



Property prices should go down

Says DBH Managing Director Quazi Mohammad Shariful Ala

MD FAZLUR RAHMAN

The government needs to provide ample residential lands for homes in the major urban cities and establish good connectivity between Dhaka and the neighbouring districts in an effort to rein in soaring housing prices, said an expert.

"Property prices should be brought down," said Quazi Mohammad Shariful Ala, managing director of Delta Brac Housing Finance Corporation Ltd (DBH), the largest housing finance institution in Bangladesh.

"Property is unaffordable for the masses in Dhaka, almost like that in London, Sydney or New York in terms of affordability."

He said property prices in Dhaka are more than 10 times an average person's annual income, whereas the international measure of affordability is about four times the annual income.

Shariful said the major component in apartment price is the land price but the land prices are high because there is insufficient supply of serviced residential land in the urban market.

People only talk about interest rate, and it is one important factor, but the biggest hindrance is unaffordability.

"Under these circumstances, an average person won't afford a home even if the interest rate is in single digit or 5 percent, compared to 9 percent now," he said.

Despite high property prices, people are still buying, albeit with great difficulty, said Shariful, who earned his BSc degree in economics from the London School of Economics in 1981.

He said the extremely high prices of properties, particularly in the urban areas such as Dhaka and Chittagong, are holding back the market from growing further.

The government and developers have to come up with a solution. The government will have to provide serviced

land because only it has the authority to acquire large tracts of land.

The government will also have to look at transportation infrastructure, he added.

The city dwellers have to be given easy mobility and affordable housing so that the city can grow sustainably.

Shariful is hopeful that once the mass rapid transit and more efficient transportation are developed, those will help increase the supply of residential lands. There are cheaper lands in Gazipur, Savar or Kamrangirchar but people are not willing to live there because it takes too much time for them to come to Dhaka from there.

An area that needs attention is the duty on property registration, taxes and other fees, which amount to about 15 percent, one of the highest in the world, he said. It is less than 5 percent in India, he added.

The government also needs to look at the urban regulatory framework of the housing sector. He pointed at Rajuk, which is a regulatory authority as well as a developer. "This is contradictory. It should be separated."

The lenders' rights need to be protected in case of loan defaults, by putting in place a more efficient legal system. "In case of default loans, it is difficult for us to sell the property and recover the money," he said.

"If we can do it faster, then we can take more risk and lend more."

A member of the Institute of Chartered Accountants in England & Wales, Shariful said the government can provide tax incentives for home ownership what developed countries did by way of encouraging people to take more loans in the early stage of their career.

Home ownership level in Bangladesh is about 30 percent, whereas it is up to 80 percent in developed countries.

"The latent demand for home ownership is massive. Everyone has an



Quazi Mohammad Shariful Ala

ambition to own a home. So demand is definitely there."

Housing sector growth has tremendous economic multiplier impacts on backward linkage industries such as cement, iron, brick, wood, electrical goods and on forward linkage industries such as furniture and consumer electronics.

The real estate market is also important in terms of providing huge employment to the urban poor.

Developed countries started promoting home-owning democracy 70 years ago.

"If people have a physical stake in the country, the country will have a more stable society and help create wealth. It is also important for social democracy," said Shariful who took charge of DBH in 1997 when he was 37.

Founded in 1996, DBH is now the market leader by all measures. In terms of size, DBH is the largest housing finance institution in Bangladesh with a portfolio size of Tk 3,300 crore. In terms of new disbursement, the company's share is almost 50 percent.

The company disbursed more than Tk 1,000 crore last year, also the highest

among all home loan providers.

When DBH started its business, developers were in their infancy and their market was very small.

DBH developed a game changing model in collaboration with clients and developers, to lend during the construction phase as well as for registration and mortgage to be done after a project is finished.

"It was a big innovation that DBH brought into the country and this was copied by a lot of other financial institutions," said Shariful.

DBH showed that home loan business is a profitable business with low non-performing loans. This transformed the mortgage finance business. "Before our success, banks were not eager to lend money for home financing."

The company started its operation with a capital base of Tk 3 crore, and now the amount stands at about Tk 4,000 crore.

Since inception, the company has financed 16,000 individuals to own homes, and lent out Tk 7,000 crore.

The company's deposit base is about Tk 3,000 crore. Among non-bank finan-

cial institutions, DBH was the first to start taking large scale retail deposits. Up to then, all the NBFIs used to borrow from banks.

Among all banks and financial institutions of Bangladesh, DBH is the only institution which has been rated the highest 'AAA' credit rating for the last 10 consecutive years. The level of credit rating provides a very important indication of the financial safety, security and strength.

DBH's non-performing loan is less than 0.5 percent, an enviable figure which can attract anybody. The industry average in home loans is about 4 percent.

"We look at the borrowers' background. The risk management process is the secret of the company's low NPL," said Shariful.

DBH is a joint venture company: Delta Life Insurance Company Ltd, Brac, Green Delta Insurance Company Ltd, HDFC, a pioneer in private sector housing finance in India, and International Finance Corporation have stakes in the company.

Having reputed organisations as shareholders is a great strength for DBH, he said. At the moment, DBH is more focused on Dhaka, Chittagong and Sylhet.

However, the company is also trying to focus on lower middle income groups who can afford property in the areas such as Gazipur, Savar and Narayanganj and in industrial belts on the outskirts of Dhaka. "We have already started lending in those areas."

The company floated its shares for the general public in 2008. Last year, the company provided 30 percent dividends. "We have a very good market reputation."

As housing loans need to be given for 25-30 years, he said both NBFIs and banks should have the ability to raise money for long tenures, as, at present, these institutions lend for longer periods on the basis of short-term deposits.

The government and developers have to come up with a solution. The government will have to provide serviced land because only it has the authority to acquire large tracts of land

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