

Bleak weather for realtors

SOHEL PARVEZ

LOOKING BACK 2011

Muzzamel Haque booked an apartment two and a half years ago, with hopes of taking delivery in May 2012. It would end his stay for two decades in a rented home with his family.

His aspirations now hang in the balance.

The stockmarket debacle that began in January this year has wiped out his investments and ability to regularly pay the instalments on a 1,705 square feet apartment in Dhanmondi.

Haque, a banker, is one of the many stock investors who are facing difficulties in paying the instalments on booked apartments at a time when the housing market passes a sluggish period.

Sales of newly built apartments, one of the main drivers of the housing market, slowed down in 2011 compared to the previous year amid uncertainties over fresh electricity and gas connections.

Realtors said the stalemate in utility connections along with a mandatory rule of installing solar panels in the new buildings is taking a toll on the sector, delaying the process of handing over thousands of apartments to buyers.

Around 16,000 ready flats are yet to be handed over to buyers due to the lack of electricity and gas connections, said Murad Iqbal Chowdhury, general secretary of Real Estate and Housing Association of Bangladesh (REHAB), at the inauguration of an annual housing expo -- REHAB Fair -- on December 15.

In addition, increases to the tax at source for developers, a liquidity shortage in banks and the ongoing stockmarket crisis also affected demand for new homes this year, said realtors.

"It was a very bad year for the overall real estate sector," said Dr Toufiq M Seraj, managing director of Sheltech (Pvt) Ltd, which is yet to hand over 200 flats due to pending utility connections.

The sector handed over around 8,000 apartments a year to buyers since 2006, said Seraj.

But this year, the delivery of flats fell by 30 percent in terms of volume, he said.

The REHAB general secretary told The Daily Star last month that his firm -- Mega Builders -- sold 10-12 flats a month until the month of Ramadan.

"But I sold only two flats after Ramadan," Chowdhury added.

"We have a lot of apartments to sell. But in reality those may remain unsold," he said, blaming the government's condition that mandates installing solar panels, restrictions on using air conditioners and lethargy in providing fresh electricity and gas connections.



Realtors said a mandatory rule of installing solar panels in new buildings is taking a toll on their business.

SK ENAMUL HAQ

To withstand the lull in business, many developers and builders have started offering price cuts to lure buyers and taking a go slow approach in their hunt for new lands.

But the prospect of a rebound in the housing market next year looks bleak in the face of a gloomy economic outlook, pressures from a volatile stockmarket, along with high inflation, and a slowdown in growth of exports and remittance earnings.

"The situation in the real estate sector will worsen in 2012. A deterioration of the political environment will also hurt the sector," said Seraj, also a former REHAB president.

To withstand fallouts, Sheltech is avoiding projects on small sized lands, building 1,000-1,200 square feet flats to achieve economies of scale, finishing ongoing projects without delay, and importing elevators and generators directly to save costs.

"We want to keep our sales moving. So we are bracing ourselves for that," he said.

The housing sector, which provides jobs to more than 20 lakh people, feels the pinch of a slowdown in businesses. Many new builders and developers have entered the scene in the past three to four years, encouraged by the rise in sales of new homes.

A rise in remittance and export earning and a growing stockmarket in the years until 2010 spurred demand for new homes, resulting in property and flat price hikes in the capital.

Realtors said the fall in sales in the outgoing year may put brakes on the skyrocketing prices of property and flats.

"For a majority of people, the price of property is too high to afford," said Mohammad Farhaduzzaman, manager of Eastern Housing Ltd, one of the oldest realtors, citing a huge turnout of visitors at the REHAB

show that ends on December 19.

Buyers lost hope when they came to know the prices of flats, he said. The price of a flat is no less than Tk 6,000 a square feet in major residential areas in Dhaka such as Dhanmondi.

The high price of property has also affected the sale of flats, said Farhaduzzaman.

Seraj of Sheltech said the hike in property prices does not match the growth of the economy, supply and demand for new homes.

"It can't be said that property prices will go down. But it is quite certain that prices will not go up quickly," he said.

"From a long term perspective, it will bring good results, as what was happening in the property market was not a financially viable proposition."

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Banks' stock exposure falls within safe limit

REJAUL KARIM BYRON

Banks' exposure to the stockmarket came down within the safe limit at the end of the year, but their total investment still runs into more than Tk 15,000 crore.

The exposure of banks to stocks has been around 4 percent of their liabilities as of November 30, according to statistics from Bangladesh Bank. Banks are allowed to invest 10 percent of their liabilities in stocks.

A year ago, the situation was a bit different. Of 44 banks, 12 invested more than 10 percent of their liabilities in stocks. The exposure of only three banks was more than 20 percent of their liabilities, while another three banks exceeded 15 percent.

When the stockmarket was at its peak in September last year, investment by the banks was Tk 23,000 crore in terms of market value. On November 30 this year, it has come down to Tk 15,000 crore in market value.

An official of National Credit and Commercial Bank said his bank's investment decreased in the last one year, as the market price of their shares fell. He said their real investment remained the same.

Although investment in the market is a bit risky, bankers said, commercial banks are still investing in stocks.

A high official of Janata Bank said as the money in the banks is depositors' money, they invest cautiously. They invest in companies that give profits to their share-holders and have a good price earnings ratio.

An official of Shahjalal Bank said the bank's profit from the stockmarket will not be as much as it was last year. He said many banks will still make profits from the sluggish market. If the general investors invest cautiously, they will also

be able to profit, the official said.

The banks made a profit of Tk 2,500 crore from the stockmarket last year, according to statistics from the central bank.

Of the total investment of Tk 15,000 crore made by banks, Tk 9,039 crore was in the banks' own portfolios, Tk 4,802 crore as loans to its subsidiaries and Tk 1,193 crore was in other stockmarket loans as of November 30.

The total exposure of the four state-owned commercial banks in the share market is Tk 3,148 crore or 2.40 percent of their liabilities.

The total exposure of 24 private commercial banks is Tk 10,132 crore or 4.46 percent, while it is Tk 1,238 crore or 1.57 percent for six Islami banks.

Of the foreign banks, only one bank -- Bank Al Falah -- has exposure worth Tk 12 crore. Of the specialised banks, Bangladesh Development Bank's exposure is Tk 504 crore.

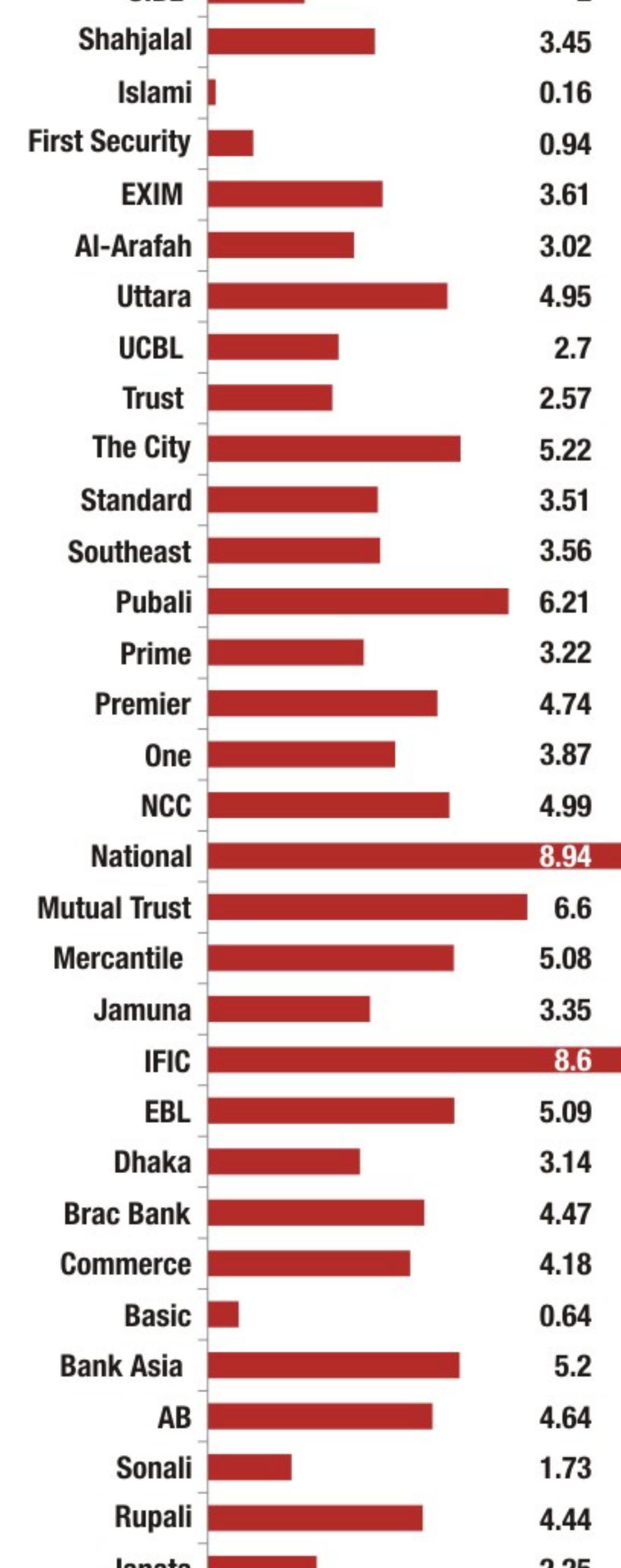
Bangladesh Bank will meet today with the chief executive officers of all banks where different risks and initiatives, including issues related to the capital market in the coming year, will be discussed.

There remains a debate over how much investment the commercial banks can make in the share market. International practice shows a commercial bank cannot invest more than 25 percent of its capital.

Most experts and economists in Bangladesh feel that banks' investment in the market must be related to its capital. If that is taken into consideration, the banks in Bangladesh have invested much more.

However, the central bank in its draft bank company act made a proposal to this effect but there is still ambivalence in the government regarding it.

BANKS' EXPOSURE TO STOCKS
IN PERCENTAGE OF LIABILITIES / UP TO NOV 30



What next in the EU versus airlines dispute?

REUTERS, Brussels

Europe's highest court this week gave its full backing to an EU law, meaning all airlines will have to pay to offset carbon emissions for flights in and out of Europe from Jan. 1, drawing anger from the United States and China.

China's state-run Xinhua news agency warned of a trade war over the inclusion of airlines in the EU's Emissions Trading Scheme (ETS), although the foreign ministry stated its opposition less stridently and called on the European Union to talk to other governments.

The U.S. government said it was dismayed by the ruling and wanted the issue to be addressed by the U.N.'s International Civil Aviation Organization (ICAO).

"We continue to have strong legal and policy objections to the inclusion of flights by non-EU air carriers in the EU ETS (Emissions Trading Scheme)," Krishna R. Urs, deputy assistant secretary for transportation affairs at the U.S. State Department, said.

In the latest of a flurry of statements from airlines and their associations, the Association of Asia Pacific Airlines (AAPA) called on the EU to abandon its plans.

"This dispute needs to be resolved through constructive political dialogue, rather than embarking on a bruising trade war," the AAPA said on Friday. "We urge the EU to scrap plans to include foreign airlines within the EU ETS."

EU Climate Commissioner Connie Hedegaard welcomed the court decision, while adding she wanted to engage with partners.

"We reaffirm our wish to engage constructively with everyone during the implementation of our legislation," she said.

The following looks at what might happen next.

Many in Europe dismissed the threats of retaliation as rhetoric.

"No one wants to see a trade war. No

one wants to pay huge fines. There is a lot of sabre-rattling," Jean Leston, senior transport policy adviser at WWF, said.

Some said, however, there could be a reaction.

"The US has remained steadfast in asserting that the ETS violates international law and represents bad policy on the EU's part," said Gabriel Sanchez, Adjunct Professor of Law at the International Aviation Law Institute at Chicago's DePaul University.

"The next logical step for the US to take to register its disapproval is some form of trade sanction, even if it is nominal."

Before Wednesday's ruling, which had been widely expected, US Secretary of State Hillary Clinton and US Secretary of Transportation Ray LaHood wrote to EU officials urging them to reconsider and threatening unspecified action.

Legislation in the US Congress, if passed, would make it illegal for US airlines to comply with the EU law, but that would place airlines in the nearly impossible situation of being in breach of one jurisdiction whatever they did.

US airlines have said that reluctantly they will comply with the EU law, although they are considering their legal options.

The EU penalty for non-compliance is 100 euros (\$130) per tonne of carbon, much more than the cost of compliance.

European Commission figures show complying would add between 2 and 12 euros per passenger, depending on airlines' decisions about how much to pass on to their customers.

Thomson Reuters Point Carbon data points to a total carbon cost for the industry of 9 billion euros by the end of 2020.

European politicians have insisted the United States must comply with EU law just as the EU complies with US legislation. Global and US campaign groups have written back to Clinton and LaHood reminding them of the deep-seated US belief in the rule of law.