

# Why do flat prices increase?

STAFF CORRESPONDENT

Seeing the soaring demand for apartments in Dhanmondi, Bashir Chowdhury, a businessman, wanted to monetise his vacant plot on the banks of Dhanmondi Lake.

He decided to build a modern multi-storey building without the hassles that come with construction. So he thought of getting it done by a developer.

Since this land was prime real estate, a mini fight ensued amongst a horde of developers, a mini Chowdhury to hand them over his land.

Chowdhury went with the offer that seemed the best to him: he would get a lump-sum amount of cash along with 40 percent of the flats in the building from the developer.

This upfront cash offered, widely known as the 'signing money', is fast becoming the developers' ammunition of choice to get the landowners to sign the dotted line, and in so doing, is driving up the apartment prices in Dhaka city.

"We need to give them a good fraction of the ownership along with a high cash benefit to convince them," said Hossain Khaled, managing director of Anwar Landmark.

The extra cost, by default, is transferred to the ones buying the finished apartment, he added.

Nowadays, landowners seem to be more interested in the amount of signing money than the quality of construction and design.

"The practice of signing money doubles or even triples the cost of construction in some cases," said Alamgir Shamsul Alamin, president of the Real Estate and Housing Association of Bangladesh (Rehab).

The main construction materials such as sand, cement and rod cost the same regardless of where the building would be made. It is the outlay the developers have to make to get hold of the land that separates the flat in Mirpur from Baridhara, Gulshan and Banani.

For instance, a 1,500 square feet flat will cost Tk 70 lakhs to Tk 75 lakhs in Mirpur but about Tk 3 crore in Gulshan or Baridhara, he added.

"We have an oversupply of too many unregistered realtors now developing lands with unbelievably high price and landowners whose expectations are soaring the sky," Khaled said.

Moreover, the tax on the cost of building materials was increased in this fiscal year's budget. It increased the price of each material by 15 to 20 percent, which the realtors had to fight to bring down to some extent.

In some cases, the asking price is a prestigious issue for the company. In Dhanmondi 14/A, a commercial builder has a project on a land owned by the company itself. Even though there was no signing money to give or split the ownership of the building on a 50-50 or 60-40 basis with the landowner, the developer was still bidding quite a high price.

Asked, an official from its sales department said: "There is a limit to how low the asking price can be set, but customers doubt the quality of the building if we ask for a substantially lower price than our competitors."

Since the cheaper compressed natural gas became



PHOTO: RASHED SUMON

an option for fuel from this century, the number of households owning one or more cars has increased, and so has the demand for more than one parking space.

To accommodate the market needs, the realtors are now adding more basements to their current and upcoming projects, which add to the cost.

In areas like Baridhara, Gulshan and Banani, the building is by default planned with two parking spots per flat.

Besides, the fact that six different departments of Rajdhani Unnayan Karttripakkha (Rajuk) need to be bribed before a plan gets approved cannot be ignored. And it becomes 11 when the building is more than 10 storeys.

It is not a choice anymore -- it is a rule, said the executive director of a renowned real estate company upon condition of anonymity.

"It will not make any difference if I alone refuse to pay the bribe. Other companies will pay them and move forward with their project while I wait for them to work on my papers at their own pace. It is a competitive market and we all want our products to sell."

All that the developers can do is increase the flat prices to cover up for this extra expenditure that they are not supposed to have in the first place, he added.

A director from another known real estate company, again on condition of anonymity, said the prices of flats would have come down to two-thirds of what it is now if corruption among the government officials is checked.

"The cost price for even the comparatively high-end projects does not go beyond Tk 8,000 per square feet. It is utterly frustrating and tragic that they need to be sold at a minimum of Tk 16,000 to adjust all the costs."

Only 15 percent of the buyers in the market are in the hunt for high-end apartments. The rest are middle-income and below, whose buying capacity barely ranges from Tk 3,000-5,000 per square feet.

"So they are priced out of the market," he added.

To ensure affordability, the price of land needs to be adjusted, said FR Khan, managing director of bti - building technology & ideas.

"Since lands are owned by individuals or groups, who don't see that the land valuation is not the same as before, it is difficult to make them understand about the market situation because there will still be unprofessional developers who will give unrealistic offers and confuse them."

Later, they fail to deliver on their promises, he added.

A sub-factor of the affordability is home loan.

Banks and non-bank financial institutions are coming forward with home loan plans but that can only help if the interest rate is in single digits.

In a space of six months, the interest on home loans has increased from 8.5 percent to 11 percent, which adds to customers' frustration.

Another issue is the registration cost when purchasing property, which is about 16 percent.

"It is quite high. If the government takes an initiative to reduce this it would help with affordability," said Saif Khondokerdirector of Shanta Holdings.

# Accountability the answer to real estate sectors woes

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"It is not New York or Chicago or Hong Kong or Singapore or London. We all live here because we have to -- it's not a pleasant city to live in that such staggering prices can be commanded," he added.

Alamgir Shamsul Alamin, president of the Real Estate and Housing Association of Bangladesh, echoed the same.

"Because of this, we are failing to cater to the middle-class," he said.

He went on to call for allocation of plots be made to developers than to individuals. The developers would then build apartment complexes and sell to individuals. In that way everyone can be a homeowner.

"I am completely against the allotment of one plot to one person in a land-scarce city like Dhaka by Rajuk [Rajdhani Unnayan Karttripakkha]."

The only way the realtors can provide flats for the middle-class that would not be taxing on their pockets is by developing apartment complexes outside of Dhaka like in Savar, Gazipur.

"But that is not feasible yet given our poor road connectivity and public transport," Alamin said, adding that unless the Dhaka Elevated Expressway becomes operational that idea would remain just that.

A solution until then, as per the first realtor, would be if the government sets an area-wise land price that truly reflects the value the real estate provides in terms of location, security and amenities available.

Extortion by local miscreants is another reason why the developers are unable to provide affordable flats for the middle-class even in areas where the land prices are not exorbitant yet, he said.

"We have to factor all that in."

The backward linkage industry also needs to be watched over, he said.

"In Bangladesh, things only become dearer and rarely cheaper. Say, for instance, there is an announcement in the budget of a 5 percent increase in tax on clinkers. The budget should get passed in the parliament and then a gazette would be issued for the higher tax to take effect."

But here, the price goes up the very next day. "It's not like a supply scarcity would crop up overnight."

However, in case of tax cuts, the vendors wait until the gazette is issued for the price to come down. "There is zero accountability."

Another factor that adds to higher pricing of the flats is the double-digit interest rates.

"It's prohibitively high. I hope the policymakers bring it down to an accommodating level for us."

After all, the real estate sector provides livelihoods to more than 2.5 million people and backward and forward linkage industries have emerged because of this.

"For instance, 10 to 15 years back, cement was mostly imported. But now we have so many local manufacturers that there is no need for imports. And that has happened only because of the real estate sector. You have one Padma bridge, one metro rail project, but after that?"

So, the government could do well by giving more attention to the problems of the real estate sector.

"The government should enforce accountability all along so that no one gets cheated at the end of the day," he added.

Were that in place, Shameem's dream would not have ended on such a desperately sad state.



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