5	80.5
Legal Matters	2	2.5	2.6
Failure of Paying Installment	5	6.3	6.5
Others (Disturbed by local mastans, Flood etc.	10	12.7	13.0
<b>Total (N = 77<sup>a</sup>)</b>	<b>79</b>	<b>100.0</b>	<b>102.6</b>

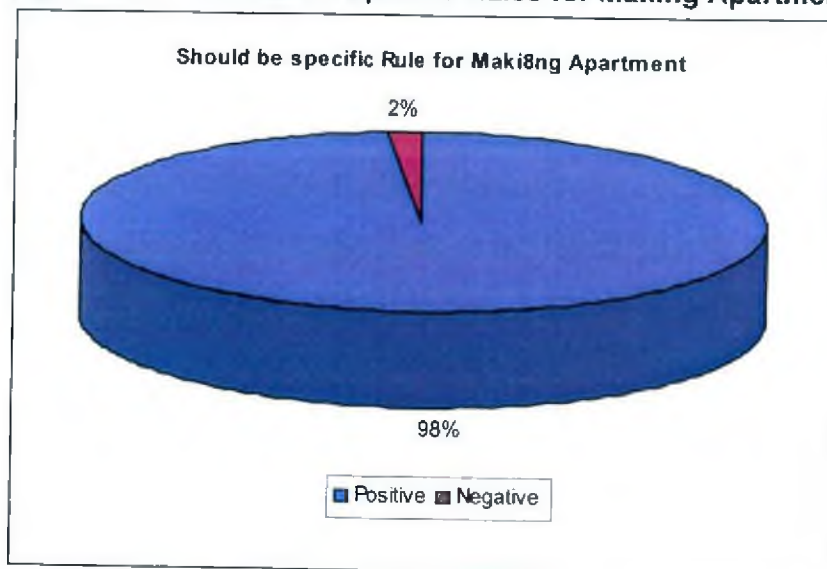
Source: Field Study

<sup>a</sup> Out of 120 respondents 77 (64.17%) respondents expressed their opinions about causes of delay for handing over an apartment. Rest 43 (35.83 %) replied no delay in handing over the apartment. Percentage distribution exceeded 100 due to participants multiple responses.

### 6.3.33 Specific Rules for Making Apartment

There should be specific rules for making apartment. Location of apartment development, quality of construction, observance of the existing rules, such as building code 1987- these are not maintaining by the developers. The developers took advantage of the loopholes of the existing rules. The study revealed that 98.3% samples have strongly recommended that there should be specific rules for the apartment developers. Only two apartment buyers expressed their opinion that existing laws were sufficient for smooth development of apartment (Figure 6.12).

Figure 6.12: Should be Specific Rules for Making Apartment



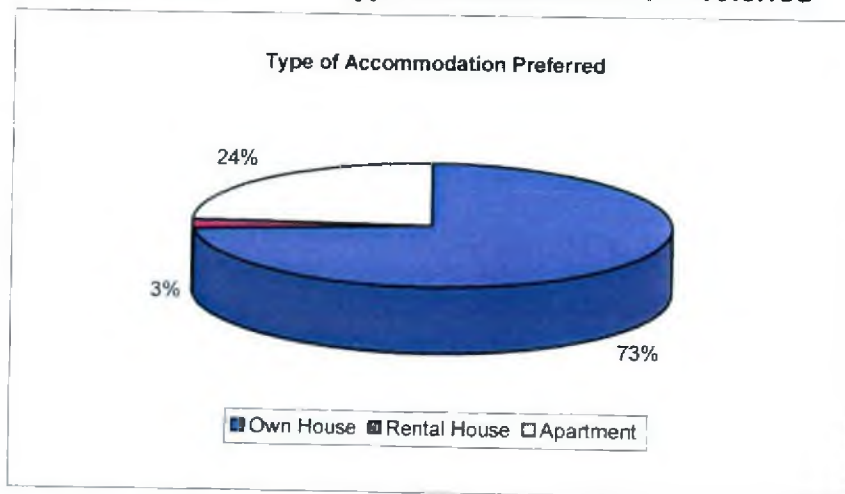
Source: Field Study



### 6.3.34 Type of Accommodation Preferred

The survey showed that 73.3% of the apartment buyers preferred to reside in their own house whereas they purchased apartments and were already living there. Inference can be drawn that people bought apartments against their choice. Because one cannot construct a house at the center of the city as land is very scarce in the city center and huge amount will be required for house construction as compared to buying an apartment. Twenty four percent of the buyers opined that they liked to have apartment type residence. A negligible percentage (2.5%) expressed their views in favor of rental house (Figure-6.13).

**Figure 6.13: Type of Accommodation Preferred**



Source: Field Survey

### 6.3.35 Objectives of Buying the Apartment

Initiative was taken to identify the buyers' objectives of buying apartment. Ninety four percent of the samples replied that they bought their apartments for having their own residence. Remaining samples viewed that they bought apartment for many reasons such as selling at a higher price, for social status, for rental income or for future certainty etc. It is clear that most of the buyers in our country buy apartment for solving their own residential problems (Table 6.22).

Table 6.22: Objectives of Buying the Apartment

Objectives	Frequency	Percent	Valid Percent
For Own Residence	113	83.1	94.2
For Selling at Higher Price	3	2.1	2.5
Social Status	7	5.2	5.8
For Rental Income	6	4.4	5.0
For Future Certainty	7	5.2	5.8
Total (N = 120 <sup>a</sup> )	136	100.0	113.3

Source: Field Study

<sup>a</sup> Percentage exceeded 100 due to multiple responses

### 6.3.36 Suggestions to Obtain Finance for Buying an Apartment

Suggestions were sought from the apartment buyers about the sources of finance from where the potential buyers might get loans. Out of 120 samples 96 buyers responded. Most of the samples (51.1%) suggested that the present interest rate of financial institutions should be reduced. Next highest (4.6%) number of respondents was in favor of the increase in the availability of the loan from Government sector (BHBFC, NCBs). Thirty percent respondents suggested long duration and large ceiling of loans. Most of the financial institutions charged compound interest but declared simple rate. So some buyers suggested that the rate of interest should be simple instead of compound. Eight percent of the buyers felt that apartment companies should allow easy installment facilities for apartment buying. About 13% respondents said that the formalities of financial institutions regarding loan sanctioning should be made easier. Other suggestions from the apartment buyers were: reduction in VAT and Taxes, arrangement of loan from the employers, initiative of loans by insurance companies for apartment buying (like other countries) and encouragement to foreign investors for giving home mortgage loans (Table 6.23).

Table 6.23: Suggestions to Get Finance for Buying an Apartment

	Frequency	Percent	Valid Percent
Low Interest Rate from Financial Institutions	49	31.6	51.1
More Loan from Govt. Sector ( BHBFC & NCBs).	39	25.2	40.6
Reduce Vat & Taxes for Registration	4	2.6	4.2
Simple Interest Rate from FIs	7	4.5	7.3
Increase of Loan Ceiling & Duration	29	18.7	30.2
Easy Installment for Apt. Buying	8	5.2	8.3
Formalities of FIs Loan Should be Easier	12	7.7	12.5
Others (Loan from Employer, Insurance Co., Foreign Investors)	7	4.5	7.3
Total (N = 96) <sup>a</sup>	155	100.0	161.5

Source: Field Study

<sup>a</sup> Out of 120 respondents 96 (80.0 %) respondents gave their suggestions to get finance for buying the apartment. Rest 24 (20.0 %) respondents expressed their inability about the matter. Therefore, 24 respondents were excluded from the analysis. Percentage distribution exceeded 100 due to multiple responses of the respondents.

### 6.3.37 Reasons for Non-Maintaining of Deposit Account With Banks Though Opportunity Cost is Higher

At present the rate of interest is on an average 13%. One can easily earn Tk.1100 by depositing one lac Taka with financial institutions. But if we compare the interest income with rental income of apartment or rent savings from buying apartment, it will be clear to us that the rental income or rent saving is lower than the foregone interest. After that, people show interest to buy apartment. It is clear that people are not buying apartment by considering the rental income of apartment. So an attempt was made to identify the reasons behind the buying of apartment. Table 6.24 shows that 77.8% buyers bought their apartments for solving housing problems permanently. Around 43% buyers replied that they bought apartment as it was a permanent asset and involved no financial risk. Apartment is a good permanent asset to invest in and a permanent source of income. A few buyers (7.4%) viewed that they bought apartment for social status. Some other interesting reasons such as: religious values about interest, zakat exemption, installment buying etc

**Table 6.24: Reasons for not Deposited in the Bank Though Opportunity Cost is high**

Reasons	Frequency	Percent	Valid Percent
Permanent Solution of Housing Problems	84	58.7	77.8
Permanent Asset	46	32.2	42.6
Social Status	8	5.6	7.4
Others : (Religious Values about Interest, Zakat Exemption, Installment Buying etc.)	5	3.5	4.6
<b>Total ( N =108)<sup>a</sup></b>	<b>143</b>	<b>100.0</b>	<b>132.4</b>
<sup>a</sup> Out of 120 respondents 108 (90.0 %) respondents gave their opinions not to deposited in bank though opportunity cost is higher. Rest 12 (10.0 %) respondents expressed their inability. Therefore, they were excluded from the analysis. Percentage distribution exceeded 100 due to participators multiple responses.			

Source: Field Study

### 6.3.38 Type of Problems Faced Living in an Apartment

The study found that many problems faced by the apartment buyers. Some were minor problems and some were major problems. About 55% samples replied that they had faced social and cultural problems. Such problems included interaction of children having different culture and family background. Second important problem (44.2%) was maintenance problem (physical, lift, generator, WASA, gas, electrical fittings etc.) Some apartment buyers had let out their apartments, which created heterogeneous problems. These problems were faced by the other apartment dwellers. Their percentages were 18.2%. Thirteen percent respondents replied that the developers used low quality construction materials. About Fourteen percent buyers replied that they were facing noise problem of vehicles, traffic jam, overcrowding etc. A negligible portion of buyers replied that they faced restrictions imposed by the developer regarding gardening and rearing pet animals (Table 6.25).

Table 6.25: Type of Problems Faced living in an Apartment

Types of Problems	Frequency	Percent	Valid Percent
Problems Created from other Apartment Dwellers (Heterogeneous Group, Noise and Quarreling).	14	12.1	18.2
Maintenance Problem (physical, lift, generator, WASA, gas, electrical fittings etc)	34	29.3	44.2
Low Quality Construction Material Used	10	8.6	13.0
More Restriction Imposed by the Developer (gardening, pet animal )	5	4.3	6.5
Social Problem & Cultural Problem.	42	36.2	54.6
Noise of Vehicle, Traffic jam, over crowding etc	11	9.5	14.3
<b>Total (N = 77<sup>a</sup>)</b>	<b>116</b>	<b>100.0</b>	<b>150.8</b>

<sup>a</sup> Out of 120 respondents 77 (64.2 %) respondents faced different types of problems living in an apartment. Rest 43 (35.8 %) respondents face no problem. Therefore, they were excluded from the analysis. Percentage distribution exceeded 100 due to multiple problems faced by the respondents.

Source: Field Survey

### 6.3.39 Factors Inducing a Buyer to Buy an Apartment (Ranking By the Buyer)

Out of 120 buyers 109 (91%) have participated in ranking one. 40 persons or 37% buyers have given rank-1 of the factor 5 or security reason. 93% buyers participated in ranking -2. 35 persons or 31% gave highest rank in case of factor -1 or to avoid the troubles involved in constructing house. In 3rd. ranking 97 persons (81%) took part and the highest percentages (23%) preferred the factor, to avoid the troubles involved in buying and taking possession of the land. The 4th. ranking factor is to live in the center of the city. The 5th ranking factor is to live with upper class people of the society (Table 6.26 & 6.27).

Table 6.26: Factors inducing a Buyer to Buy an Apartment (Ranking by the Buyer)

Factors Considered	Rank -1	Rank-2	Rank -3	Rank-4	Rank -5	Total
1 To avoid the troubles involved in (1) constructing house	36 (33%)	35 (31%)	17(17 )	8 (10%)	6 (10%)	102
2. To avoid the troubles involved in buying and taking possession of the land (2)	17 (16%)	20 (18%)	23 (24%)	22 (28%)	9 (15%)	91
3. To live in the center of the city (3)	15 (14%)	22 (20%)	22 (23%)	25 (32%)	10 (16%)	94
4. To live upper class peoples of the society (4)	1 (1%)	4 (4%)	9 (9%)	12 (15%)	33 (53%)	59
5. Security reason (5)	40 (37%)	31 (28%)	26 (27%)	12 (15%)	4 (6%)	113
<b>Total</b>	<b>109</b>	<b>112</b>	<b>97</b>	<b>79</b>	<b>62</b>	<b>459</b>

Source: Field Study

**Table 6.27: Factors Inducing a Buyer to Buy an Apartment (1 is top)**

Factors	Ranking Position
Avoiding the Troubles Involved in Constructing a House (N = 102)	2
Avoiding the Troubles in Buying & Taking Possession of Land (N = 92)	3
Living in the Center of the City (N = 94)	4
Living with Upper Class Peoples of the Society (N = 61)	5
Security Reason (N = 113)	1

Source: Field Study

**6.3.40 Factors Considered By a Buyer for Selecting the Site of an Apartment**

The following table shows that the apartment buyers considered many factors in selecting the site of apartment. These were the price, physical facilities, social services, communication, sizes of apartment and so on. But they gave emphasis differently on the said factors. Table 6.28 & 6.29 shows the ranking of the apartment buyers. The first ranking factor is the price of apartment, second is size of the apartment, and the fourth is utility services and then social services. Last factor considered was distance from the main city and communication.

**Table 6.28: Factors Considered by a Buyer for Selecting the Site of Apartment**

Factors	R1	R2	R3	R4	R5	R6	R7	Total
Price	39 (36%)	23 (19%)	22 (19%)	13 (12%)	9 (9%)	4 (5%)	2 (3%)	112
Physical Facilities	3 (3%)	7 (6%)	24 (21%)	26 (25%)	32 (31%)	12 (14%)	2 (3%)	106
Social Services	4 (4%)	10 (8%)	9 (8%)	13 (21%)	15 (15%)	13 (16%)	36 (55%)	100
Communication	28 (26%)	31 (26%)	16 (16%)	8 (8%)	11 (11%)	9 (11%)	5 (8%)	108
Size	7 (6%)	33 (30%)	35 (30%)	19 (18%)	6 (6%)	4 (5%)	2 (3%)	106
Utility Services	1 (1%)	1 (1%)	4 (3%)	16 (15%)	21 (21%)	31 (37%)	9 (14%)	83
Distance from Main City	27 (25%)	15 (13%)	6 (5%)	10 (10%)	7 (7%)	10 (10%)	10 (15%)	85
Total	109 (100%)	120 (100%)	116 (100%)	105 (100%)	101 (100%)	83 (100%)	66 (100%)	700 (100%)

Source: Field Study

**Table 6.29: Factors Considered by a Buyer for Selecting the Site of an Apartment (Ranking)**

Factors	Ranking Position
Price (N = 112)	1
Physical Facilities (N = 106)	3
Social Service (N = 100)	5
Communication (N = 108)	7
Size (N = 106)	2
Utility Services (N = 83)	4
Distance from the Main City (N = 85)	6

Source: Field Study

### 6.3.41 Factors Considered for Selecting Apartment Company

The apartment buyers have selected the apartment companies after considering so many factors, such as reputation of the company, experience of the company in this line, buyers previous experiences about the company, price offered by the company, project location, status of the company either private or public Ltd. etc. Table 6.30 shows the ranking given by the buyers about the selection of company from whom the apartment was bought. The first ranking factor is reputation of the company, second is experiences in this line, third ranking factor is the status of the company. Public Ltd. Companies is most favored. Other factors are experiences about the company, Apartment price and then Project location.

**Table 6.30: Factors Considered for Selecting Apartment Company**

Company Selection	R1	R2	R3	R4	R5	R6	R7
Reputation (N=88)	53 (45%)	28 (33%)	5 (8%)	2 (4%)	-	-	-
Status of the Co. (N=60)	2 (2%)	8 (7%)	19 (29%)	23 (43%)	8 (19)	-	-
Personally Known Co. (N=13)	11 (9%)	-	1 (12%)	-	-	1 (33%)	-
Experienced Co. (N=63)	5 (4%)	24 (28%)	23 (35%)	7 (13%)	4 (9%)	-	-
Previous Experience About the Co. (N=48)	5 (4%)	3 (3%)	3 (5%)	12 (22%)	25 (58%)	-	-
Reasonable Price (N=82)	28 (24%)	21 (24%)	14 (21%)	10 (19%)	6 (14%)	2 (67%)	1 (100%)
Project Location (N=16)	13 (11%)	2 (2%)	1 (2%)	-	-	-	-
<b>Total</b>	<b>117 (100%)</b>	<b>86 (100%)</b>	<b>66 (100%)</b>	<b>54 (100%)</b>	<b>43 (100%)</b>	<b>3 (100%)</b>	<b>1 (100%)</b>

### **6.3.42 Return on Individual Investment in Apartments**

No doubt, buying an apartment house is one of the highly profitable investments these days. One of the major companies in housing sector, the Building Technology & Ideas Ltd. (BTI) has recently carried out an exercise to demonstrate the return from investment in apartments to its potential customers. They have shown the calculation of return for mid-town apartments as well as posh apartments (Gulshan/ Baridhara/ Dhanmondi) of the value of Tk.25 lac and Tk.40 lac respectively. The calculation shows initial rental, yearly increase in rent and appreciation for periods of 10, 15 and 20 years.

It shows that a flat of Tk.25 lac fetches a return of 21% in 10 years, 25% in 15 years, and 29% in 20 years. Similarly a flat of Tk.40 lac brings a return of 23.5% in 10 years, 27.5% in 15 years and 32.5% in 20 year (Table 6.31).



Table 6.31: Calculation of ROI from the viewpoint of Buyers

Mid Town Apartments			Posh Apartments (Gulshan / Baridhara/ Dhanmondi)		
Price of Apartment	Tk. 25 lac		Price of Apartment	Tk. 40 lac	
Rental (Yearly)	9% of Apartment Price		Rental (Yearly)	11% of Apartment Price	
Yearly Increase in Rent	5% of Complex Price		Yearly Increase in Rent	5% of Complex Price	
Appreciation	7% of Apartment Price Complex		Appreciation	7% of Apartment Price Complex	
(Return in Tk.)			(Return in Tk.)		
Year	Rent	Apprcn.	Year	Rent	Appren.
1	225000	175000	1	440000	280000
2	236250	187250	2	462000	299600
3	248060	200360	3	485100	320570
4	260470	214380	4	509360	343010
5	273490	229390	5	534820	367020
6	287160	245450	6	561560	392710
7	301520	262630	7	589640	420200
8	316000	281010	8	619120	449620
9	332430	300680	9	650080	481090
10	349050	321730	10	682580	514770
<b>Sum(10 yrs)</b>	<b>2820030</b>	<b>2417880</b>	<b>Sum(10 yrs)</b>	<b>5534260</b>	<b>3868590</b>
11	366500	344250	11	716710	550800
12	384830	368350	12	752550	589360
13	404070	394150	13	790180	630610
14	424270	421720	14	829690	674760
15	445480	451240	15	871170	721990
<b>Sum(15 yrs)</b>	<b>4855180</b>	<b>4397570</b>	<b>Sum(15 yrs)</b>	<b>9494560</b>	<b>7036110</b>
16	467760	482830	16	914730	772530
17	491150	516630	17	960460	826610
18	515700	552710	18	1008490	884470
19	541490	591490	19	1058910	946380
20	568560	632890	20	1111860	1012630
<b>Sum (20 yrs)</b>	<b>7439840</b>	<b>7174200</b>	<b>Sum (20 yrs)</b>	<b>14549010</b>	<b>11478730</b>

Total (Rent + Appreciation) Return:	
Year (Total)	Return
10	21%
15	25%
20	29%

Total (Rent + Appreciation) Return:	
Year (Total)	Return
10	23.5%
15	27.5%
20	32.5%

Source: Building Technology & Ideas Ltd. (BTI)

Information gathered about demographic characteristics of the apartment buyers, socio economic condition, their source of finance, advantages and problems of apartment living etc. The majority of apartment buyers are middle aged which is in between 40-60 years. The average age is 47 years. The average family size of the apartment buyers is 4. Ninety four percent of the apartment buyers are graduate and post-graduate. Seventy five percent of buyers are male, the fortunate female buyers are housewives and they have no regular

income. The occupation of the 40% apartment buyers is service. Average family income of the apartment buyers is Tk.40,000. Apartment buyers of posh areas are not satisfied after buying the apartment. But the buyers of other areas are mostly satisfied. For escaping the high registration cost some buyers did not register their purchased apartment. Installment buying is preferred by most (73%) of the respondents. Most (99%) of the buyers used informal source of finance. The cost of govt. sector loan is 12.2% and the duration of loan is 14 years. Only 46% buyers have taken formal loan. Maximum (65.5%) arranged loan by their self - initiative and the rest buyers' loan has been arranged by their developer. Almost all (93%) buyers use their apartment as their own residence. Price is the most important factor for a buyer to select the site of the apartment. Most of the buyers have strongly suggested that there should be specific rules for apartment developers. Fifty five percent buyers were facing social and cultural problems in apartment living.

This chapter has focused on the various aspects of apartment buyers. This chapter has been prepared based on the field study. Exact scenario of apartment dwellers, their problems of financing and the problems they have been facing after buying their flats and satisfaction of apartment living have been explored in this chapter. The next chapter will focus on the various characteristics of apartment projects. This chapter will also be based on the findings of the field study.

## CHAPTER-7

### APARTMENT PROJECTS

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## CHAPTER- 7

## APARTMENT PROJECT

## 7.1 INTRODUCTION

Apartment project is a recent phenomenon In Bangladesh, although such activities started sometime in 1964. Isphahani Group was the pioneer in this sector. But in early 1980s with the inception of Eastern Housing Ltd. the apartment project started flourishing. As a fast growing city of Bangladesh, such a business was initially concentrated in Dhaka, later on spread in Chittagong and Khulna cities. At present there were about 400 firms operating this business and they had apartment projects in Dhaka City and some other cities. So the apartment projects developed in Dhaka City came within the purview of this study.

The study was conducted within the Dhaka City. So the apartment projects developed mainly in Dhaka City came within the scope of this study. The apartment projects have been developed in different areas of Dhaka City,. The main areas were Gulshan, Banani, Baridhara, Dhanmondi, Mohammedpur, Lalmatia, Paribag, Paltan, Siddeshwari, Shantinagar, Segunbagicha, Panthapath, Uttara, Indira Road, Mirpur etc. For the purpose of the study the Dhaka City was divided into three sub areas: I) Luxury area ii) Standard area and iii) Economy area. This division was made for the convenience of analysis. This was based on the factors like: population, diplomatic zones, commercial centers, level of education, elite Inhabitants, localization of schools and colleges, distance from Government Offices, land price, availability of vacant land and so on. The Table 7.1 below shows this classifications:

**Table 7.1: Classifications of Sample Areas**

<b>Classifications</b>	<b>Areas</b>
1. Luxury	Baridhara , Gulshan, Banani (Within the RAJUK project)
2. Standard area	Dhanmondi, Lalmatia and Mohammedpur.
3. Economy area	Paribag, Paltan, Siddeshwari, Shantinagar, Segunbagicha, Panthapath, Uttara, Indira Road, Mirpur etc.

## 7.2 DEVELOPER OF THE PROJECT

In this survey 209 apartment projects were randomly selected from 19 prominent apartment developers. These projects are likely to represent all the characteristics of total scenario of the apartment project in our country (Table 7.2).

Table 7.2: Developer of the Project

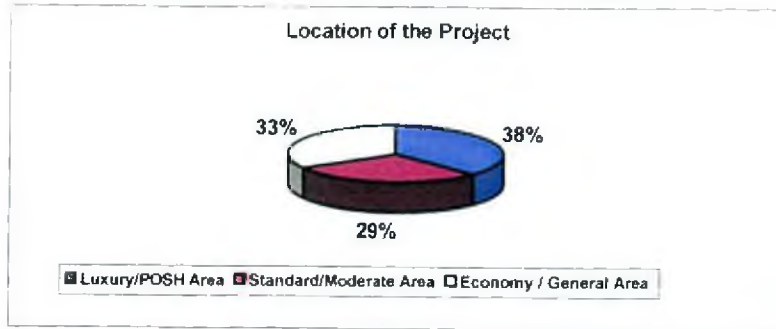
Name of the Apartment Developers	Frequency	Percent	Valid Percent
Bashati Housing	21	10.0	10.0
BTI	40	19.1	19.1
HAL	14	6.7	6.7
Oriental	10	4.8	4.8
Property	8	3.8	3.8
Sheltech	14	6.7	6.7
Shinepukur	9	4.3	4.3
Structural	10	4.8	4.8
Shubastu	14	6.7	6.7
Urban Design	14	6.7	6.7
Eastern Housing	8	3.8	3.8
Building for Future	11	5.3	5.3
Builders & Developers	11	5.3	5.3
NEER Ltd	6	2.9	2.9
Rupayan	5	2.4	2.4
Rangs	1	.5	.5
The Tropical Homes	2	1.0	1.0
Concord	11	5.3	5.3
<b>Total</b>	<b>209</b>	<b>100.0</b>	<b>100.0</b>

Source: Field Study

## 7.3 LOCATION OF THE PROJECT

The samples of apartment projects were selected from various locations of the sample areas. Out of 209 projects, 78 (37.3%) projects were selected from Posh area, 61(29.2%) projects from Standard area and 70 (33.5%) projects from Economy area. The Figure 7.1 shows that all areas of Dhaka City were covered by the apartment projects. Apartment projects developed in Dhaka City mainly.

Figure 7.1: Location of the Project

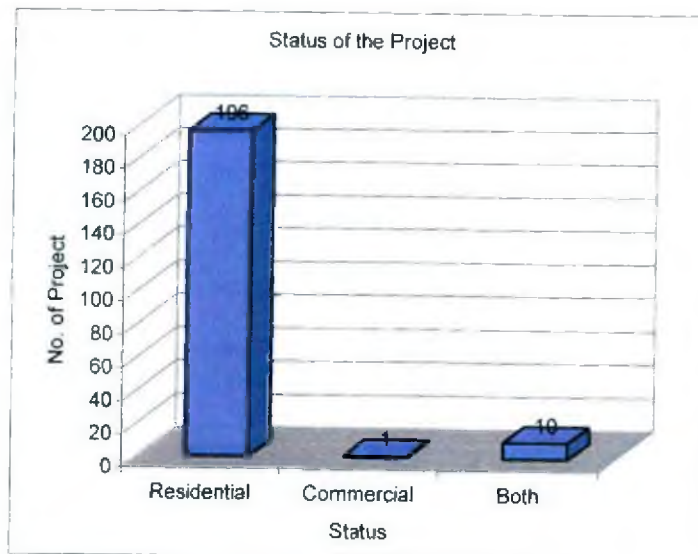


Source: Field Study

#### 7.4 TYPE OF THE PROJECT

In this survey out of 209 projects 94% were purely residential projects, 5% were both residential and commercial projects and less than 1% ~~was~~ purely commercial projects. The latter ~~were~~ constructed for sale as office space and shopping centers. (Figure 7.2). So, it can be concluded here that the residential projects were the common phenomena in our apartment sector.

Figure 7.2: Type of the Project



Source: Field Study

## 7.5 PRICE OF PARKING SPACE IN THE PROJECT

A considerable amount is to be paid by the apartment buyer for parking space in addition to the apartment price. But this cost varied because of some factors, such as price of apartment, location of the project, number of flats in a project, size of apartment and number of floors etc. Where the number of apartments in a project was less in that case the parking cost was comparatively higher. Again, if the size of apartment was big then the price of parking space is also higher. The survey observed that the average cost of parking space was Tk.1.885 Lac with a standard deviation of Tk.0.33 Lac. The modal value was Tk.2.00 Lac. Out of 209 projects 30 samples did not respond and from the remaining 179 samples 130 projects' (62.2%) parking space cost was Tk.2.00 Lac. The next highest percentage (23.5%) was in the range of Tk.1.50 - Tk.1.99 Lac range. So it can be concluded that the cost of parking space varied from Tk.1.50 Lac to Tk.2.00 Lac. In posh area the cost was Tk.2.00 Lac and above and in standard and economy areas this cost was Tk.1.50-1.99 Lac (Table 7.3).

**Table 7.3: Price of Parking Space in the Project (Tk. in Lac)**

	Price (Tk.in Lac)	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Up to 1.00	5	2.4	2.8	2.8
	1.01-1.50	44	21.1	24.6	27.4
	1.51-2.00	119	56.9	66.5	93.9
	2.01-2.50	8	3.8	4.5	98.3
	2.51-3.00	3	1.4	1.7	100.0
	Total	179	85.6	100.0	
Missing	NR	30	14.4		
Total		209	100.0		

**Mean cost for parking space = Tk.1.886 Lac with standard deviation of Tk.0.33 Lac.**

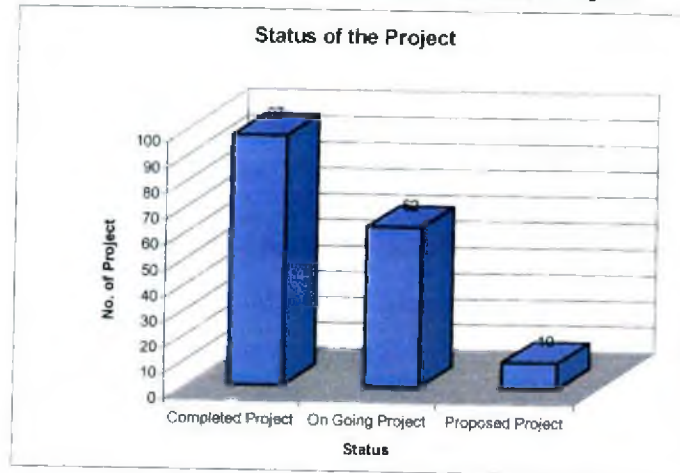
Source: Field Study

## 7.6 STATUS OF THE PROJECT

Out of 209 sample projects, 169 (57.4%) projects were completed and 36.7% were under construction and 5.9% were the proposed projects. So it was observed that most of the

projects were completed, a considerable number of projects were under process and a negligible number of projects were proposed (Figure 7.3).

**Figure 7.3: Status of the Project**



Source: Field Study

## 7.7 SIZE OF LAND OF PROJECT

Only 174 samples responded out of 209 projects about land size of the project. An apartment project required a minimum size of land. In a small size land it is not possible to start an apartment project. A considerable size of land is needed. The study collected the information about average size of that land required for a project. It was found that the average size of land used for a project was 11.34 Kathas with a standard deviation of 6.56 Kathas. A project constructed on 98 katha of land was of highly extreme size and excluded from this average. The modal size of land was in the average of 5-9.99 Kathas of land. In percentage, 46.6% projects were constructed with in a land of 5-9.99 Katha. Followed by 27% projects those were constructed on land measuring between 10-14.99 kathas (Table 7.4).



Table 7.4: Project Land in Katha

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 5	4	1.9	2.3	2.3
	5 - 9.99	81	38.8	46.6	48.9
	10-14.99	47	22.5	27.0	75.9
	15-19.99	18	8.6	10.3	86.2
	Above 20	24	11.5	13.8	100.0
	Total	174	83.3	100.0	
	NR	35	16.7		
Total		209	100.0		

**Mean size of land used in a project = 11.34 katha with std. deviation of 6.56 katha**

Source: Field Study

## 7.8 APARTMENT SIZE OF THE PROJECT

The study observed variation of apartment size from project to project or within a project. Price of apartment also varied with its size. It was found that the size varied from 800 sft. to 4334 sft. The average size was 1895.64 sqft, with a standard deviation of 595.01 sft.. The modal range of apartment size was 1500-1999 sft. Out of 203 projects, 71 projects (35%) were in the range of 1500-1999 sft. Next highest projects (22.7%) were in the range of 2000-2499 sft. A negligible number of projects (4.4%) were below of the range of 1000 SFT (Table 7.5).

Table 7.5: Apartment Size of the Project (in SFT)

	Size of Apartment	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 1000	9	4.3	4.4	4.4
	1000-1499	42	20.1	20.7	25.1
	1500-1999	71	34.0	35.0	60.1
	2000-2499	46	22.0	22.7	82.8
	2500 & Above	35	16.7	17.2	100.0
	Total	203	97.1	100.0	
Missing	NR	6	2.9		
Total		209	100.0		

**Mean size of apartment 1895.64 SFT, Min-800 & max- 4334 SFT. Std. 595.01 SFT.**

Source: Field Study

## 7.9 APARTMENT SIZE OF THE PROJECT WITH LOCATIONS

In posh areas the size of apartment is big and in economy areas the size is comparatively small. The high- income buyers prefer to live in posh area and low and mid- income people

reside in economy areas. So considering the income group and the affordability of buyers, apartment developers constructed apartments of big in size in posh areas and of small size in moderate or economy areas. Out of 203 projects 9 projects are below 1000 sft (Table-7.6) size and 89% projects are located in economy areas and no projects in the posh areas and remaining 11% projects are in standard areas. 35 or 17% projects are 2500 sft. size and above. Out of 35 projects 30(86%) projects are in posh areas. So it is clear that big size apartment projects are situated in posh area and small size in economy areas (Table 7.6).

**Table 7.6: Apartment Size of the Project (in SFT) by Location of the Project**

Apartment Size of the Project (in SFT)	%	Location of the Project			Total
		Luxury/POSH Area	Standard/Moderate Area	Economy / General Area	
Below 1000	Count		1	8	9
	% of Total		.5%	3.9%	4.4%
1000-1499	Count	5	11	26	42
	% of Total	2.5%	5.4%	12.8%	20.7%
1500-1999	Count	21	24	26	71
	% of Total	10.3%	11.8%	12.8%	35.0%
2000-2499	Count	21	21	4	46
	% of Total	10.3%	10.3%	2.0%	22.7%
2500 & Above	Count	30	3	2	35
	% of Total	14.8%	1.5%	1.0%	17.2%
<b>Total</b>	<b>Count</b>	<b>77</b>	<b>60</b>	<b>66</b>	<b>203</b>
	<b>% of Total</b>	<b>37.9%</b>	<b>29.6%</b>	<b>32.5%</b>	<b>100.0%</b>

Source: Field Study

### 7.10 NUMBER OF THE APARTMENTS PRODUCED IN THE PROJECTS

An apartment project consists of some flats or apartments. The number of flats in a project varies owing to some factors. These are: size of project land, number of floors in the projects, location of the project (commercial or residential) and quality of construction. Economy projects generally contained a large number and luxury project contained a small number of flats. In the study it was found that the average number of apartments in a project is 27 with Standard deviation of 30. Ninety projects or 50.3% samples were found to have less than 20 apartments. 59 projects or 33% samples were found to contain 20-39 apartments. Only 8 projects or 4.5% samples were found to have 100 flats or more (Table 7.7).

**Table 7.7: Number of the Apartments Produced in the Project**

Number of Apartments in a Project	Frequency	Percent	Valid Percent	Cumulative Percent
Below 20	90	43.1	50.3	50.3
20-39	59	28.2	33.0	83.2
40-59	14	6.7	7.8	91.1
60-79	6	2.9	3.4	94.4
80-99	2	1.0	1.1	95.5
100 & Above	8	3.8	4.5	100.0
Total	179	85.6	100.0	
Not Response	30	14.4		
Total	209	100.0		

**Mean number of apartment in a project = 27 with std. deviation of 29.98 units**

Source: Field Study

**7.11 NUMBER OF THE APARTMENTS ACCORDING TO AREA IN THE PROJECT**

The number of apartments in a project varied with the location of project. The projects located in Luxury Areas have a small number of apartments in a project while the number is higher in case of the projects located in Economy Areas. The table -7.8 shows that out of 179 projects 90 projects (50%) contained apartments below 20 and 53% projects are located in posh areas, 28% are in Standard Areas and only 19% apartments are in Economy Areas. The projects having above 60 apartments are only 16 or 9% that are located 100% in economy areas.

**Table 7.8: Number of the Apartment Produced in the Project by location**

# of the Apartment Produced in the Project	%	Location of the Project			Total
		Luxury/POSH Area	Standard/Moderate Area	Economy / General Area	
Below 20	Count	48	25	17	90
	% of Total	26.8%	14.0%	9.5%	50.3%
20-39	Count	15	30	14	59
	% of Total	8.4%	16.8%	7.8%	33.0%
40-59	Count		2	12	14
	% of Total		1.1%	6.7%	7.8%
60-79	Count			6	6
	% of Total			3.4%	3.4%
80-99	Count			2	2
	% of Total			1.1%	1.1%
100 & Above	Count			8	8
	% of Total			4.5%	4.5%
<b>Total</b>	<b>Count</b>	<b>63</b>	<b>57</b>	<b>59</b>	<b>179</b>
	<b>% of Total</b>	<b>35.2%</b>	<b>31.8%</b>	<b>33.0%</b>	<b>100.0%</b>

Source: Field Study

## 7.12 SELLING PRICE OF APARTMENT

Selling price of apartment is expressed in per square feet. It was found that the apartment price per sft. varies from Tk.800 per sft.. to Tk.3100 per sft.. The average price per sft. is Tk.1807 with std. deviation of Tk.394 per sft.. Price has been fixed on so many factors, such as location of the project, number of floors or number of stories, quality of construction, sources of raw materials, number of apartment units in a projects. The mode of payment was on installments or 100% down payment. The price of apartment per square feet was Tk.1500-1999 in case of 50% projects. Only the price of 11% apartments was below Tk.1000 while 11% projects have TK. 3000 (Table 7.9).

**Table 7.9: Apartment Selling Price per SFT (Tk.)**

Apartment Selling Price Per SFT (Tk.)	Frequency	Percent	Valid Percent	Cumulative Percent
Below 1000	2	1.0	1.1	1.1
1000-1499	30	14.4	16.9	18.0
1500-1999	89	42.6	50.0	68.0
2000-2499	41	19.6	23.0	91.0
2500-2999	14	6.7	7.9	98.9
3000 & Above	2	1.0	1.1	100.0
Total	178	85.2	100.0	
Non-Response	31	14.8		
Total	209	100.0		

Average Selling price Tk.1807 SQFT. Min TK.800 Max.Tk.3100, with std. deviation Tk.394.

Source: Field Study

## 7.13 APARTMENT SELLING PRICE WITH LOCATION OF THE PROJECT

Apartment price varies with the location of the project. In posh location the apartment price is higher and in standard areas the price is comparatively lower while the price is the lowest in economy areas. The Table 7.10 shows the pricing situation of the apartment. Out of 178 samples only 2 samples price was below Tk.1000 and that are located in the economy areas. 30 or 17% samples lie below Tk.1500 per sft. of which 80% projects are located in the economy area. Price Tk.2500 or above is located mostly in posh areas, out of 16 projects 12 or 75% are located in posh areas.

Table 7.10: Apartment Selling Price per SFT (Tk.) by Location of the Project

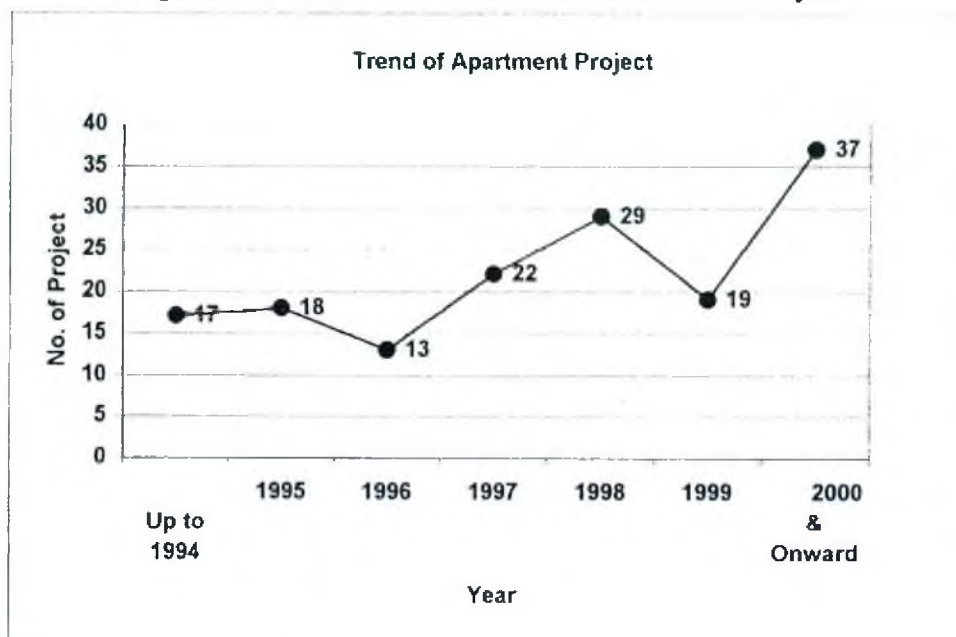
Apartment Selling Price Per SFT (Tk.)	Location of the Project			Total
	Luxury/POSH Area	Standard/Moderate Area	Economy / General Area	
Below 1000			2	2
1000-1499	2	4	24	30
1500-1999	21	38	30	89
2000-2499	28	13		41
2500-2999	11	1	2	14
3000 & Above	1	1		2
<b>Total</b>	<b>63</b>	<b>57</b>	<b>58</b>	<b>178</b>

Source: Field Survey

#### 7.14 YEAR OF COMMENCEMENT OF THE PROJECT

Apartment culture is a current phenomenon in our country. Most of the well off people preferred to live in a separate house like a bungalow. Most of them thought that there should have a big pond or a lake beside the Bungalow or a big garden in front of the house or a big field within the compound. With the passage of time this type of thinking has become merely a dream. So gradually people are switching over from their old thinking and preferring to buy an apartment. Till 1994 only 17 (8.1%) projects commenced. After that, apartment project increased year by year. The Figure 7.4 indicates this tendency.

Figure 7.4: Year of Commencement of the Project



Source: Field Survey

## 7.15 APARTMENT SELLING PRICE WITH THE COMMENCEMENT YEAR

It is the normal tendency that the prices of commodities rise with time. From the very beginning of apartment project the price of apartment was comparatively low. Gradually the prices increased. Out of 154 projects only 2 projects commenced in the year 2000, whose prices within the range of Tk.1000 per sft. Eighty projects (52%) commenced after 1998 price range was Tk.1500-1999. Table-7.11).

**Table 7.11: Apartment Selling Price per SFT (Tk.) by Commencement Year of the Project**

Apartment Selling Price Per SFT (Tk.) *	Commencement Year of the Project							Total
	Up to 1994	1995	1996	1997	1998	1999	2000 & Onward	
Below 1000		1					1	2
1000-1499	5	5	3	4	2	4	4	27
1500-1999	7	9	8	14	12	11	19	80
2000-2499	2	3	1	1	10	4	10	31
2500-2999	2		1	3	4		3	13
3000 & Above					1			1
<b>Total</b>	<b>16</b>	<b>18</b>	<b>13</b>	<b>22</b>	<b>29</b>	<b>19</b>	<b>37</b>	<b>154</b>

Source: Field Survey

## 7.16 LAND PRICE PER KATHA

The trend of land price in major cities shows an increasing. At present study attempt was made to collect the land price of various locations of the sampling areas. But the concerned person or apartment developers did not cordially respond to this question. The average land price in Dhaka City is Tk.17.47 Lac with a std. deviation of Tk.6.38 Lac. But the price of land varies owing to various factors, such as location, connecting road width, level of land, inhabitants' status etc. The land prices of 34.4% projects lie within the range of Tk20-24.99 lac. In few cases the price is 30Lac or above. On the other hand, 13.3% projects' land price is below Tk.10 lac (Table 7.12).

**Table 7.12: Approx. Land Price Per Katha (Tk. in Lac)**

Approx. Land Price Per Katha (Tk. in Lac)	Frequency	Percent	Valid Percent	Cumulative Percent
5-9.99	12	5.7	13.3	13.3
10-14.99	14	6.7	15.6	28.9
15-19.99	22	10.5	24.4	53.3
20-24.99	31	14.8	34.4	87.8
25-29.99	7	3.3	7.8	95.6
30 & Above	4	1.9	4.4	100.0
Total	90	43.1	100.0	
Not Response	119	56.9		
	209	100.0		

**Average price of land per katha is Tk.17.47 Lac and std. deviation is Tk.6.38 Lac**

Source: Field Survey

### 7.17 LAND PRICE PER KATHA (TK. IN LAC) WITH LOCATION OF THE PROJECT

Land price varies with the location of apartment. In the posh or luxury location the land price is the highest, in moderate location the price is less than that of posh location while in the economy area the land price is the lowest. The Table 7.13 indicates that out of 90 samples the price per katha of land was within the range of Tk.5-9.99 lac is only, in case of 12 projects of which 10 projects are located in the Economy Area.

**Table 7.13: Approx. Land Price per Katha (Tk. in Lac) by Location**

Land Price Per Katha (Tk. in Lac)	Location of the Project			Total
	POSH Area	Moderate Area	Economy Area	
5-9.99	--	2	10	12
10-14.99	3	6	5	14
15-19.99	6	8	8	22
20-24.99	17	13	1	31
25-29.99	5	1	1	7
30 & Above	4	--	--	4
<b>Total</b>	<b>35</b>	<b>30</b>	<b>25</b>	<b>90</b>

Source: Field Survey

### 7.18 PRICE OF PARKING SPACE (TK. IN LAC) WITH LOCATION OF THE PROJECT

Price for parking space varies from location to location. In posh location the price for parking space is higher while in the economy area the price is lower. The table 7.14 shows that out of 179 projects, only 7 projects' price of parking space was below Tk.1.50 lac

located in economy areas. In case of 42 projects the price ranged between of Tk.1.50-1.99 lac and 60% projects are also located in Economy Areas. But in posh location most of the prices of parking space are within the price range of Tk.2.00Lac and above. Total projects in the price range of Tk.2.00 Lac were 130 of which 56 (43%) projects were located in posh area (Table 7.14).

**Table 7.14: Price of parking space (Tk. In Lac)**

Price of parking space (Tk.In Lac)	Location of the Project			Total
	POSH Area	Moderate Area	Economy Area	
Below 1.50	--	--	7	7
1.50-1.99	7	10	25	42
2.00 &above	56	47	27	130
Total	63	57	59	179

Source: Field Survey

### 7.19 COMMENCEMENT YEAR OF THE PROJECT WITH APPROX. LAND PRICE

In rural areas land price is increasing day by day. The land is scarce in metropolitan cities; Dhaka is seriously facing this problem. Out of 85 projects 9 commenced before 1994, the modal price of land was Tk.15-19.99 Lac, 13 projects commenced in 1995 and the modal land price was Tk.20-24.99 Lac, 8 projects were commenced in 1996 and modal price of land was Tk.20-24.99 Lac. Since 1997 the price of land also has been increasing (Table 7.15).

**Table 7.15: Commencement Year of the Project by Approx. Land Price**

Land Price Per Katha (Tk. in Lac)	Commencement Year of the Project							Total
	Up to 1994	1995	1996	1997	1998	1999	2000 & Onward	
	4		1	1	1	1	3	11
10-14.99	2	2	2	2	4	1	1	14
15-19.99	4	1	1	6	3	3	4	22
20-24.99	3	6	3	4	5	1	5	27
25-29.99				1	1	1	4	7
30 & Above			1	1	2			4
<b>Total</b>	<b>9</b>	<b>13</b>	<b>8</b>	<b>15</b>	<b>16</b>	<b>7</b>	<b>17</b>	<b>85</b>

Source: Field Survey



Out of 209 apartment projects 37.3% are located in posh areas, 29.2% in standard areas and 33.5% are in economy area. So. It can be concluded that apartment projects have been developed equally all over the sampling areas. It is revealed in this survey that 94% projects are residential. It was found that the average size of land for a project was 11.34 katha with a standard deviation of 6.56 katha. The average size of apartment is 1896 sft. The modal size is 1500-1999 sft. The average number of apartments in a project is 27 with a high standard deviation of 30 units. The range is 5-500 units. The modal number is below 20 units. The selling price of apartments per sft. Is varies from Tk.800-3100. Before 1994 only 115 projects were developed. Land price of various locations of the sampling area is surveyed. Average land price for per katha is Tk.17.47 lakh.

This is the last part of the report that is aimed at finding out the nature and characteristics of apartment projects growing in Bangladesh. The next and last chapter will try to conclude and summarize the study. The next chapter will also focus on the agenda for further research, benefits of this study and recommendations to the various stakeholders.

## CHAPTER-8

### SUMMARY AND CONCLUSION

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## CHAPTER - 8

### SUMMARY AND CONCLUSION

#### 8.1 SUMMARY

The present study has tried to identify the pattern of formal private sector housing i.e. apartment business, their financing sources, cost of production, procedures, problems and prospects etc. The study was conducted by using four sets of structured questionnaires. They were: i. For the promoters of apartment business (Appendix-4) ii. For the apartment developers (Appendix-2). iii. For apartment buyers (Appendix-3). and iv. For apartment projects (Appendix-5). The study identifies the pattern of apartment business, their financing procedures and problems. The major findings of the study are briefly discussed below:

##### 8.1.1 Pattern of Apartment Business

###### **A. Promoters of Apartment Business**

The study surveyed 54 numbers of entrepreneurs from the sample developers. The average number of entrepreneurs was 2.85 or 3 in a company. The average age of promoters was 45 years. Forty one (41%) percent of promoters were engineers. Some promoters were found to be the students of BUET. A small numbers of doctors were found doing apartment business.

###### **B. Apartment Companies**

Basing on the years of establishment of companies it was revealed that the apartment business is a recent idea in our country. Sixty two percent (62%)

companies lie between the age range of 5-9 years. Most (86%) of the apartment companies are private limited companies. Except 2 public limited companies the number of shareholders varies from 2 to 7.

Eighty percent respondents opined that their motive behind entering apartment business was to solve urban housing problems and all the sample companies were motivated by lucrative profit. Besides apartment business, a large number (52.4%) of the apartment companies are involved in other businesses, such as: Textiles, Ceramics, Papers, Garments etc. and a few of them are involved in land project and consulting.

An interesting source of land used in apartment business, which is co-sharing with the landowner. Ninety five percent of lands are obtained through co-sharing with the landowner. The co-sharing proportion is 60% to the developers and 40% to the landowners. Purchased land and own land are 29% and 33.33% respectively.

The sources of fund of the apartment companies are own capital, borrowed capital and advance taken from the buyer as booking money. Seventy six percent apartment companies took loan from financial institutions. Most (78%) of the companies obtained finance from private banks. Only 11% of them got loan from NCBs. Potential sources of loan was private and foreign banks (111.1%). Sixty seven percent (67%) loan were provided by private housing finance and leasing companies. NCBs average rate of interest is 15.5% while this rate in case of private banks is 15.70%.

Average cost per sft. in Posh area (Baridhara, Gulshan & Banani) is Tk.1679.6 with std. deviation of Tk.279.27. In Standard area (Dhanmondi, Mohammadpur & Lalmatia) the cost per sft. is Tk.1360.06 with std. deviation of Tk.303.08. In Economy

area (rest of the above two) the cost per sft. is Tk1094.00 with std. deviation of Tk.138.49.

Majority of the companies (81%) followed competitive pricing a technique. Thirty eight (38%) percent of the samples followed mark up technique of pricing. A little experience of default culture was prevailing in apartment business. Because in most cases price was collected before handing over the apartment. The survey shows that all companies not only offered cash discount to the buyers for cash but also allowed rebate to the advance payers.

Companies took precautionary measures for earthquake and cyclone at various levels. Eighty nine percent (89%) samples responded that they maintained 6.5 richter scale for earthquake. Forty seven percent (47%) companies maintain 240 km/hr. wind velocity for facing cyclone. Most of the sample (81%) did not arrange insurance for the project during the time of construction. Apartment companies allowed 12 installments and 2 years for paying the apartment price to the installment buyer. In most cases (86%) the developers arrange loan for the buyer.

For quality control of the product the companies has adopted various laboratory tests. Sixty one (61%) percent samples adopt BUET.,ACI., ASTM., BSTI's tests. Sixty seven percent (66.7%) developers replied that they were to some extent satisfied about the services of RAJUK.

A case study shows that the Return on Investment (ROI) is 26.74%, which implies that the apartment sector offers high profit margin. Ninety five percent (95.2%) developers transferred the title of apartment including proportionate share of land to the buyer and 43% samples did not take environment clearance from the department of environment (DOE), although there is an existing rule to take such clearance.

SWOT analysis of apartment business shows that the business is economically quite viable and highly profitable for investor and the financiers. Risk analysis shows that there is no significant operational risk involved with this business although political turmoil, country wide strikes hamper communication, transportation of workers as well as availability and cost of construction materials. There is a minimum financial risk involved in apartment business because the 100% sales proceeds were collected before handing over the apartment. Hundred percent apartment developers have a plan to make apartment for low and middle class income groups.

### **C. Apartment projects**

In this survey 209 apartment projects were randomly selected from 19 prominent apartment developers. These projects were likely to represent all the characteristics of the total scenario of apartment in our country. The survey reveals the location of apartment project, status, price of apartment, price of project land, size of apartment etc. These are:

Before 1994 only 11% projects were developed. The maximum number of projects commenced in the year 2000 and onward (24%). Out of 209 projects 37.3% projects are located in posh area, 29.2% are in standard area and the remaining 33.5% are in economy area. So it can be concluded here that the apartment projects have been developed equally all over the sampling area. It is revealed in this survey that 94% projects are residential, 5% are residential-cum commercial projects and only 1% project is purely commercial.

Average cost for parking space is Tk1.886 lac with standard deviation of Tk.0.33 lac. It was found in the survey that the average size of land used for a project was 11.34 katha with a standard deviation of 6.56 katha. Forty seven percent (46.6%) projects' land lie between 5-9.9 katha or below 10 katha. The average size of apartment is 1895.64 sft. with standard deviation of 595.01 sft. The range is 800-4334 sft. The modal size is between 1500-1999 sft. The average number of apartments in a project is 27 with high standard deviation of 29.98 units. The range is 5-500 units. The modal number is below 20 units.

It was found in this survey that the apartment selling price per sft. varied from Tk.800 to Tk.3100. The average sale price per sft. is Tk.1807 with a std. deviation of Tk.394 per sft. In posh area the modal price range is Tk.2000-2499. In both standard and economy area the modal price range is Tk.1500-1999. Before 1994 only 11% projects were developed. The maximum number of projects is commenced in the year 2000 and onward (24%). Land price of various locations of the sampling area is surveyed. Average land price is found Tk.17.47 lac with std. deviation of Tk.6.38 Lac. The modal price is in the range of Tk.20-24.99 Lac. An intensive case study was conducted on 8 projects of 4 reputed apartment developers. The average profit on turnover is found around 20% (Appendix-5).

#### D. Buyer of Apartment

One Hundred Twenty (120) buyers were selected from the whole sampling area. 108 buyers were selected from the member of REHAB. The remaining 12 buyers were selected from outside the REHAB members. Information was gathered about demographic characteristics of the apartment buyer, socio-economic condition of the buyer, their source of finance, advantages and problems of apartment living etc. These are:

The average age of apartment buyer is 46.93 years. The majority of the apartment buyers are middle aged that is between 40-60 years. The average family size of the apartment buyers is 4.39 and modal size is 4 whereas the national size is 5.5 members. So. It can be said that the small sized family prefer living in apartments. A small number of apartment buyers are under graduate (5.8%). The rest (94.2%) are graduates, pos-graduate, MBBS or engineering degree holders. Seventy five percent (75%) apartment buyers are male and 25% are female. The fortunate female apartment owners are mostly housewives. For hiding un-earned money of the family head they have registered their apartment in their wives' name.

The occupation of the 40% apartment buyer is service, either Government or non-government sectors. 7.5% fortunate bank employees have purchased apartment by taking cheap rated loan from their employers. The average family income of the apartment buyers is Tk.39760 or Tk.40,000 with std, deviation of Tk.29030. The modal income is below Tk.10000.

The maximum number of apartment buyers at posh area is not satisfied after buying the apartment. But the buyers of standard and economy areas are mostly satisfied after buying their apartment.

The apartment buyers have to pay around 4% of apartment price as stamp duty, registration fee, VAT, gain tax and other incidental charges in transferring freehold land and 8% is required in case of leasehold land. Eighty Six percent of the buyers registered their purchased apartment but 14% of them avoided registration for avoiding registration fees and their formalities.

The survey revealed that 72.5% buyers bought their apartment on installment basis, the remaining bought on instant payment. The average number of installments



allowed by the companies are around 12 and the duration is 2 years. It means bi-monthly installments are allowed.

The average price of apartment including registration and other cost but excluding the cost for parking space is Tk.22.79 lac with a standard deviation of Tk.10.21 lac. The apartment price per sft. (excluding registration and other costs) is found Tk.1391.44 with a standard deviation of Tk342.36. Sixty percent (60%) buyers bought their apartments at price within the range of Tk.1000-1500 per sft. Only 6.7% buyers bought the same at a price of below Tk.1000 per sft.

The survey showed that 99.2% of apartment buyers used informal source of finance. The second important (17.5%) source of finance is found to be the Government sector i.e. BHBFC or NCBs. The cost and duration of fund from informal sector could not be measured. The Government sector's average cost and duration of loan is 12.2% and 14.38 years respectively. Private housing finance company's average cost of fund is 15.91% and average duration is 14.47 years. Average loan contribution of informal sector, Government sector, private housing finance companies and private banks' are 81%, 40%, 41% and 42% respectively. Only 46% of the buyers have taken formal loan and 54% used informal sector or own source. Sixty Six percent (65.5%) of the buyers arranged loan on their own initiative and the remaining 34.5% of the buyers' got the loan arranged by the developers.

Sixty three percent (62.5%) buyers have given booking their apartment since 1996, which strongly support that the apartment living is the recent practice in our country. Almost all the (93.3%) buyers use their apartment as their own residence. Only 24.2% buyers preferred apartment living although they are already residing in their purchased apartment.

In replying its relations among neighbors, 75.4% of the apartment dwellers felt it to be good and 23.7% opined the same to be not so congenial. Seventy six (76%) of the apartment buyers did not think that the apartment buying is an investment.

Price of apartment is the most important factors for a buyer to select the site of the apartment. Fifty Eight percent of the buyers informed that they bought apartment from a particular site because they got price advantage in that area. It appears from the survey that the reputation or goodwill of the company is most widely (58%) used criteria for a buyer to select a company. Other criterions are status of the company, experience of the company, previous experience about the company, personally known company, price of the company etc.

The survey reveals that 35.8% buyers obtained information about the project through their personal inquisitiveness, 29.2% of them used mass media such as: newspaper, journal magazines and electronic media. The average time required for handing over the apartment after booking is 1.8689 years or 2 years. About 94.2% of the respondents viewed that they bought apartments for their own residence. The survey shows that 77.8% buyers bought their apartments for solving their permanent housing problems whereas 43% buyers replied that they think it as a permanent asset as there is no financial risk. Some opined that having an apartment is a status symbol.

The survey shows that a flat (Standard or Economy area) of Tk.25 Lac fetches a return of 21% in 10 years, 25% in 15 years and 29% in 20 years. Similarly a flat of (posh area) Tk.40 Lac bring a return of 23.5% in 10 years, 27.5% in 15 years and 32.5% in 20 years (Table- 6.32).

## **E. Financiers of Apartment Business:**

The financial institution is a vital issue of evaluating apartment business. The study revealed that the following institutions are directly and indirectly related to the apartment business:

a. **Bangladesh House Building Finance Corporation (BHBFC)** is a specialized Govt. sector autonomous housing finance institution since 1952. It provides finance only for the apartment buyers not for the developers. The corporation has extended its services for 1,19,063 units of houses since inception. Total loan sanctioned is Tk.23555.35 crore by June 1997. From 1994 to 1999 the corporation approved 168 apartment loan cases to the apartment buyers. The amount of apartment loan was Tk.1243.29 Lac

b. **Nationalized Commercial Banks (NCBs)** play a significant role in housing credit. As urban population doubled from 1985 to 1995, so the high demand for housing credit is seen during this time. But only BHBFC could not meet the tremendous demand of housing loan in urban areas. For this, NCBs slightly increased the disbursement of housing credit in this situation. The total disbursement of housing loan by NCBs from 1985 to December 1995 was Tk. 3436.86 crore which was 50.24% of the total institutional housing loan.

c. **Delta Brac Housing Finance Corporation Ltd. (DBH)** is the first private sector financial institution in Bangladesh. DBH was incorporated on May 11, 1996 as a non-banking financial institution. DBH went into operation in December 1996. DBH has sanctioned Tk.1371 million to the apartment buyers for buying apartments and housing plots up to December 2000.

**d. National Housing Finance and Investment Limited (NHFIL)** was registered in August 1998 under the companies Act 1994. It is the second non-bank financial institution for housing finance. The company disbursed its first loan in June 1999 in favour of non-residential Bangladeshi couple. Up to December,2000 NHFIL has sanctioned Tk.380.64 millions since inception for apartment buying , construction of house or for buying housing plots

**e. Industrial Development Leasing Company of Bangladesh Limited (IDLC)** was incorporated in 1985 with a view to contributing to the development of private enterprises through providing lease-financing services. In 1997 it diversified its service and included short – term finance for housing and merchant banking. Up to 1999 IDLC has sanctioned Tk.84 million for the housing sector.

**f. Private Sector Commercial Banks (PCB)** also has been playing a vital role in housing credit since 1993. It is seen that 20% of total housing credit was made by PCBs. From their inception to December 1995 the total disbursement of housing credit was Tk.1,563.01 crores which is 22.85% of the total housing disbursement.

### **8.1.2 Problems in Apartment business**

#### **A. Faced by developers**

Ninety one percent of the respondents faced bureaucratic processes of registration and plan approval. Twenty percent felt that registration cost and VAT were high. The housing finance institutions have not extended their hand for the developers. Illegal toll collectors were hampering construction work. Developers are bound to pay them

toll which is one of the causes of high construction cost, resulting in high price of apartment.

### **B. Faced by Apartment buyers**

The apartment buyers have to pay on an average Tk.3100 for arranging institutional loan in addition to loan processing fee. Besides the rate of interest of housing finance institutions was very high. Around 55% of the buyers replied that they were facing social and cultural problems while 44% of the buyers were facing maintenance problem in apartment living. Most of the buyers took possession of their apartment after the date of commitment. Apartment living was claimed as over crowded by some respondents.

## **8.1.3 Suggestions for the Apartment Business**

### **A. From the Apartment Developer**

Sixty one percent of the respondents replied that one stop service should be introduced regarding registration. Seventy one percent of the samples expected one stop service from RAJUK. They opined that the construction plan should be approved quickly.

### **B. From the Apartment Buyer**

Most of the apartment buyer suggested (64.4%) that the existing cost be reduced. Twenty four percent buyer suggested changing the existing registration process. Fifty one percent (51%) buyer suggested financial assistance for the buyers from govt.

side. And they also suggested that the present lending rate be reduced. It has been reported that 58% of the apartment buyers preferred to buy apartment instead of buying land and constructing a house thereon independently for avoiding various troubles involved in buying land and supervising construction work. It is revealed that most (98%) of the buyers strongly recommended that there should be specific rules for the developers.

Accommodation problem may hinder all the possibilities and opportunities of the progress of the urban life. To cope with such emerging problem a study on this field became inevitable. So in this respect, this study was relevant and appropriate. The aim of the study was to reveal not only the present status of apartment business but also the various aspects of the apartment buyers. The study has discussed the various aspects from the perspective of buyers such as: selection of developers, apartment sites, price and quality of apartment and price payment system and the various problems faced by the buyers after they start to live in the apartments. Moreover, the study has taken initiative to identify the role of various specialized financial institutions and concerned govt. institutions regarding the development of apartment business.

Therefore, the concerned stakeholders can be benefited using the findings and recommendations given in the study.

## **8.2 RECOMMENDATIONS**

Urban population is increasing at a very high rate every year. It is a tremendous problem for urban areas especially for Dhaka City. Here population is increasing at the rate of 10% each year. So at the same time scarcity of land is increasing and

housing problem is becoming most severe for the major Metropolitan cities like Dhaka, Chittagong, Rajshahi and Khulna, even posing a threat to our economy and development. To overcome this adverse situation, our government has not taken actually any fruitful step. So our private enterprises entered this sector and tried to take some measures in this sector at different times. But their modes of integrity were not regulated properly by specific terms and conditions. So still now this sector is not properly developed and both consumers and developers are confronting severe problems and difficulties. These problems are directly or indirectly related to financial strategies. So development flow is far from satisfactory. Still now supply is very slower than demand and in most cases, the price of apartment is beyond the purchasing ability of middle and lower- middle class. Though there are so many developers working in this sector, they cannot develop any favourable policy for the purchasers in a disciplined way. The study finds the following problems in this regard:

1. Still now government has not established any terms and conditions for this sector. So different developers set different strategies according to their choice and they are continuing it without any control of government.
2. There is no legal authority that will safe- guard the interest of the buyers. There are so many evidences that buyers are more or less cheated by the temporary developer. So purchasers often do not feel comfortable to purchase a flat or to give full payment initially though they might have enough money to buy a flat.
3. Work quality is totally dependent on the liking of the developer. There is no legal or technical authority, which will supervise or certify the technical specification of the project.
4. Income tax and VAT for the developers are not clear from the government side.
5. There is no regulation in case of pricing, especially developers do not maintain any relation between price and cost. So developers often demand sky-high price and purchasers have no alternative choice.
6. Often developers cannot fix any financing strategy because the existing financial institutions do not co-operate with this sector properly.
7. Apartment project is a short- term project requiring a large amount of capital. The project falls into financial difficulties when buyers do not pay installment duly. Hence, the progress of the project is disturbed severely.

8. NCBs and PCBs do not cooperate with purchasers in granting long -term loan to purchase flats. Recently some private commercial banks and newly established housing finance companies have started to give home mortgage loan to the buyers, but the duration of loan and rate of interest is not encouraging.
9. If the developer approaches government owned institutions i.e. House Building Finance Corporation (BHBFC) and NCBs for project loan by mortgaging the project land, they will not be ready to finance them.

Accommodation problem may damage all the possibilities and opportunities of progress of our urban life unless proper attention is given just now. So to solve all the problems related to this sector and to develop and expand it as a proper and fundamental part of sustainability, the following measures has to be taken immediately:

### **8.2.1 Government**

1. **Housing Board /Authority:** The government has to set of a Board which will be the authority of private housing project.
2. **National Housing Policy:** The National Housing Policy of 1993 as amended in 1999, should be implemented.
3. **Equality in Resources Allocation:** To develop economic opportunities and civic amenities in all parts of the country, to reduce the rural-urban and urban –rural migrations from economically depressed areas and to reduce pressure on urban resources of major cities and towns, appropriate changes in the allocation of resources, and favourable terms to private sector for investment in depressed areas should be made. Removal of economic imbalance should be a major goal of the government policy.
4. **Urban Planning:** To improve conditions for institutionalizing urban planning activity. There has to be planning organizations in each major city and also in the secondary cities, to prepare urban plans (more preferably, strategic plans), to identify the need for housing and the ways and means to meet the same. Land for different income- groups, including the poor, should be zoned in urban plans. The urban plan is necessary also to ensure environmental quality maintenance.
5. **Pricing of Apartment:** The government should establish a boundary line and some specifications to fix price of flats for the developers.
6. **Introduce a national registration system of reputable Developers to improve Standards of the building industry:** There is no Government, or industry, or consumers' sponsored organization to improve and maintain standards within the construction and development industry. In addition there is no system of registration of builders and developers. Current registration systems require developers to register with each individual implementation agency each requiring



different qualifications. It is proposed that a national registration system be set up to maintain and enhance standards within the industry, to encourage the use of indigenous and appropriate materials, and to improve construction techniques and workmanship. Although the general standards should be prepared by the government (MOW), it may be possible for the standards to be maintained and regulated internally within the industry:

- a. Enlist the actual companies which have sufficient qualifications to construct multi-storied apartments. Then they will only be authorized developers to run this sector commercially.
  - b. Instruct our FIs to finance commercially those projects, which are run by these enlisted companies.
7. Improve land supply: All possible steps should be taken to increase the supply of land for urban housing, particularly for the lower income groups. Some of these steps may include:
- a. Release of vacant public land ( Khas land) within or close to urban / municipal limits for the purpose of residential development
  - b. Use land-pooling / land readjustment and similar other techniques to increase land supply in urban fringe locations
  - c. Change systems to ease process of land transaction, registration, etc. In this context, the need for land record system will be strongly felt.
  - d. Ease the sub-divisional plan approval, and building permit approval.
  - e. Implement more intensive use of land by encouraging collective/ cooperative/ group ownership of land for multi-storied structures, as opposed to single household ownership of land.
8. Bank interest rate and repayment schedule should be consistent.
9. Government should properly regulate Income Tax and VAT procedures of Housing projects.
10. Reorganize the BHBFC or establish National Housing Bank with efficient management and easy credit delivery system suitable to reach the lower-middle and fixed –income groups
11. The proposed National Housing Bank should have window for extending loans to formal commercial developers.
12. Minimize housing subsidies especially to middle and upper – income groups.
13. Utilize different saving schemes such as provident fund, insurance funds, mutual credit associations, etc. to create funds for housing credit
14. Trust Laws and Insurance Act of 1938: Insurance and Trust Act have not been changed to facilitate lending by long-term investors in the housing sector. Changes in this laws are to be made in order to allow long-term investors to participate more freely in the housing finance sector

## 8.2.2 NGO

There is a very large number of NGOs at present working in the rural areas of Bangladesh. But they are very few in number in urban areas. In fact, the involvement of NGOs in urban areas is also very recent. Their activity is limited mainly to such areas as health, family planning, education and income generation. Their participation in housing or habitat improvement is very minimal. It is felt that in future, the NGOs will have a much greater role in financing apartment buyers as well as developers at affordable terms and conditions.

## 8.2.3 International Agencies and Donors:

In the changing style of development process and also largely due to the economic condition of Bangladesh the role of the donor Agencies has become almost crucial /indispensable.

1. Donor agencies can come forward in initiating and developing research on various aspects of housing and services such as :
  - a. role of housing in national economy
  - b. building materials
  - c. local environments
  - d. Financial institutions and credits
  - e. Affordability
  - f. Land issues
2. Donor support may be provided in improving methods, techniques of land records, registration and information systems.
3. For further strengthening the private sector initiative, support of donor agencies in training of technical and managerial manpower is needed.
4. Stimulation of foreign investment, and foreign lending and guarantees to the new Housing Finance Institutions (HFIs) by carefully selected parties (e.g. IFC, HDFC), both to strengthen technical ability and financial stability. In particular,

arrangement is needed to deal with the foreign exchange risk by potential investors.

#### **8.2.4 Developers**

Private companies engaged in this sector have also some responsibilities to promote.

These are:

1. To segment the total market and to construct apartments for different group of customers uniformly. Especially low cost housing for low and middle-income people (**Appendix-8**)
2. If government and FIs assist this sector, it is the duty of private companies to join this. If the purchasing power of purchasers increase by direct cooperation of government and FIs then selling of apartments will be more frequent, consequently risk will be decreased and then it is the duty of the developers to lower down the price.
3. Supervise the projects more strictly by qualified persons so that the buyers can rely on them.
4. To maintain boundary conditions of RAJUK. In this case it will be easier for them to get HBFC loan.
5. For frequent selling and to make it within the reach of general customers, they should have to cut down the profit margin, hence lower down the selling price.
6. They have to maintain time schedule and work quality as they initially announced because by this way they can attract funds of prospective buyers who live outside the country and cannot monitor the project.
7. Since there is a scarcity of open space in the mid-towns, peripheral areas of the city can be chosen for new apartment projects.
8. There should be better coordination among housing companies, buyers and financiers for protecting their interest.

#### **8.2.5 Housing Finance Institutions (Bank & HFC)**

Here the role of FIs is very important. They should follow some strategies to enhance this sector. The strategies are as follows:

1. Find actual developers and finance them.
2. Lower down interest rate.

3. Set some general policies for finance and these will be the same for all qualified developers.
4. Should supervise and monitor strictly the over all conditions of the project both financially and technically.
5. Financing method should be made easier and simple.
6. By taking responsibility they can even directly sell it.
7. Even in case of necessity, they should finance actual Real Estate Developers to purchase land, finance the total project and intervene in pricing strategy.

Since accommodation problem does not only allow private companies to do business but it is also the prime question of development, we should concentrate more on this sector. And by proper monitoring and financing strategy we can uniformly solve this problem for our future life.

### **8.3 AGENDA FOR FURTHER RESEARCH**

In addition to the present study the following areas would require further study:

- a. In order to provide for a proper housing finance system, the need for a separate institution which will mobilize new savings from households without depending for its resources on existing savings from other institutions and to supply credit with focus on the mid and lower – income people. This would be an effective study on the need or otherwise for a Housing Bank.
- b. The structure and operations of BHBFC, with special reference to its resources for loaning and its loan programs could be studied.
- c. A feasibility study can be done on hire-purchase apartment selling by BHBFC
- d. Role of apartment business on solution of shelter problems.
- e. A further study can be conducted about the framework of housing finance institutions.
- f. Housing problems in Bangladesh is also an important area for conducting a survey.
- g. Another important area would be “An Analysis of the Impact of apartment Building on environment”.

- h. A Study could be conducted for a Model for Low- cost housing.
- i. Evaluation of hire- purchase system of apartment selling by the government sector.
- j. A feasibility study can be done on hire-purchase apartment selling by existing apartment companies.
- k. External Funds for Housing Finance as a suitable alternative for housing solution.
- l. A feasibility study on Formal and non-formal sector joint development program for shelter solution.

#### **8.4 BENEFITS OF THE STUDY**

Through this study the following groups of people will be benefited:

##### **8.4.1 Apartment developers or Real Estate Companies**

The findings of the study will be a milestone for the apartment developers. This survey covers all aspects of apartment development. Problems of apartment dwellers will help the builder in the selection of project site, apartment size, apartment price, quality of construction etc. These have implications for the apartment developers.

##### **8.4.2 Apartment buyers**

The report can be helpful for a prospective buyer to get information about apartment buying and selling. Such as, a buyer can get idea about the estimated amount required for buying apartment. The potential sources of finance to buy an apartment could be had from this report. Types of problems being faced in living in an apartment could also be known from this report.

#### **8.4.3 Financier of Apartment companies**

The financier can formulate a sound finance policy in the perspective of builders and buyers. Financier of apartment developers and buyers will be benefited from findings of the study.

#### **8.4.4 Government for planning and policy making**

The findings of the study will have implications for policy makers and planners at government level.

#### **8.4.5 Related Organizations, such as Ministry of Works, HSD and PWD**

Housing related organizations will also be benefited from the findings of the study.

#### **8.4.6 Academician**

The students and academicians can gather knowledge about a new sector of business.

## APPENDIX

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**APPENDIX- 1**  
**(Letters issued to various Institutions)**

a. The Managing Director  
Bangladesh House Building Finance Corporation  
22, Purana Paltan  
Dhaka-1000

**Subject: To provide some information for a research work**

Dear sir,

It's my pleasure to inform you that one of my Ph.D. fellow is doing a research work titled "Pattern and Problems of Apartment in Bangladesh." He is Mr. Mohd. Abul Hossain an Assistant Professor of Accounting of Govt. college. Now his posting is at Directorate of Secondary and Higher Education, Dhaka. In order to complete his research, your active cooperation is essential for him. In this connection he needs the following data:

- 1) Last five years Annual Reports;
- 2) Loan sanctioned by BHBFC since inception (Segmented as General, Multi , Upazila, Apartment purchase loan) Number & Amount
- 3) Amount of loan disbursed last five years
- 4) Recovery - efficiency last five years
- 5) Details information about Apartment loan
- 6) List of Bonds and Debentures issued by BHBFC
- 7) Any proposed scheme to be taken by BHBFC in future
- 8) Brochures of BHBFC

Therefore, it will be highly appreciated if you please provide him with the above mentioned information to complete his research work leading to obtaining Ph.D. degree.

I assure you that the provided information will be used only for the research work and confidentiality of data will be strictly maintained

Sincerely

S/d

Prof. M. Shahjahan Mina  
Supervisor  
Professor of Finance & Banking dept.  
Dhaka University  
Dhaka



- b. The Managing Director  
Delta Brac Housing Finance Corporation Ltd  
Landmark Building (9<sup>th</sup> floor)  
12-14 Gulshan North C/A  
Gulshan-2, Dhaka-1212

**Subject: To provide some information for a research work**

Dear sir,

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- 1) Last three years Annual Reports;
- 2) Loan sanctioned by DBH since inception. (Segmented as, Construction, Flat purchase, Extension, Improvement, Plot purchase, others) Number & Amount
- 3) Actual amount of loan sanctioned since inception
- 4) Amount of loan disbursed last 3 years
- 5) Recovery efficiency of last 3 years
- 6) Details information about Apartment loan
- 7) Any proposed scheme to be taken by DBH in future.

Therefore, it will be highly appreciated if you please provide him with above mentioned information to complete his research work leading to obtaining Ph.D. degree.

I assure you that the provided information will be used only for the research work and confidentiality of data will be strictly maintained

Sincerely

S/d

Prof. M. Shahjahan Mina  
Supervisor  
Professor of Finance & Banking dept.  
Dhaka University  
Dhaka

- c. The Managing Director  
National Housing Finance and Investments Ltd.  
Chamber Building (6<sup>th</sup> floor)  
122 Motijheel, Dhaka-1000

**Subject: To provide some information for a research work.**

Dear sir,

It's my pleasure to inform you that one of my Ph.D. fellow is doing a research work titled "Pattern and Problems of Apartment Business in Bangladesh." He is Mr. Mohd. Abul Hossain an Assistant Professor of Accounting of Govt. college. Now his posting is at Directorate of Secondary and Higher Education, Dhaka. In order to complete his research, your active cooperation is essential for him. In this connection he needs the following data:

- 1) Last two years Annual Reports;
- 2) Loan sanctioned by NHFI since inception . (Segmented as, Construction, Flat purchase, Extension, Improvement , Plot purchase, others) Number & Amount
- 3) Loan sanctioned by NHFI since inception to the Developers
- 4) Amount of loan disbursed last 2 years
- 5) Recovery - efficiency last 2 years
- 6) Details information about Apartment loan to the Buyer
- 7) Details information about Apartment loan to the Developers
- 8) Any proposed scheme to be taken by NHFI in future

Therefore, it will be highly appreciated if you please provide him with above-mentioned information to complete his research work leading to obtaining Ph.D. degree.

I assure you that the provided information will be used only for the research work and confidentiality of data will be strictly maintained

Sincerely

S/d

Prof. M. Shahjahan Mina  
Supervisor  
Professor of Finance & Banking dept  
Dhaka University  
Dhaka

- d. The Managing Director  
Industrial Development and Leasing Company BD Ltd.  
Haji Mansion, 6<sup>th</sup> floor, 2 Dilkusha C/A  
Dhaka.

**Subject: To provide some information for a research work relating to Housing Finance.**

Dear sir,

It's my pleasure to inform you that one of my Ph.D. fellow is doing a research work titled "Pattern and Problems of Apartment Business in Bangladesh." He is Mr. Mohd. Abul Hossain an Assistant Professor of Accounting of Govt. college. Now his posting is at Directorate of Secondary and Higher Education, Dhaka. In order to complete his research, your active cooperation is essential for him. In this connection he needs the following data:

- 1) Last 5 years Annual Reports;
- 2) Loan sanctioned by IDLC since inception of Housing Finance (Segmented as, Construction, Flat purchase, Extension, Improvement, Plot purchase, others) Number & Amount
- 3) Loan sanctioned by IDLC since inception to the Developers
- 4) Amount of loan disbursed since inception.
- 5) Recovery - efficiency .
- 6) Details information about Apartment loan to the Buyer
- 7) Details information about Apartment loan to the Developers
- 8) Any proposed scheme to be taken by IDLC in future relating Apartment Financing.
- 9) Brochures relating to Housing Finance

Therefore, it will be highly appreciated if you please provide him with above-mentioned information to complete his research work leading to obtaining Ph.D. degree.

I assure you that the provided information will be used only for the research work and confidentiality of data will be strictly maintained

Sincerely

S/d

Prof. M. Shahjahan Mina  
Supervisor  
Professor of Finance & Banking dept.  
Dhaka University  
Dhaka

e. The Managing Director  
Sheltech (pvt) Ltd.  
Sheltech Tower  
55 West Panthapath , Dhaka

**Subject: To provide some information for Ph.D. research work through a structural Questionnaire relating to the Pattern and Financing problems of Apartment Projects.**

Dear sir,

It's my pleasure to inform you that one of my Ph.D. fellows is doing a research work titled "Pattern and Problems of Apartment Business in Bangladesh." He is Mr. Mohd. Abul Hossain an Assistant Professor of Accounting of Govt. college. Now his posting is at Directorate of Secondary and Higher Education , Dhaka .

Real Estate is now one of the booming sectors in our economy. This industry is capital intensive. One of the major problems of this industry is lack of adequate finance. For this reason I advised my fellow to do an empirical research on this problem from which he can find out the main obstacles of this sector. The research findings will facilitate the Developers, Buyers, and as well as the govt. for policy making. In order to complete his research, your active cooperation is essential for him .

It will be highly appreciated if you please arrange him to fill up the Questionnaire and provide him a complete buyers list of the project your company already sold.

I assure you that all information provided by you will be used only for the research purpose and considered strictly confidential.

Sincerely

S/d

Prof. M. Shahjahan Mina  
Supervisor  
Professor of Finance & Banking dept.  
Dhaka University  
Dhaka

Pattern and Problems of Apartment Business in Bangladesh.

Questionnaire to the Management Executives of different Real Estate Companies.

I am a Ph.D. Fellow of Finance and Banking Department, University of Dhaka currently conducting a research work on Problems of Apartment Financing. The address of the company was selected at random. Please respond the following Questions. All the information provided by you will be considered Strictly Confidential. Your cooperation will be highly appreciated.

Sample No

Date

Name of the Respondent :  
.....

Address (Office) :  
.....

Position :  
.....

1. Name of the Real Estate Company :  
.....

2. Registration No.  Date of Registration

3. Type of the Company : (Please Tick '3')

Sole proprietorship partner.....  Partnership, No of

Public Ltd. Co. Shareholders .....  Private Ltd. Co., No. of

Joint Venture Name the group:.....  Subsidiary of any group,

4. Origin of the Company

(i) Year of establishment

(ii) Promoters Information :

Name of Promoters	Age	Education	Previous Occupation	Position
1.				
2.				
3.				
4.				
5.				

5. Information about Capital:

	On the date of incorporation	June 30, 2000
Amount of paid up Capital		
Amount of Reserve Fund		
Amount of Loan Capital		
Amount of Effective Capital		
Total assets of the company		

6. State the common criteria that your company considers to be factors behind the selection of these projects sites (Please rank, 1 is top )

- |   |  |
|---|--|
| <input type="checkbox"/> Availability of land       | <input type="checkbox"/> Low cost of land        |
| <input type="checkbox"/> Scope of utility service   | <input type="checkbox"/> Densely populated area. |
| <input type="checkbox"/> Elite area                 | <input type="checkbox"/> Centre of the city      |
| <input type="checkbox"/> Communication              | <input type="checkbox"/> Social facilities       |
| <input type="checkbox"/> Others (Pls. mention ..... |  |

7. Source of Land:

- |   |  |
|---|--|
| <input type="checkbox"/> Purchase                         | <input type="checkbox"/> Co-sharing with landowner                     |
| <input type="checkbox"/> Govt. Khas land<br>mention.....) | <input type="checkbox"/> Own land <input type="checkbox"/> Other (Pls. |

If co-sharing with landowner, state the ratio (In %)  Landowner  Developer

8. Land use at the time of purchase

- |                                      |   |
|--------------------------------------|---|
| <input type="checkbox"/> Swampy land | <input type="checkbox"/> Vacant high land       |
| <input type="checkbox"/> Agriculture | <input type="checkbox"/> Land with construction |

10. What are the major sources of financing of your company? (Rank, 1 is top)

- |  |  |
|--|--|
| <input type="checkbox"/> Share Capital / Sponsors' Capital | <input type="checkbox"/> Loan                          |
| <input type="checkbox"/> Booking money                     | <input type="checkbox"/> Others<br>(Pls. mention.....) |

11. Did the company get loan:

Yes

No

If yes:

Name of the Institutions	Amount (Tk.)	Duration	Rate of interest	Name of Bank
NCBs				
Private Banks				
Foreign Banks				
NHFI CO.				
Others(Pls.mention .....)				

12. State the potential sources of loan / Finance :

- 1.....
- 2.....
- 3.....
- 4.....
- 5.....

13. What is your company's advertising media?

National Dailies

TV

Weekly/ Monthly Journal

Billboard/ hoarding

Others (Mention) .....

14 .Does your company employ any consultant ?

Yes

No

If yes,  Local

Foreign

15. Please ( Tick ` 3` )the following facilities committed by the company in the projects sites:

a. Utility Services:

Water supply

Electricity

Generator

Gas

Lift

Garage

Intercom

Security

Community hall

Party space

b. Social services:

- |   |  |
|---|--|
| <input type="checkbox"/> Park             | <input type="checkbox"/> Mosque        |
| <input type="checkbox"/> Community Centre | <input type="checkbox"/> Playground    |
| <input type="checkbox"/> Shopping Centre  | <input type="checkbox"/> Health Club   |
| <input type="checkbox"/> School           | <input type="checkbox"/> Swimming pool |

16. Average cost per square feet of your company:

Cost Elements	Posh area	Mid-town area	Less developed area
Construction cost ( Excluding land)			
Administration cost			
Marketing			
Incidental cost			
Total			

17. What would be the approximate cost and price per sft. of an Apartment in respect of location:

	ZONE	Approximate cost per sft. (Tk.)	Approximate price per sft. (Tk.)
a	Gulshan, Baridhara		
b	Banani , Dhanmondi ,Jalmatia, New DOHS, Uttara etc		
c	Indira Road, Munipuri para, Paribag, etc.		
d	Eskaton, Maghbazar, Siddheswari, Malibag, Shantinagar, Kakrail, Palton, etc.		
e	Mohammadpur, Shamoli, Mirpur, Kallyanpur etc.		
f	Kamalapur, Goran, Hatkhola, Tikatuli, Wari, Gandaria etc.		
g	Outskirt of Dhaka City.		



18. Source of materials: (In %)

Name	Source					
	Super		Standard		Economy	
	Local	Foreign	Local	Foreign	Local	Foreign
Construction material						
Indoor fittings						
Bath room fittings						

19. Pricing policy:

Mark up     Competitive     Others (Pls. mention .....)

20. Does the company offer any cash discount to the client who pays 100% down?

Yes                       No

If yes, please mention the rate of discount .....

21. Number of installments and time allowed by the company

22. Has your company experienced any default ?

Yes                       No

If yes, how your company handled it .....

23. What problems has the company faced in Apartment business? (Please mention):

- 1.....
- 2.....
- 3.....
- 4.....
- 5.....
- 6.....

24. What precautionary measures have been taken by the company for earthquake and natural calamities?

.....

25. What change do you expect in the Real Estate Business in future?  
.....  
.....

26. Does your company arrange any institutional loan for the buyer?

Yes

No

27. Is your company an enlisted developer of BIIBFC ?

Yes

No

To be enlisted

28. Transfer of title:

Lease for .....years

Sale for ever (only construction)

Sale for ever land and construction

29. Have you any suggestion for the govt. (Specially financing to the developers)

1.....

2.....

.....

3.....

.....

4.....

.....

5.....

30.State the level of satisfaction about RAJUK services:

Totally unsatisfied

Unsatisfied

Satisfied

Fully satisfied

31. Have you any suggestion about RAJUK ?

.....

.....

.....

.....

32. Has your company got clearance from Department of environment ( DOE)?:

Yes

No

33. Is the company a member of REHAB ?

Yes

No

34. What are the basic functions of REHAB ?

- 1.....
- 2.....
- 3.....

35. Do you think that there should be Specific Rules for Apartment Industry?

Yes  No

36. How Govt. can encourage private sector Housing initiatives ?

- .....
- .....
- .....

37. Have your company any plan to make Apartment for low and fixed income group?

Yes  No

38. In order to identify the growth pattern of your business, would you please provide information in the following table?

Number of Apartment units completed					Number of units under Process
Up to 1995	1996	1997	1998	1999	2000

The End

APPENDIX-3

Pattern and Problems of Apartment Business in Bangladesh.

Questionnaire to the Apartment Buyer.

I am a Ph.D. Fellow of Finance and Banking Department, University of Dhaka currently conducting a research work on Problems of Apartment Financing. Your address was selected at random. Please respond the following Questions. All the information provided by you will be considered Strictly Confidential. Your cooperation will be highly appreciated.

Sample No.

Date

1. Name of the Respondent : .....
2. Address : .....
3. Age : .....
4. Sex:  M  F
5. Main occupation : .....
6. Total annual Income : .....
7. Educational qualification (Last Degree): .....
8. Family size : .....

1. Name of the Real Estate Co. : .....
2. Name of the Project : .....
3. Location of the Project : .....
4. Total Number of flats in the Project : .....
5. Size of your flat (sft.) & Apt. No. : .....
6. What factors have induced you to buy an Apartment? :

- To avoid the troubles involved in constructing a house
- To avoid the troubles involved in buying and taking possession of the land
- To live in the centre of the city
- To live with upper class peoples of the society
- Security reason
- Others (Please mention) .....

7. Price of Apartment :

	Amount (Tk.)
1. Apartment	
2. Garage/ car park	
3. Registration cost	
4. VAT	
5. Incidental expenses	
6. Others (pls. mention.....)	
<b>TOTAL</b>	

2

8. Sources of Fund

Sources	Amount (Tk.)	% of Total	Rate of Interest	Duration	Name of Banks
<b>Personal Savings</b>					
<b>Sale of Assets</b>					
<b>Loan from family members</b>					
Loan from Friends and Relatives					
<b>Formal:</b>					
<b>HBFC</b>					
<b>NCBs</b>					
<b>Private Banks</b>					
<b>Foreign Banks</b>					
<b>Private Housing co.</b>					
<b>DBH</b>					
<b>NHFI</b>					
<b>IDLC</b>					
<b>Others:</b>					

9. Did you register your Apartment ?

Yes

No

10. Have you any suggestion about registration procedures and registration cost ?

.....  
 .....  
 .....

11. What is your suggestion to get more financial facilities for buying Apartment?

1.....  
 2.....  
 ...  
 3.....  
 ...  
 4.....

12. Mode of payments :

- 100% Down payment  
 Partly Down payment  
( % of Down payments.....)

13. No. of Installments & duration :

14. Who manage the Loan (Pls tick)

- Yourself  Vendor   
If your Vendor, how?

15. How much did you spend as incidental cost for loan? Tk.....

16. Physical facilities :

- No. of Bed rooms  No. of Bath rooms   
Drawing /Living room  Dining room   
No. of veranda  Servant room

17. Utility services (Please tick) :

- Lift  Generator  Garage  Intercom  Security   
Playground  Shopping center  Prayer room  Health club   
School  Swimming pool  Social gathering space

18. Who inform you about this project?

19. What factors have you considered when selecting the site of apartment? (Pls. Rank)

- Price  Size  
 Physical facilities  Utility Services  
 Social Services  Distance from main City  
 Communication

20. Why did you select the company  
( Please Rank, 1 is top)

- Reputation / Goodwill of the Co.  Experienced Co.

Status of the Co.  Previous experienced about the Co.  
 Others (Please mention)  Reasonable price

21. Date of booking : .....  
22. Date of delivery : .....  
23. What is the present use of your apartment?

Own residence  Let out

Others (Please mention) :  
.....

If let it out?

How much rent per month ? Tk.....

24. Are you a member of co-operative society ?

Yes  No

If yes, What are the main functions of the Co-operative

.....  
.....

25. How much do you pay to the Co-operative initially Tk..... and what is the monthly/ annually subscription Tk.....

26. Did you observe any deviation of physical facilities from those mentioned in the prospectus?

Yes  No

If yes, in what % .....

26. Was there any delay in handing over the flat?

Yes  No

28. State the causes of delay :

Inertia of management  Failure of paying installment

Legal matters  Others (Please mention).....

29. Do you consider purchase of apartment as an investment for the future?

.....  
.....

30. Opportunity cost is probably higher than the rental income of flat, but why did you not deposit your money in a Bank?

.....

.....  
31. What type of problems you have faced living in an apartment? (Please mention)

- 1. ....
- 2. ....
- 3. ....
- 4. ....
- 5. ....

32. Objectives of owning an apartment:

- For own residence                       For rental Income
- For selling at higher price             For future certainty
- Other reasons (Please mention): .....

33. Which of the following option you prefer?

- Own house                                       Apartment
- Rental house                                     provided by Employer

34. State about the impact of apartment building on small size neighboring:

.....  
.....

35. Would you please comment on the neighboring relationship among the apartment dwellers?

- Good             Not so congenial     Bad

36. Do you think that there should be specific rules for making apartment?

.....



37. Please indicate your level of satisfaction after buying an Apartment:

	1	2	3	4	5
	Totally unsatisfi ed	Unsatisfi ed	Satisfie d	More than satisfied	Fully satisfied
1. Apartment price					
2. Process of handing over					
3. Process of title transfer					
4. Price payment system					
5. Arranging loan by the vendor					
6. Physical facilities					
7. Utility services					
8. Security services					
9. Social services					
10. Ventilation					

The End

## Appendix-4

Pattern and Problems of Apartment Business in Bangladesh.

Questionnaire to the Promoters of different Apartment Companies.

I am a Ph.D. Fellow of Finance and Banking Department, University of Dhaka currently conducting a research work on Problems of Apartment Financing. The address of the company was selected at random. Please respond the following Questions. All the information provided by you will be considered Strictly Confidential. Your cooperation will be highly appreciated.

Sample No  Date

Name of the Respondent :  
.....

Address (Office) :  
.....

Position :  
.....

4. Name of the Real Estate Company :  
.....

5. Registration No.  Date of Registration

6. Type of the Company : (Please Tick)

Sole proprietorship  Partnership, No of partner.....

Public Ltd. Co.  Private Ltd.Co., No. of Shareholders .....

Joint Venture  Subsidiary of any group, Name the group:.....

4. Origin of the Company  
(iii) Year of establishment   
(iv) Promoters Information :

Name of Promoters	Age	Education	Previous Occupation	Position
1.				
2.				
3.				
4.				
5.				
6.				
7.				

The End

APPENDIX-5

**Pattern and Problems of Apartment Business in Bangladesh  
(Questionnaire relating to a particular project)**

Name and address of the Developer:

.....  
 .....

- 1) Project Title:
- 2) Location:
- 3) Status of the company:
- 4) Mailing Address:
- 5) Nature of the project
- 6) Short description of the project:

.....  
 .....

7) Project cost:

Land:	Tk.....
Civil construction	.....
Utility Services cost ( Gas, Electricity, Water )	.....
Office Management cost :	.....
General Administration and Selling cost	.....
Other	.....
<b>TOTAL COST</b>	.....

8) Financial Mix:

Equity: .....

Debt: .....

9) Debt-Equity ratio: .....

10) Name of Banker .....

11) Security of Loan: .....

12) Interest paid during construction : Tk.....

13) Total cost of the Project: Tk.....

14) Life of the Project :

15) Bank interest rate : .....

16) No. of installment : .....

17) Employment generation of the Project:

18) Sources of Raw materials : Local (%) .....

Foreign(%).....

19) Size of land : (Katha) .....

20) Land price per Katha Tk.....

21) Total area ( sft. ) .....

22) Size of Apartments: 1. 2. 5.  
 3. 4. 6.

23) Cost per square feet : Tk.....

24) Cost per Apartment : Tk..... (Size in sft.)

- 25) Charge for car park : Tk.....
- 26) Selling price per Apartment Tk.....
- 27) Profit per Apartment Tk. ....
- 28) Total profit from the Project Tk. ....

The End

APPENDIX- 6

BRIEF REVIEWING OF LITERATURES COMPARE TO OTHER COUNTRIES

1. **Afghanistan** has commenced the formulation of a national shelter strategy. The Government is also undertaking a project (AGG/86/033) with UNCHS (Habitat) assistance to improve the output of indigenous building materials, improve affordable waterproofing of traditional roofs, and disseminate building techniques through pilot low-cost housing projects.
2. **Algeria** has an ambitious program to construct 200,000 housing units in the 1990s UNCHS (Habitat) technical assistance in Algeria is focused on assessment of raw materials and resources for its building industry, and research and training activities for the development of local building materials and construction labor (ALG /80/ 013 AND ALG/88/ 018).
3. **Angola** organized a national workshop on shelter and services with UNCHS (Habitat) collaboration. A variety of legislative and administrative reforms are being initiated to encourage the involvement of the private sector and the Government has set up a multi-sector Housing Committee for the formulation of a national shelter strategy.
4. **Australia** has established a Ministerial Advisory Committee on Housing Access which will provide a focus for directing particular attention to ways of dealing with hopelessness and inadequate housing, encourage cooperation among NGOs working in the housing sector and formulate non-government sector views on policy issues relating to the objectives of strategy.
5. **Bhutan** has created a solid foundation for physical planning with the operational planning facility in the context of a UNCHS (Habitat) assisted project (BHU/ 84/ 024). A Policy framework for the urban housing sector is currently under review while a rural housing improvement program through artisan training and the construction of prototypes based on indigenous architecture is being advanced in each district. A special program is also being implemented with UNCHS (Habitat) assistance (BHU 87/ 004) to develop a cadre of skilled civil servants with its capability to plan, execute and evaluate all training programs.
6. **Brazil** is setting up a major revision of its National Housing Policy to set up a new national housing system capable of responding to the needs of all strata of society, with priority to the needs of the poorest. The new national housing system will address the

estimated housing deficit of 10 million units and will be fully integrated with national economic and social development plans. A target of 30 percent of the current deficit is expected to be met by constructing another 4 millions housing units within the next fiscal year

7. **Brunei Darussalam** has introduced various incentives in order to encourage people to build their own houses. Housing policies and strategies are currently being reviewed with special emphasis on promoting the involvement of the private sector and NGOs.

8. **Burundi** is implementing a UNCHS (Habitat) assisted project with emphasis on strengthening its institutional and technical capacity to orient the development of secondary cities (BD/85/010). The country's national shelter strategy focused on mobilizing finance for urban and rural shelter, supporting the private sector and strengthening the institutional framework for shelter, infrastructure and finance.

9. **Cameroon** has started to promote the creation of private land–development companies in order to increase the availability of house sites. A program of decentralization is placing more responsibilities upon the municipalities for the development of sites and services program. Standards for land development and infrastructure are being lowered in order to increase the number of site available for occupation.

1. **Canada** has undertaken several initiatives to broaden access to affordable housing for all sectors of the population including the Accessibility and Choice Today (ACT) program. The ACT program permits municipalities, the building industry and the third sector to work in partnership to demonstrate how regulatory modifications can improve the affordability and choice of housing.

2. **China** is increasing the scale of housing construction and is undertaking a variety of reforms to its housing policy, particularly in the legal and financial areas, in order to encourage private ownership of housing.

3. **Colombia** has formulated a social housing program to build 500,000 new houses in four years through reorganization of the shelter sector, decentralization, community participation, private-sector involvement and increased responsibilities for municipalities. With UNCHS (Habitat) technical assistance (COL/ 89/ 006), it has implemented monitoring and assessment methods for the National Housing Policy and has

designed manual and computerized procedures for administration of financial issues within the sector. The land credit institute, renamed INURBE, will stop providing houses and will manage the subsidies from different sources. House construction will be taken over by the private sector and CBOs, acting together with local authorities.

4. **Congo** has commenced the preparation of a national shelter strategy with UNCHS (Habitat) assistance (PRC/89/FO1). The first planned activity is a shelter needs assessment using the shelter sector performance indicators developed by UNCHS (Habitat). Then five studies are foreseen- dealing with institutions, housing finances, infrastructure, land and the building industry, with the objective of analyzing bottlenecks and providing guidelines for realistic improvements.

5. **Cuba** has prepared a program for housing up to the 2000, which, inter-alia, includes repair and maintenance of existing housing stock by neighborhood groups, the increase of housing construction by the State and cooperatives, and promotion of self-help in housing by the provision of land, credit and building materials.

6. **Czechoslovakia** has undertaken reforms to encourage private construction and ownership of houses, which have resulted in an improved quantity, and quality of housing, better standards of infrastructure and maintenance.

7. **Denmark** has taken action to integrate construction policy with the newly adopted strategy on energy entitled "Energy 2000, Plan of Action for Sustainable Development." This plan states that energy needed to heat new buildings, should be reduced by 25 per cent by 1993 and later by 50 per cent. Recently, building materials have been improved and adapted to the requirements of sustainability. By the year 2000, Denmark expects to increase the housing stock to a level that corresponds to the number of households.

8. **Egypt** is undertaking the following major actions to improve the housing situation: (a) provision of land suitable for construction outside arable zones by developing 12 new cities in the desert areas and building 10 residential agglomerations around Greater Cairo; (b) replacing dilapidated housing stock and building 1.5 million housing units under the five-year plan (1987- 1992) with 60 per cent to be produced by the private sector and 40 per cent by the public sector; (c) provision of building materials and training of labor; (d) development of new low-cost housing models; (e) installation of waste-disposal and

drainage systems to serve 70 per cent of the population by the year 2000;(f) amendment and modifications of housing legislation in harmony with market mechanisms.

9. **Ethiopia** in recognition of the crucial role played by building materials in the reduction of construction costs, UNCHS (Habitat) has recently started to extend technical assistance to Ethiopia in the development of low-cost building materials and technologies (ETH/ 87/ 004). The outputs of the project will include an inventory of imported building materials that can be locally produced, proposal for import-control mechanisms for building materials, standard designs for low-cost buildings and three types of demonstration houses.

10. **Fiji** has recently initiated action towards preparation of a national urbanization/ housing policy with UNCHS (Habitat) technical assistance (FIJ/ 89/001). Within the context of this project, a housing needs study has been completed and sectoral studies have been initiated in urban land markets, urban infrastructure, housing finance, municipal management and legislation.

11. **Finland** is implementing some fundamental reforms, including a complete overhaul of the financing system. The national Housing Fund, recently established, mobilizes resources from the commercial market, leaving budget funds to be used only for individual subsidies. A system similar to a graduated mortgage payment has been adopted to increase affordability of loans in the first critical years. At the international level, Finland continues, in cooperation with UNCHS (Habitat), with support programme for preparation national shelter strategies (GLO/87/FO2) and has provided support for the Global Strategy for Shelter sub regional seminars (GLO/89/F15) and for the development of shelter indicators.

12. **France** is placing emphasis on, inter - alia, the social equilibrium of cities through specific programs in the fields of housing and urban development. Now legislative and regulatory measures are being developed in order to extract a contribution from the beneficiaries from land-value appreciation to be used towards urban development.

13. **Germany** has been continuously improving its housing policies and programs, increasing private sector construction for ownership and rental, modernizing old stocks, executing urban renewal plans and liberalizing the general tenancy law. Measures taken to address the new housing needs, arising from the reunification and the influx of migrants from neighboring countries, include: tax incentives for private investors in the form



of increased depreciation rate; public subsidies, granted to investors in housing in return for limiting rent levels; and upgrading of existing housing.

14. **India's** Housing Policy has been under review. Meanwhile a number of national level initiatives have been undertaken. Special provisions to protect the tenurial security of women have been introduced. Indian's National Housing Bank has opened a housing account for public-sector agencies and a land development and shelter program for public agencies. A number of regional housing finance institutions have also been established. The Delhi Rent Control Act has been amended in order to promote investment in rental housing. The Building Materials and Technology Promotion Council have been set up at the national level in order to strengthen the technology transfer mechanism (Munjee, N.M. et al. 1990).

15. **Indonesia** The UNCHS (Habitat) / FINNIDA Support program (INS/88/FO1) assists Indonesia in developing a shelter strategy for the Province of Central Java as a pilot exercise prior to the formulation of a national shelter strategy. A project (INS /89/014) on decentralized provision of essential urban infrastructure executed in collaboration with UNCHS (Habitat), will develop sound infrastructure investment and management practices in at least 30 local governments, create guidance, monitoring and assistance capabilities in at least six provincial governments, and trained approximately 350 local and provincial government managers and staff. Indonesia is implementing \$US 135 million infrastructure project as part of the Integrated Urban Infrastructure Development Program (IUIDP).

16. **Israel** has established a special housing program to provide shelter for immigrants, including both temporary and permanent housing. The Knesset approved a revision of the Building and Planning Law in 1990 to deregulate the housing sector and stimulate rapid construction. National policy measures are under review, including mortgage schemes, the promotion of rental options; increase access to building lands and the continuation of urban revitalization programs.

17. **Jamaica's** National Shelter Strategy is being implemented by stages. Issues currently being addressed are the development of a facilitator role for the government, upgrading squatter settlements, home improvement and the development of a land information system. In collaboration with UNCHS (Habitat), Jamaica has also undertaken a review of rent-control legislation to encourage rental-housing production by the private sector (JAM/90/FO2).

18. **Japan** is addressing the land price as a matter of high priority and has taken the following measures: (a) adoption of the Basic Policy on Land at the end of 1990, to prevent the continuing rise in land prices; (b) implementation of policies to decrease land prices; and (c) reforms in land taxation. Besides, the country continues a very tight financing policy against land speculation.

19. **Kenya** got a national housing strategy prepared by the government task force with the assistance of UNCHS (Habitat). The document presented policy options, which are being considered by the Government. With UNCHS (Habitat) assistance, Kenya is also implementing a project (KEN / 80/020) that is designed to establish a community – based credit scheme for low-income families.

20. **Malaysia** is implementing a national housing policy based on strong financial institutions which support action by the state governments, local authorities and an active private sector, which allocates 30 per cent of all its housing development for low-cost housing. Developers achieve this through cross subsidization in projects and through benefits from a package of incentives. A Management Information System for the Ministry of Lands and Regional Development has been set up with the support of UNCHS (Habitat), UNDP and the Government of Finland. (MAL/87/007).

21. **Maldives** is approaching the problem of shelter provision through strategies such as integrated urban planning, growth center planning and development, urban decentralization and model island development supported by UNCHS (Habitat) technical assistance (MDV/88/006).

22. **Morocco** will formulate a national land policy based on the regional development plan, studied with the support of UNCH (Habitat). Its goals are to avoid further regional disparities and to encourage public participation in development (MOR/88/014). The country has developed new mechanisms to involve all sectors: private-sector intervention has been liberalized through incentives and local governments are playing an increasing role, while the public sector is responsible for the improvements of inadequate shelter and squatter settlements.

23. **Nepal** has started to develop a national housing policy with the support of UNCHS (Habitat) (NEP/88/054), establishing, as a first step, a public/ private Land

Management Development Company. Several new land-development companies have been created. Thanks to policies supportive of private developers. The Housing Development Finance Company has been set up to mobilize capital for long-term housing loans

24. **The Netherlands** has reviewed its long-term housing policy and prepared strategies that will be implemented during the 1990s. A wide-ranging review was made in 1995. The housing stock is expected to increase from 5.4 million in 1986 to more than 6 million in the year 2000. New initiatives include granting greater autonomy to municipalities and housing associations; targeting housing subsidies; a focus on special groups; a better turnover of housing; liberalization and deregulation in rent policies; encouraging home-ownership and improving the town as a residential environment.

25. **Norway** published a White Paper setting out the framework of the housing policy to the year 2000. Among the goals of this policy are active use of subsidies or affordable housing loans for the poor, enhancing local-level initiatives in housing finance, meeting the needs of special groups and new legislation for the protection of consumers in the housing market.

26. **Pakistan** has made substantial progress in the formulation of national housing policy. The provision of small short-term loans for home improvement or construction is the cornerstone of a number of successful shelter programs for the poor. Studies of selling rental housing to sitting tenants are going on. A computerized urban database and a land use demand-and supply model have been set up to assist planners to focus allocations using varied policy assumptions. Detailed urban development plans have been prepared for secondary cities in Sindh Province, with the support of UNCHS (Habitat) (PAK/86/015).

27. **The Philippines** has formulated a regional shelter strategy with the support of UNCHS (Habitat) through project PHI/88/F01 (National Human Settlements Institutional Arrangements from Selected Case Studies, 1987), which is now being implemented. Based on this, a national shelter strategy is being developed further reviewing and analyzing the constraints in the housing –delivery system in three regions. The newly introduced Community Mortgage Program enables poor families to meet requirements for housing loans by providing credits to the community, which mortgages the land as collateral. The Philippines is cooperating with UNCHS (Habitat, Nairobi, 1990, p 73.) and the World Bank

in the development and application of shelter sector performance indicators. Refer to "Land to the poor through loans for the community".

28. **Poland** is proceeding with the privatization of the rental-housing sector, the establishment of liberal pricing in housing and limitation of subsidies, provision of credit for housing investment and more responsibilities for local authorities.

29. **The Republic of Korea** has adopted a program of "Permanent Rental Housing" to provide low-rent public rental housing to the bottom 10 per cent of the urban population.

30. **Romania** is proceeding with a range of transformation in the housing sector which includes transferring resources and responsibilities to local authorities and the private sector, privatization of large sections of state-owned housing, simplifying the procedures for planning and building approvals and relaxation of the banking system in order to diversify credit availability.

31. **Singapore** has developed a computerized land-information database to support shelter policy formulation, with the technical assistance of UNCHS (Habitat) through project SIN/87/003.

32. **Sri Lanka** has launched the One and Half Million Houses Program (Pickett M., "Million Houses Projects"), which demonstrates many aspects of the application of the enabling strategies. An extensive, country-wide program of community groups and individuals building houses with basic assistance from public agencies, are under implementation. The National Building Research Organization (NBRO) has developed new construction techniques to lower construction costs by promoting greater use of previously under utilized building materials. The quality of traditional materials has also been improved.

33. **Sweden** has adopted a new housing system to increase access to housing by lower- income and other special groups. Other recent initiatives include the introduction of Regulations for New Construction, the implementation of the new Planning and Building Act and reorganization of state administration at the county level.

34. **Thailand** has successfully encouraged the formal private sector to undertake medium and low-cost housing. As a result, private housing developers are now producing some 70 percent of all formal housing in Bangkok (Tamphiphat S. et al, 1990) The Government is also attempting to involve the private sector in the efficient provision of urban public services with the support of UNCHS (Habitat) (THA/89/020). Thailand is establishing a national housing information system, to support the formulation and implementation of shelter and development plans.

35. **Turkey's** National Housing Policy is based largely on the guidelines provided in the Global Strategy for Shelter, including new schemes for land and shelter delivery, privates-sector contribution for employee housing credits, training of technical personnel of the local communities and municipalities, and instruction for housing construction in disaster-prone areas.

36. **The Union of Soviet Socialist Republic** issued a Presidential Decree in May 1990 setting out the major strategies for public and private investment in housing, the new qualitative parameters and the approach to legislation. During the period 1991-2000 it is planned to increase the existing housing stock by 50 per cent and the target is to provide an adequate house or flat for every family at an average rate of 18 square meters per person. A number of reforms required to transform the housing sector to a market economy have been initiated.

37. **The United Kingdom of Great Britain and Northern Ireland** has made substantial progress in facilitating the of transfer of ownership of public housing to sitting tenants and has taken new financial and institutional initiatives to address the problem of the homeless. Ireland has facilitated partnership arrangements between local authorities and private investors, and private finance has increasingly participated in the subsidized rental sector, through new revised private / public funding mechanisms. The responsibility for providing new subsidized rental homes is gradually shifting from local authorities to independent housing associations.

38. **The United States of America** has a twofold focus: a careful examination of policies for sheltering its low-income populations and their programs for implementation; and increased efforts to work with the governments, private sectors and NGOs of developing countries to help improve their ability to serve the shelter needs of the poor. Recent policy initiatives lie at the heart of the Global Strategy for shelter. They rely on the private sector to produce housing, with the government playing a facilitative role. The

United States' experience has shown repeatedly that centralized, paternalistic and top-down programs rarely work well. This is no less true in developing countries, where the United States supports limiting the role of government to the provision of loan and infrastructure, leaving housing finance and construction to the private sector.

## PROFILE OF 8 PROJECTS OF 4 REAL ESTATE DEVELOPERS

Developer – 1: Contech Ltd. (A Private Ltd. Co.)

Background of the company: Contech Ltd. Is the sister concern of Builders The Best Ltd. an advanced, well established and leading construction company in Bangladesh. It performs several large construction works successfully. In 1995 Contech Ltd. has started Real Estate business. The researcher has taken three projects of Contech Ltd. to show the profitability, cost elements and financing techniques of real estate business.

The unique financing techniques of Contech Ltd. are stated below:

- 1) By taking landowner as a partner and giving him a certain percentage of profit after the completion of the project.
- 2) By giving the landowner certain number of flats equal to the value of land.
- 3) By collecting some down payments of flats before commencing the work.
- 4) By taking external investors as a partner for a particular project.

Three projects of Contech are analysing below:

Project: 1

Name of the Project : Raushan Lake Apartment at Dhanmondi

Land Area : 9.2 katha = 6624 sft

No. of Apartments : 10 flats (2\* 5=10), 6 storied building

Ground floor car parking

Acquiring the Land : By special arrangement with the landowner: Sold one apartment at a concession of Tk.9 lac. Pay the land price at market rate after Completion of project.

Size of Apartment : 2500sqft.( including common space)

Price of Apartment : Tk.39 lac (including parking space Tk.2 lac)

Banker : National Bank Ltd.

Loan : 60 lac at 17.5% interest.

**Statement of Cost (1)**

Raushan Lake Apartment, Dhanmondi.

Items of cost	Amount (in lac Tk.)
Cost of land 9.2 katha @ Tk. 10 per katha	92.00
Cost of ground floor (Foundation) 5000 sqft. @ Tk.500	25.00
**Cost of super structure (2 <sup>nd</sup> .to 6 <sup>th</sup> floor) 5000*5 @ Tk.750	187.50
Interest on loan for average one year period 60*17.5%	10.50
Service charges of bank @ 2% on 60 lac	1.20
Rebate to landowner for credit purchase of land	9.0
<b>Total cost</b>	<b>325.2</b>

\*\* This is included administrative cost.

Selling price per sqft. 1480.

**Income Statement**

Raushan Lake Apartment, Dhanmondi

Particulars	Amount ( in lac Tk.)
Sales price of apartment ( 37*10 )	370.00
Charges for car parking (2* 10)	20.00
Total Revenue	390.00
Less:	
Cost of goods sold (as per statement –1)	325.20
Net income	64.80
Profit on Turnover = $64.80 / 370 * 100$	17.51%

Percentage of profit on cost =  $(64.80/325.20)*100=19.93\%$

Return on Investment =  $(64.80/167.50)*100=38.69\%$ .

Invested capital = (Construction cost –Advance from buyers= 212.5–45=167.50

Cost of registration, transfer, connection of utilities paid by the purchasers.

Profit on Turnover:  $64.80 / 370 * 100=17.51\%$



**Project: 2**

Name of the Project	: <b>Towny Centre, Lalmatia.</b>
Land Area	: <b>5 katha, 3600 sqft., Effective land 2400 sqft.</b>
No. of Apartments	: 10 flats (2* 5=10), 6 storied building, Ground floor car Parking
Size of Apartment	: 1300 sft (including common space)
Price of Apartment	: Tk.21.5 lac (including parking space Tk.2 lac), Cost per sft = Tk.1500

**Statement of Cost (1)**

Towny Centre Apartment, Lalmatia.

Items of cost	Amount (in lac Tk.)
Cost of land 5 katha @ Tk. 8 per katha	40.00
Cost of ground floor (Foundation) 2600 sqft. @ Tk.500	13.00
**Cost of super structure ( 2 <sup>nd</sup> .to 6 <sup>th</sup> floor) 2600*5 @ Tk.750	97.50
<b>Total cost</b>	<b>150.50</b>

\*\* This is included administrative cost.

Sales per sft = Tk.1500

**Income Statement**

Raushan Lake Apartment, Dhanmondi

Particulars	Amount (in lac Tk.)
Sales price of apartment ( 19.5*10 )	195.00
Charges for car parking (2* 10)	20.00
<b>Total Revenue</b>	<b>215.00</b>
Less:	
Cost of goods sold (as per statement -1)	150.50
<b>Net income</b>	<b>64.50</b>
<b>Profit on Turnover: 64.5/215.00*100</b>	<b>30%</b>

Contech Ltd got 50% share of profit and landowner got another 50%

Contech Ltd.'s profit =Tk. 64.50\*50%= Tk.32.25lac

Percentage of on cost =(32.25/150.50)\*100=21.43%

Profit on Turnover: 64.5/215.00\*100=30%

To avoid bank expenditure such as interest, service charges and other expenditures Contech Ltd and the landowner has made a joint financial strategy and investment policy likely below:

In this project the landowner is a British- resident Bangali. It was decided by the company will invest 10% construction cost and the land owner will collect Earnest money or down payment of at least 3 purchasers. He will sell these flats and collect money from his Bangali London- resident colleagues. Then he (landowner) will invest it at the starting of construction. Company will bear other expenditures before starting construction like design, RAJUK, architect etc. Contech will be responsible for total construction expenditures and flat sale. So here the project runs under the mutual contract between the company and the landowner. And the landowner will become an active of the executive committee, just like a partner.

**Project: 3**

Name of the project : **Panthapath project**

Land Area : **7 katha = 5040 sqft.**

**No. of Apartments** : 33 flats (3\* 11=33), 12 storied building

Ground Floor : **Car Parking, Effective land=3376.80 sqft.**

**Size of Apartment** : 1200 sft (including common space)

**Price of Apartment** : Tk.16.50 lac (including parking space Tk.1.50 lac)

**Selling Price (per sft)** : Tk.1250

**Statement of Cost (1)**

Panthapath Apartment, Panthapath.

Items of cost	Amount (in lac Tk.)
Cost of land 7 katha @ Tk. 7per katha	49.00
Cost of basement and ground floor 3600 sft @ Tk.950	34.20
**Cost of super structure(2 <sup>nd</sup> .to 12 <sup>th</sup> floor)3600*11 @ Tk.700	277.20
Other Expenses	17.00
<b>Total cost</b>	<b>377.40</b>

\*\* This is included administrative cost.

Selling price per sft Tk.1250

## Income Statement

Panthapath Apartment, Panthapath.

Particulars	Amount ( in lac Tk.)
Sales price of apartment ( 33*15 )	495.00
Charges for car parking (33* 1.5)	49.50
Total Revenue	544.50
Less:	
Cost of goods sold (as per statement -1)	377.40
Net income	167.10
Profit on Turnover: $167.10/544.50*100$	31.69%

Percentage of profit on cost =  $(167.10/377.40)*100=44.27\%$

Contech Ltd.' Share of profit =  $167.10*35\%=58.485$  lac.

Contech Ltd. 's ROI =  $(58.485/17)*100=344\%$

Profit on Turnover:  $167.10/544.50*100=31.69\%$

In this project there are 3 parties. First party is the landowner. His investment is the land and he will get the cost of land and 30% of the net profit after the completion of the project. At present the land is mortgaged in a bank for a loan of Tk.17 lac. Cotech, the second party, is responsible to pay bank loan and free the land from bank. It is the investment of cotech ltd. The 3<sup>rd</sup> party is the major investors of the project. Cotech will get 35% profit of this project. The 3<sup>rd</sup> party's investment is Tk.50 lac but he may invest it from his own fund or by selling flats and collecting down payments from the purchasers. He will get the rest 35% of profit

**Developer- 2:            Realta Homes and Apartment Ltd.**

**Background of the Company:**      Realta Homes and Apartment Ltd. has been formed by well - experienced Real Estate experts, experienced and qualified construction engineers and Marketing specialists in 1996. The prime object of the company in Bangladesh is to participate to solve the demand of a sweet home. "Ashiana" is its first project.

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Following are the detail information about the project:

**Project: 1**

<b>Name of the Project</b>	: <b>Ashiana Apartment Complex.</b>
<b>Land Area</b>	: <b>20 katha =14400 sft</b>
<b>No. of Apartments</b>	: 59 flats, 12 storied building <b>Ground floor car parking</b>
<b>Acquiring the Land</b>	: Own land
<b>Size of Apartment</b>	: 1464-1582 sft (including common space)
<b>Price of Apartment</b>	: Tk. 1350 per sft
<b>Banker</b>	: Uttara Bank Ltd.
<b>Loan</b>	: 237.50 lac at 16.00% interest.
<b>Life of the Project</b>	: 2.5 years.

**Statement of Cost (1)**

Ashiana Apartment Complex, Shamoli

Items of cost	Amount (in lac Tk.)
Cost of land 20 katha @ Tk.10 lac per katha	200.00
Civil Constructions	500.00
Machinery and Equipment's	48.00
Duty , VAT, Tax and others	50.00
Administrative expenses	56.00
Marketing expenses	37.00
Office Management	24.00
Preliminary Expenses	15.00
3% Consultancy Fees	15.00
5% Inflation	25.00
Bank Interest @ 16% on 273.50 lac	76.00
<b>Total cost</b>	<b>1026.00</b>

\*\* This is included administrative cost.

Selling price per sqft. 1350

**Income Statement**

Ashiana Apartment Complex, Shaymoli

Particulars	Amount (in lac Tk.)
Sales price of apartment :	1139.40
Charges for car parking (54* 1 lac)	54.00
<b>Total Revenue</b>	<b>1193.40</b>
Less:	
Cost of goods sold (as per statement -1)	1026.00
<b>Net income</b>	<b>167.40</b>
Profit on turnover $167.40/1193.40*100$	14%

Percentage of profit on cost =  $(167.40/1026)*100=16.32\%$

Profit on turnover  $167.40/1193.40*100=14\%$

Background of the Company: NEER Ltd. has been formed by well - experienced Real Estate experts, experienced and qualified construction engineers and Marketing specialists in 1995. The prime object of the company in Bangladesh is to participate to solve the demand of a sweet home. Following are the detail information about the project:

**Project : 1**

Name of the Project	: MAYANEER
Location	: Uttara ( Standard Area)
Land Area	: 5 katha =3600 sft
Effective Area	: 2430 sqft.
No. of Apartments	: 10 flats, 6 storied building Ground floor car parking
Acquiring the Land	: Purchased land
Size of Apartment	: 1215 sft (including common space)
Price of Apartment	: Tk. 1605 per sft
Name of Banker	: IFIC
Loan	: 100% equity.
Life of the Project	: 3 years.

**Income Statement**  
**MAYANEER, Uttara**

Particulars	Calculation	Amount(Tk.)
<b>Total Revenue:</b>		
Sale price of apartment	1215*1605*10	1,95,00,750
Car parking:	1,50,000*10	15,00,000
Total Revenue		2,10,00,750
<b>Less :</b>		
Cost of sales	1215*1530*10	1,85,89,500
Net Income		24,11,250
Return on Turnover		*12.36%

\*Rate of return on Turnover:  $24,11,250/1,9500,750*100=12.36\%$

## Project : 2

Name of the Project	: SHAPNANEER
Location	: Dhanmondi (Standard Are)
Land Area	: 8 katha =5760sft
Effective Area	: 4000 sqft.
No. of Apartments	: 10 flats, 6 storied building Ground floor car parking
Acquiring the Land	: Purchased land
Size of Apartment	: 2000 sft (including common space)
Price of Apartment	: Tk. 1600 per sft
Name of the Banker	: IFIC Bank Ltd.
Loan	: 100% equity.
Life of the Project	: 2 years.

**Income Statement**  
**SHAPNANEER, Dhanmondi**

Particulars	Calculation	Amount(Tk.)
<b>Total Revenue:</b>		
Sale price of apartment	2000*1600*10	3,20,00,000
Car parking:	2,00,000*10	20,00,000
<b>Total Revenue</b>		<b>3,40,00,000</b>
<b>Less :</b>		
Cost of sales	2000*1520*10	3,0,40,000
<b>Net Income</b>		<b>36,00,000</b>
<b>Return on Turnover</b>		<b>*11.25%</b>

\*Rate of return on Turnover:  $3,04,00,000/3,20,00,000*100=11.25\%$ .

**Background of the Company:** The Structural Engineers Ltd. a private ltd. Co was established as a proprietorship business with BUET graduate engineer as designing and consulting firm in 1977. Subsequently the firm was converted into a private Ltd. Co. in 1987. From that the firm has been developing residential and office building with maintaining a quality. The firm main philosophy "Quality Comes First" and "Profit is a Logical Sequence." Following are the detail information about the project:

**Project : 1**

Name of the Project	: <b>PALLABI PEACE</b>
Location	: <b>Mirpur (Economy Area)</b>
Land Area	: <b>6.63 katha =28400sft</b>
Effective Area	: <b>25000sqft.</b>
No. of Apartments	: <b>30 flats, 9 storied building</b>
	: <b>Ground floor car parking</b>
Acquiring the Land	: <b>Purchased land</b>
Size of Apartment	: <b>850sft- 1520sqft. (including common space)</b>
Price of Apartment	: <b>Tk.1237 per sft</b>
Loan	: <b>100% equity.</b>
Life of the Project	: <b>2 years.</b>

**Income Statement**  
**PALLABI PEACE, Mirpur**

Particulars	Calculation	Amount(Tk.)
<b>Total Revenue:</b>		
<b>Sale price of apartment</b>	<b>25000* 1237</b>	<b>3,09,25,000</b>
<b>Car parking:</b>	<b>1,25,000*30</b>	<b>37,50,000</b>
Total Revenue		<b>3,46,75,000</b>
<b>Less :</b>		
<b>Cost of sales</b>	<b>25000* 1037</b>	<b>2,59,25,000</b>
Net Income		<b>87,50,000</b>
<b>Return on Turnover</b>		<b>*28.29%</b>

\*Rate of return on Turnover:  $8750000/30925000*100=28.29\%$ .

The Structural Engineers Ltd.





**STATEMENT OF PROFIT ON TURNOVER**

Name of the co,	Location	Profit on Turnover
<b>1.Contech Ltd.</b>	<b>Dhanmondi</b>	<b>17.51%</b>
<b>2.Contech Ltd.</b>	<b>Lalmatia</b>	<b>30.00%</b>
<b>3. Contech Ltd.</b>	<b>Panthapath</b>	<b>31.69%</b>
<b>4. Realta Home Ltd.</b>	<b>Shamoly</b>	<b>14.00%</b>
<b>5. NEER Ltd.</b>	<b>Uttara</b>	<b>12.36%</b>
<b>6. NEER Ltd.</b>	<b>Dhanmondi</b>	<b>11.25%</b>
<b>7. The Structural Eng.</b>	<b>Mirpur</b>	<b>28.29%</b>
<b>8. he Structural Eng.</b>	<b>Dhanmondi</b>	<b>24.10%</b>
Average Profit on Turnover		19.90%

From the above statement it can be said that the apartment companies' rate of return is 19.90% or 20% on Turnover

## AFFORDABLE HOUSING FOR LOW AND MIDDLE-INCOME COMMUNITY

### Introduction

For the last few decades the housing sector in the urban areas has developed significantly in terms of the number of shelters built and under construction. They have definitely provided shelter for a significant number of city dwellers. The whole process of this development into making our capital and other principal cities, places of concrete-jungles suffering from extreme traffic congestion, inadequate utility services, deterioration law and order situation, air pollution, creating health hazards and a lot of other inconveniences.

Moreover, the on-going private sector housing development projects are directed towards the well-off community, the cities and the upper class of the city dwellers.

### Because:

1. Most of the projects are developed within or nearby the city limits where the cost of land is sky-high resulting in the dwelling units being outrageously priced.
2. There is no viable long-term finance available for the apartment buyers. Apparently, these projects are serving the needs of a big section of the city dwellers but in reality the needs of the much greater section are ignored and yet to be addressed by the government agencies and the private entrepreneurs as well.

Now is the crucial time to devise sustainable urban housing and development projects, that are affordable primarily for the general mass inhabiting this Megacity in the millennium.

### Principal Guidelines for Affordable Housing:

- A. Ecological objectives and viability:
  - i. **Area to be chosen:** Proposed housing projects should be undertaken at the outskirts of big cities (Such as Savar, Gazipur, Manikganj, Rajendrapur, Demra etc.) which will turn into satellite town with efficient communication with the Central Business Districts (CBD).

- ii. **Reduce the current thrust of the demand of land in the center of big cities:** Reduce the current thrust on the housing demand in the heart of the big cities by making affordable priced apartment at the outskirts of the city area.
- iii. **Land use and land development:** Proper ecological planning of land use and development will ensure a proper balance between the natural and manmade environment.
- iv. **Consciousness about energy and environment:** Energy and environmental consciousness architectural layout, design, selection of materials, ways and means of construction are expected to minimize the use of active energy sources (Mainly electricity) resulting in conserving the finite fossil fuel reserve for the planet and contributing less to the global pollution.
- v. **Proper utilizing of energy/electricity:** Proper utilizing built area with efficient design and planning together with management and organization will limit the volumetric requirement of space, thus allowing more space for community uses, circulation and being preserved open and green.
- vi. **Open space planning:** These concepts are widely used in the current world and have significant positive impact on the environment. In such project dwelling are clustered in groups or rows sharing common facades and walls which allow preservation of existing low lands, water bodies and forest areas.

**B. Economic objectives and feasibility:**

- i. **Low cost of land:** Since the location of the projects will be situated away from the city crowd, cost of land per unit of dwelling will be much less compared to the conventional projects undertaken within the main city areas.

- ii. Low cost building materials to be used: Proper low cost building materials can be selected through adequate theoretical research and practical field experiment and test that will certainly minimize the construction cost resulting in a lower price of per square feet as well as apartment unit.
- iii. Low cost finance: A viable and efficient finance package and an acceptable repayment schedule need to be generated which will satisfy the interest of both in developer and the middle and low-income buyer community, the target group of the proposal.

C. Participatory planning; Pre- requisite for effective development:

- i. Over all site planning: The over all site planning and individual unit lay out and space requirement should be set in accordance with the active community participation. The target group should be directly involved in the process of setting the design and planning parameters. These inputs can be incorporated through various surveys, workshops and other social interactions.
- ii. Proper finance package: A proper finance package for the development and an acceptable mode of payment might be evolved through study, research and input from community participation.

Case Study for the Practical Evaluation and Viability:

Location of the projects: Northern outskirts of Dhaka city (Savar, Hemayetpur, Gazipur, Rajendrapur) or Southern outskirts of Dhaka city ( Demra, Matuail, Madanpur).

Land area for a project: One Bigha or 14400 square feet. Effective land for making apartment only one-third of the total land which is  $14400/3 = 4800$  sqft. Balance 9600 stf. is allocated for circulation, community uses and be preserved as open green space.

Size of apartment units: The size of the proposed apartment will be 800 square feet each. (Affordable dwelling unit can vary from 550 sqft. to 1200 sqft. A unit of 800 sqft. is an example for this study).

Height of the structure of the project: 5 story and 4 floors each of dwelling units over the ground floor consisting of different community facilities such as parking, social activities and management services.

Number units in the project: Total 24 units. 6 units per floors and 4 floors (4\*6). Size of apartment is on an average 800 sqft.

Statement showing the cost of 24 apartments

Items of cost	Amount (Tk.)	Amount (Tk.)
1. Cost of Land ( 10,00,000 *1)		10,00,000
3. Cost of area development (24*30000 )		7,20,000
4. Construction cost ( 4800*600)		28,80,000
Total Cost		46,00,000
Cost per square feet ( 46,00,000/4800 )		958.33

Selling price of apartment:

Particulars	Total	Per sqft.	Cost for a flat of 800 sqft.
Cost of production	46,00,000	958.33	7,66,667
Add. Profit ( 20% on cost)	9,20,000	191.67	1,53333
Selling price	55,20,000	1150.00	9,20000

Price for parking space: Tk.80,000

Total price to be paid to the developer:  $(9,20,000 + 80,000) = 10,00,000$ .

Collection schedule:

Option –1:

1. Down payment: ( 50% ) ,  $10,00,000 * 50\% = 5,00,000$
2. Installment: Balance amount by 15 years @ 16% interest with monthly installments.  
Monthly installment amount = Tk. 7348 (180 installments)

Option-2:

1. Down payment: (50%),  $10,00,000 * 50\% = 5,00,000$
2. Loan from DBH: (20%),  $10,00,000 * 20\% = 2,00,000$
3. Installment payments: (30%),  $10,00,000 * 30\% = 3,00,000$  (Without interest, 4 years, Monthly installments, No. of installments =  $12 * 4 = 48$ .)

Monthly installment payable by the buyer:

i.	Installment payable to DBH – $2 * 1443 =$	2886
ii.	Installment payable to Developer =	6250
Total Installment payments =		9136

Option – 3.

1. Down payment: (50%),  $10,00,000 * 50\% = 5,00,000$
2. Installment payment to the developer for the balance amount by 240 monthly installments with 16% interest for the outstanding amount. Tk.6959.

Option – 4.

1. Down payment: Nil
2. Installment payment to the Developer for the total amount by 360 monthly installments @ 16% interest for the outstanding balances.
3. Monthly installments = Tk.13449.

Summary of the above four options:

Option No.	Details	Installments (Monthly Tk.)
01	1. Down payment: ( 50% ) , $10,00,000 \times 50\% = 5,00,000$ 2. Installment: Balance amount by 15 years @ 16% interest with monthly installments. (180 installments)	7348
02	1. Down payment: (50%), $10,00,000 \times 50\% = 5,00,000$ 2 Loan from DBH: (20%), $10,00,000 \times 20\% = 2,00,000$ 3 Installment payments: (30%), $10,00,000 \times 30\% = 3,00,000$ (Without interest, 4 years, Monthly installments, No. of installments = $12 \times 4 = 48$ .)	9136
03	1. Down payment: (50%), $10,00,000 \times 50\% = 5,00,000$ 2 Installment payment to the developer for the balance amount by 240 monthly installments with 16% interest for the outstanding.	6959
04	1. Down payment: Nil 2. Installment payment to the Developer for the total amount by 360 monthly installments @ 16% interest for the outstanding balances.	13449

The prospective buyers can be chosen an apartment by considering the above options. If the buyer can be able to pay 50% down payment he might chose the option 1-3, where monthly installment less than the option 3. If the buyer cannot arrange any institutional loan



he should choose the option—4, where the installment amount will be very high. What option will the buyer choose absolutely depend on his ability.

13. Example of Registration cost in case of Freehold land:

Location of land	: 13/A Eskaton Garden
Area of Land	: 0.42 katha or 302.4 sqft.(720*0.42)
Proportionate Land Price	: Tk2,50,000 (Tk.6lac per katha)
Apartment Price	: Tk30,00,000

Summary of Registration cost

Particulars	Amount (InTk.)
1. Stamp Charges (10% of land cost)	25,000
2. Cost of Chalan	10,000
3. Gain Tax ( Including bank charges and commission)	25,000
4. VAT. ( Including bank charges . 4.95%)	12500
5. Sub-registrar (100% bribe )	25,000
6. Registration charges (5% of land price)	12500
7. Other cost regarding Registration	2,500
8. Deed writer	3,000
9. Copy ( Nakal)	1,000
10. Service charge charged by the co.	5,000
<b>Total</b>	<b>1,21,500</b>

14. Example of Registration cost in case of Leasehold land (RAJUK):

Particulars	Calculation	Total (10 Flats)	Cost per Flat
1.Transfer fees (Tk.50,000 per Katha)	50,000*5	250,000	25,000
2.Office expenses of RAJUK Tk.10,000 per flat	10,000*10	1,00,000	10,000
3.Registration cost (Fixed by RAJUK) 22.5%-25%			
i. Price of Plot (2,00000*5 )	10,00,000		
ii. Flat Price ( Fixed by RAJUK) Tk.650 per sqft. 1215*650*10	78,97,500		
(88,97500*25%)	88,97500	22,24,375	2,22,438
4. Power approval cost charged by RAJUK (undue)		25,000	2,500
<b>Total</b>			<b>259938</b>

\*\*The registration cost of PWD / HSD's land is more or less same as RAJUK.

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