

## Current Trend of Income and its Impact on Affordability of Multi-Ownership Housing at Moghbazar, Dhaka

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### ABSTRACT

*Providing housing for Dhaka City dwellers is very significant for ensuring sustainable urban development as it is one of the largest growing megacities in the world. The high growth of population in Dhaka city is creating extra pressure on land and making an adverse impact on housing price and dynamic changes in residential areas. Housing provision mainly depends on the private sector due to govt provide only a smaller proportion of total housing demand. In the private sector, real estate developers are contributed a notable amount of housing stock in which most of them are multistoried apartments which called multi ownership housing, a common dwelling structure at Dhaka. An attempt has made in this study to analyze the current trend of income and its impact on housing affordability of multi-ownership housing in Dhaka city by reviewing the literature with surveying six multistoried apartments at Moghbazar, Dhaka. Finally, this study makes a conclusion with general perception of the current trend of income regarding the affordability of housing.*

**Keywords:-**Apartment, Multi ownership housing, Income trend, Affordability

### INTRODUCTION

#### Background and Objective of the Study

Dhaka is the capital of Bangladesh and one of the major megacities in the world. It is the 9th largest city in the world (World Bank, 2010)[6]. With a vast population housing is a real need and in turn the housing sector is facing major challenges in Dhaka. in the housing delivery system government provide only 7% and 93 % is fulfilled by the private sector both individual providers and real estate developers (BIGD, 2017)[1]. In 1980, real estate developers came to the business around Dhaka to meet the housing demand. At present, the number reaches to more than one thousand (REHAB, 2012)[4], which makes a trend of the lifestyle of the citizens of Dhaka city to live in apartment houses. Through the inner-city area apartment buildings are very common dwelling type, especially

along the main city area. Due to highly expensive and scarcity of land in the city, multi-ownership apartment is very popular in the housing market and the housing market is expanding day by day (Labib, et.al. 2013)[3]. However, the demand for housing is too high when the public sector is failed to meet the demand and emerging need to flourish the real estate business in Dhaka city (BIGD, 2017) [1].

According to World Health Organization (WHO), housing is an enclosed environment in which man finds protection and feels safe and secured from hostile forces and can function with increased comfort and satisfaction as regards to privacy to the individual and his family. The environment must include all necessity, services, facilities, equipment and devises needed for physical and social well-being of the family or the individual

(Sarma and Mallick, 2005)[5]. But, housing affordability means the ability to afford to house. Affordability is the one indicator of housing adequacy which is a human right. Housing is one of the basic needs of food and clothing. It provides shelter, safety and a sense of belongingness to the owner. A commonly accepted guideline for housing affordability is a housing cost that does not exceed 30% of a household's gross income. The dwelling culture has changed gradually over a short span of time. The increasing housing demands are being fulfilled by multistoried apartments as well as multi ownership housing. The concept of living multistoried apartments is something that is ordinarily not an ingredient in the cultural experience of most Bangladeshi's. Multi ownership housing is a classification of housing where multiple separate housing units for residential inhabitants are contained within one building or several buildings within one complex. Now it is common to live in apartments with sharing smaller units of space side by side with numerous other

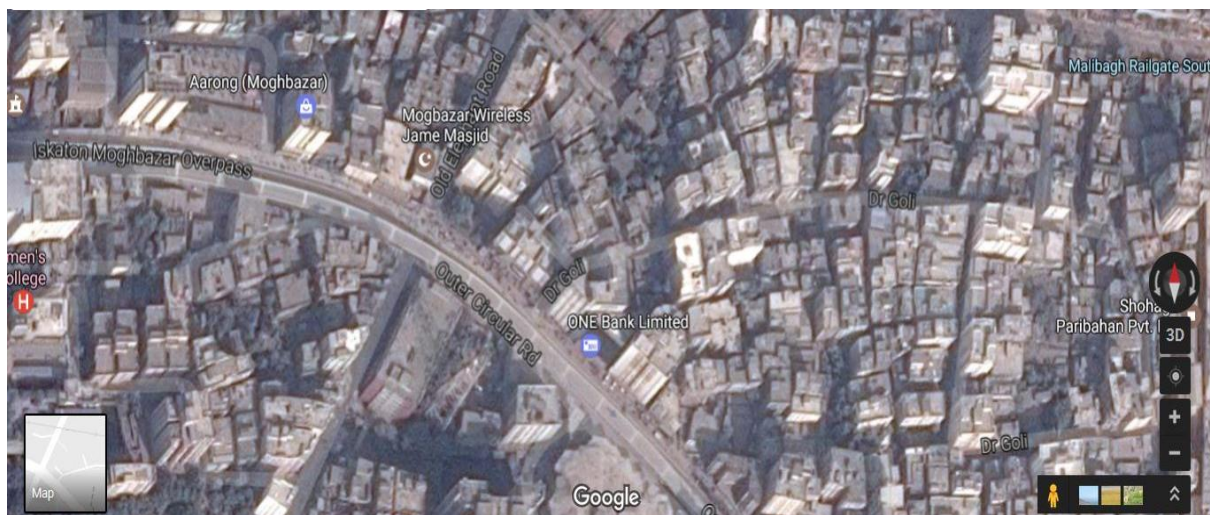
families. The objective of the study is to analyze the current trend of income with the new govt. pay scale and its impact on the affordability of housing for the target income group.

## METHODOLOGY

To achieve the objectives of the study some sequential steps have been followed. At first, a study area 'Maghbazar' is selected for primary data collection. Then randomly six multistoried apartment building is selected for surveying. Primary data collection questionnaire is prepared for the house owners. All the data were analyzed to identify the source of income, expenditure, and savings.

### The Study Area

**Maghbazar** or Mogbazar is the name of a neighborhood in Dhaka, Bangladesh. It is located near the neighborhoods of Tejgaon, Ramna, and Malibagh. It is under Ramna thana and administered by the Dhaka South City Corporation. Its origins date back to the Mughal Empire.



**Fig.1:** Location map of survey area

## ANALYSIS

### Household Income and Expenditure

Household income group may be broadly categorized as Lower income group, lower middle-income group, Middle-income

group, Upper middle-income group and Lower high, upper high-income group. Table 1. shows household monthly income to expenditure ratio at the study area.

**Table Error! No text of specified style in document.: Household Monthly Income and Expenditure**

Case	Monthly household income				Family size	Earning member	No. of flat owned	savings	Percentage of savings %	Expenditure
	Salary	Flat rent	others	total						
1	130000			130000	03	01	01	50000	38.46	80000
2	90000	12000		102000	04	01	02	32000	35.56	70000
3	110000			110000	04	01	01	60000	54.54	50000
4	55000		10000	65000	03	02	01	19400	29.85	45500
5	55000		38000	93000	03	02	01	50000	53.76	43000
6	55000	105000	40000	200000	03	02	03	100000	50	100000

The surveying households are upper-middle to lower high-income group. Most of them are a businessman and non-govt. employee. So, the current govt. the pay

scale has less impact on these particular household housing affordability. Table 2 shows the break-down of monthly expenditure.

**Table 1: Shows the break-down of monthly expenditure.**

Case	Flat maintenance charge				Loan repayment	Othe (driver, house maid)
	Gas bill	Electricity bill	other	Service charge		
1	650	1500	1000	4000		2000
2	650	1200	1000	3000		1500
3	650	800	700	4000		1500
4	650	1400	2000	3000	5000	3000
5	650	1000	1300	4000		2000
6	650	2000	700	5000		12000+ 3000

### Multi-Ownership Housing delivery system

Expected that multi ownership housing for the target group should have

- Quick delivery
- Small down payment
- Longer amortization period
- Proper housing environment

The time factor is one of the most important aspects. Longer delivery time may cause undue pressure on the affordability of the target group.

- The process starts with the formulation of the system through which the work or project will be executed.
- Group effort comprises of four to five household which may be among the family and friend
- A Co-operative society is an institutionalized body and has fairly large number of household members
- Both Group & Co-operatives, in theory, nonprofit motives.

- Developer built project is basically profit motives and becomes costlier than that of the delivery systems.
- Multi ownership housing delivery process may be divided into four broad phases
- The land procurement phase
- Design phase
- Loan procurement phase
- Construction phase
- Phases are all independent in nature
- From the investment point of view, the households are required to make the initial payment for land procurement and expert services. In the final phase, they are to meet the equity amount of the loan.
- Existing loan giving institutions does not grant a loan if the first two phases are not ensured.
- In this situation of very high land cost, the target group may take years to save the amount to meet the initial investments.
- Multi ownership attempts to find out

means to reduce the initial investment and to keep financing cost within the affordable limit of the target group.

- It also stresses the need for establishing an acceptable environmental quality.
- Time factor in the delivery process is primarily dependent on the quicker supply of developed land, Service and finance.
- Without appropriate coordination among the supplying institutions will delay the process.
- A well-coordinated effort by service rendering agencies along with efficient management of the project execution body can reduce the delivery time and reduce the pressure on the target group's affordability.

### **Land Value and Multi-ownership Housing Price**

For housing development, the lands are provided by the public sector agencies, private land developers and the individual residents. Presently, central parts of Dhaka and the old Dhaka being predominantly

built-up, peripheral lands are used for housing and are also developed for housing. Investment in land is considered one of the most profitable businesses in third world cities like Dhaka. Dhaka has experienced an unprecedented increase in land value since the early 1970s. In the absence of any proper land value records, it is very difficult to compare the land price over the past years. Transaction of land is made through the office of the Sub Registrar and the office contains the land transaction records. However, these stated prices are usually far below the actual market price. The actual land price is more or less to six times the official land price. The registration fee is paid on the basis of official land price. Existing housing supply has been characterized by a critical imbalance between housing cost to household income ratio. Residential land values in prime Locations of Dhaka is too high compared to other cities in a developed country. The study area is medium land price area. Table 3 shows the land price and apartment price in the study area.

*Table 2: The land price and apartment price in the study area.*

Case	Flat size	Unit price (per sft.)	Land (Katha)	Unit price (per Katha)	Unit no. at per floor
1	1400	5500	8	3300000	4
2	1200	5000	7	3050000	4
3	1400	6500	10	3700000	4
4	1500	5500	5	3020000	2
5	1500	6000	10	3550000	4
6	1800	7000	10	3800000	4

### **Building Construction Cost**

Beside land price 'material price' is also acting as a huge constraint for housing development in Dhaka city. UN-HABITAT (2011) considers the cost of these two key inputs- land and building

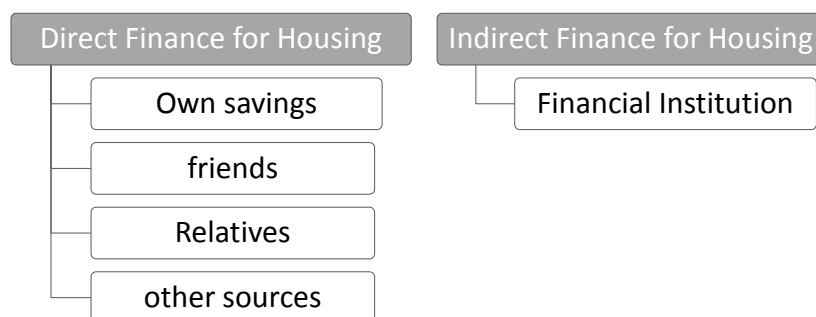
materials as the main reason that makes housing unaffordable for urban poor. There has been a gradual increase in the cost of construction materials in Bangladesh. Table 4 shows percentage of building construction cost.

*Table 3: Percentage of building construction cost*

Case	Land value (%)	Civil cost (%)	Finishing cost (%)	Infrastructure cost (%)	total (%)
1	7.5	27.5	60	5	100
2	10	30	57	3	100
3	8	26	60	6	100
4	9	30	66	5	100
5	10	18.8	67.2	4	100



6	7.5	18.5	68	6	100
<b>The Cost of Services and its Impact on Affordability</b> Providing services in the form of roads, water supply, sewerage, drainage and other utilities makes the land suitable for housing. The cost of services involves high capital investment and low operating cost.			<ul style="list-style-type: none"> <li>In all holding with annual value not exceeding taka 600000.</li> <li>In other cases- Rental holding and Self-occupied</li> </ul>		
<b>Taxation and its impact on Affordability</b> Our interest in taxation concerns its impact on target groups' increased income that may be caused by owning a housing property. The existing taxes on urban housing property in Bangladesh are listed below:			<b>Wealth Tax</b> <ul style="list-style-type: none"> <li>Land development tax</li> <li>Income tax</li> </ul> <p>The annual value of a property is considered as the net annual rental income of the property. In case the monthly loan reimbursement amount may be considered as the rent. It is assumed that the amount that will be collected from the different sizes of units would cover the cost of services and link roads considering a long period for repayments.</p>		
<b>Municipal Tax</b> <ul style="list-style-type: none"> <li>Holding rate</li> <li>Lighting rate</li> <li>Conservancy Rate</li> </ul>			<b>Housing Finance</b> Sources of housing finance may be Direct or indirect.		
<b>Urban Immovable Property Tax</b>					



**Fig.2: Sources of housing finance**

Amount of initial investment is important for owning an apartment as well as getting a bank loan. At the study area from the

survey we find different sources for the initial investment. Table 5 shows the sources of the initial investment.

**Table 4: The sources of initial investment**

Case	Amount of initial investment	Savings from salary	Business	tuition	GPF loan	Short term loan	Long term loan
1	1910000						
2	2000000						
3	1900000						
4	1600000						
5	2050000						

6	1900000						
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### ***An alternative source of Housing Finance***

The retirement benefits as an alternative source of housing finance. Govt. has provided retirement benefits to the employees. The benefits are given in the form of pension, Gratuity and provided fund. These benefits are given after fulfillment of certain period of services. There are possibilities for better utilization if the pension fund could be at least shown as a security against the more urgent need like housing is also a symbol of security, social status, and mental, physical well-being of the employee.

### ***Affordability of the target group***

The total cost for a house that could be afforded by a family is dependent on –

- The income of the family

- The proportion of household expenditure which is devoted to housing
- The cost of the dwelling unit that a household can afford to purchase is primarily determined by
- The annual expenditure on housing
- Availability of house building loan
- The investment return of the housing unit when rented.

Table 6 shows the monthly house rent allowance as provided by the national pay scale. The house rent allowance as provided may be considered as the monthly affordable amount for housing. It is expected that the household in the target group may be willing to invest more than the rent allowance for a dwelling unit in a multi-ownership scheme.

***Table 5: Affordability analysis of target group***

Case	Grade no. according to pay scale	Rent Allowance Tk	Total savings Tk (monthly)	Comment
1	Grade 2	33000	50000	Sufficient
2	Grade 3	28000	32000	Sufficient
3	Grade 2	33000	60000	Sufficient
4	Grade 7	14500	19400	Not Sufficient, that's why loan.
5	Grade 7	14500	50000	Sufficient
6	Grade 7	14500	100000	Sufficient

## **DISCUSSION AND CONCLUSION**

In this study, the target group is identified considering the recent national pay scale. The group consists of upper middle-income group and lower high-income group, who have possibilities of savings that may be used for housing. The income range varies from 65000tk to 200000tk. The group includes the pay scale grade from grade 2 to grade 7. The house rent allowance provided by the new pay scale is considered the minimum affordable amount for housing. It is expected that the household in the target group may be willing to invest more than the rent allowance for a dwelling unit in a multi-ownership scheme. The target group able

to get a house loan from a different bank with 9% to 15% interest. For getting bank loan initial investment is a must. The target group can get this amount needed for initial investment from own savings or from relatives. So, it can be said that at the study area multi-ownership housing units of 1200sft to 1800sft are affordable for this upper-middle and lower high-income group.

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