



THE NATIONAL
RESEARCH INSTITUTE
PAPUA NEW GUINEA

SPOTLIGHT

POTENTIAL IMPACTS OF DEVELOPMENT PROJECTS ON HOUSE SALES AND RENT PRICES MUST BE CONSIDERED BEFORE IMPLEMENTATION IN PAPUA NEW GUINEA

Eugene Ezebilo

www.pngnri.org

Volume 10, Issue 9

Key Points

- The impacts of the Papua New Guinea Liquefied Natural Gas project (PNG LNG) on house sales and rent prices were explored.
- The construction phase of the PNG LNG resulted in rapid economic activities in Port Moresby, which “pushed up” house sales and rent prices.
- At the end of the construction phase of the PNG LNG, house sales and rent prices decreased but still remained beyond the reach of most Port Moresby residents.
- It is necessary to consider the economic cycle of PNG in decisions associated with urban development.
- Prior to implementing a development project such as the PNG LNG, socio-economic impact assessments must be conducted.
- To promote access to affordable housing during a development project, more houses must be built accompanied with trunk infrastructure, and activities of real estate agents in the housing market managed properly.

inquire
inform
influence

November 2017



POTENTIAL IMPACTS OF DEVELOPMENT PROJECTS ON HOUSE SALES AND RENT PRICES MUST BE CONSIDERED BEFORE IMPLEMENTATION IN PAPUA NEW GUINEA

By Eugene Ezebilo

This article focuses on one of the findings from a recent paper by Ezebilo et al. (2017) regarding the dynamics of market prices for residential properties in Port Moresby. The paper stated that the construction phase of the PNG LNG project contributed to “pushing-up” residential property prices and rent prices in Port Moresby. However, currently house sales and rent prices have gone down but the decrease is not proportional to the rate of increase during the construction phase of the PNG LNG. The study was conducted from March 2015 to March 2016, using data collected from residential properties that were advertised in *The National* newspaper. This article emphasises the importance of considering the impacts of a development project on access to affordable housing in urban development planning. To reduce the tendency of unnecessary increases in house sales and rent prices, more houses must be built and trunk infrastructure and services provided during the period of high economic activities so that supply of houses could match demand.

It is important to note that other factors such as high costs of construction materials, land price, high labour costs and costs associated with providing trunk infrastructure also contribute to “pushing up” house sales and rent prices. However, these were excluded from the analysis provided in this paper.

Property prices “go up” during boom and “go down” during bust

Residential property prices often follow the trends of the economic cycle of a country which consists of boom and bust phases. During periods of high economic activities and economic growth (boom), property prices go up, whereas during periods of economic decline (bust), the prices go down. An economic boom is associated with the increase in public expenditure (Jaeger and Schuknecht, 2007). This is a result of an increase in the Gross Domestic Product (GDP) rate of a country, an increase in demand for goods and services, an increase in commercial activities, employment opportunities and income. Consequently, there is often an increase in demand for housing and land. If the supply of

houses and land does not match the demand, prices of these properties “go up”. An economic bust is strongly linked to a rapid decrease in economic growth, which corresponds to a decrease in GDP rates, a decrease in commercial activities, a decrease in demand for goods and services, employment activities and income (Gerdesmeter et al., 2009). For this reason, the price of properties will likely “go down” during an economic bust. However, if an economic boom phase is not managed properly, the decrease in property prices during an economic bust might not be proportional to the increase during the boom. Considering that housing is a necessity and could also be considered as an asset (luxury good), there will be a rapid decrease in the demand for houses associated with high sales and rent prices (executive houses) during an economic bust. During an economic bust, tenants would develop a strategy for reducing expenditures associated with housing such as moving to low-income areas or to a smaller house.

Lessons learnt from the PNG LNG project

PNG has gone through several periods of economic boom and bust. The construction phase of the PNG LNG project is an example of a period of economic boom, which increased economic activities in Port Moresby. However, at the end of the construction phase, economic activities in the city declined. Lessons that could be learnt from the PNG LNG project in relation to the residential property sector are:

- Housing supply could not meet the demand for housing. The construction phase of the PNG LNG project resulted in an increase in economic activity and employment opportunities, which attracted people from different areas of PNG and abroad to Port Moresby. However, houses were not built at the rate required by the migrants resulting in the short supply of houses relative to its demand. This contributed to “pushing up” the house sales and rent prices in the city.
- Shortage of land with secure land title. A great percentage of the land in PNG is customarily-owned with no secure land title, which is strongly linked to huge transaction costs and insecurity of tenure. As such, investors

competed in acquiring the remaining state-owned land that was available. This contributed to “pushing up” prices for land which contributed to an increase in residential property prices.

- More houses were built in historical medium-income and high-income areas. There was an upsurge of house construction activities in areas already linked to high residential property prices. This could be due to the availability of trunk infrastructure and services in that area as well as lesser security concerns compared to low-income areas. Consequently, real estate managers had more economic incentives to provide more houses in medium-to-high-income areas than low-income areas. As house rent prices increased in the medium and high-income areas, people who could not afford the rent might have moved to low-income areas, which resulted in an increase in demand for houses for rent in those areas. This might be a possible reason for the increase in house prices in low-income areas during the construction phase of the PNG LNG project.
- The state was not adequately prepared to manage the impacts of the PNG LNG project. Prior to implementing a developmental project, it is necessary to conduct socio-economic and environmental impact assessments, including the impacts of the proposed project on access to affordable housing.
- House sales and rent prices decreased after the construction phase of the PNG LNG project. Although house sales and rent prices have decreased, they are still beyond the reach of most Port Moresby residents because the decrease is not proportional to the increase during the construction phase of the PNG LNG project. Currently, many houses are vacant in the historical medium-income areas and the Central Business District (CBD). Most residents cannot afford to buy or rent houses there and have moved to low-income areas such as Gerehu, which is now booming in real estate activities.

Necessary policy interventions

The findings reveal that PNG is not prepared to adequately handle the effects of development projects such as the construction phase of the PNG LNG project. Several policy interventions must be put in place to help mitigate the impacts of a development project on access to affordable housing for households. These include the following:

- Conduct a thorough socio-economic impact assessment before implementing a development project. This provides more understanding regarding the impacts of

a proposed development project on access to affordable housing, employment opportunities, as well as traditions and customs of the local people. It also provides estimates of businesses or commercial activities the project could influence and infrastructure and services required.

- Supply more houses accompanied with trunk infrastructure. Development projects such as the PNG LNG often cause an influx of people to the project area, which require houses to accommodate them. To stabilise house prices, it is necessary to construct more houses, preferably five years before the commencement of the development project. The construction of houses should be accompanied with the establishment of trunk infrastructure and services.
- Invest in human capital by training more people in vocational professions. There is a shortage of skilled personnel in professions such as carpentry, welding, painting and bricklaying in PNG. The country depends on personnel recruited from abroad, which is expensive and contributes to the high cost of constructing houses. It is necessary to establish more vocational schools and provide scholarships for students as a way of encouraging them to acquire these skills.
- More effort by the state towards unlocking secure customary land for development. Access to customary land has been a long-standing issue in PNG and requires urgent attention. With state land almost exhausted, the attention has now shifted to customary land. A potential strategy that could be applied to access secure customary land could be to invoke Section 10 of the PNG Land Act 1996 as advocated by Dr Charles Yala, the former Director of the PNG National Research Institute in a series of land and housing stakeholder meetings. This involves landowners leasing their land to the state through urban development lease (UDL), which will be processed by the Department of Lands and Physical Planning (DLPP) and without advertising the UDL, the landowners are issued customary land titles. This is a “win-win” situation for the landowner, investor and the state in the development of customary land.
- Activities of real estate agents in the residential property market must be managed or supervised by state agencies. Findings by Ezebilo et al. (2017) revealed that, there is a lot of information asymmetry in relation to the properties advertised by real estate agents. To protect the interests of house consumers, there is a need for government agencies such as the Independent Consumer and Competition Commission to develop guidelines

that real estate agents must follow when advertising residential properties. In doing so, real estate agents will provide vital information such as floor space, size of the house, age and maintenance history of the house.

- Increase capacity of trunk infrastructure in some areas. As more people make Port Moresby their home, the demand on trunk infrastructure such as electricity, clean piped-borne water and sewerage increases. As such, as more houses are built, it is important to consider the expansion of trunk infrastructure.

Concluding remarks

Development projects often have impacts on access to house sales and rent prices. It is necessary to consider these impacts during the planning and design phase of any development project. The construction phase of the PNG LNG project increased economic activity and economic growth in PNG. However, it also triggered a tremendous increase in house sales and rent prices. During the construction phase of the project, more houses were built in the CBD and historical medium-income areas. When the construction phase of PNG LNG project ended, the house sales and rent prices decreased but not at the rate of the increase during the phase. As such, some houses have remained vacant because most Port Moresby residents could not afford to rent or buy these houses. If the intention is to promote access to affordable house sales and rent prices during and after the construction phase of the PNG LNG project, there is a need to conduct a thorough socio-economic impact assessment before implementing the construction phase. More houses and trunk infrastructure must be built especially in low-income areas. More effort must be engendered towards unlocking customary land for development projects, activities of real estate agents in the property market must be monitored and the capacity of existing trunk infrastructure in some segments of Port Moresby increased. Hopefully, this paper will provide urban development managers, planners and policy-makers more understanding on the need to consider the impacts of development projects before their implementation.

References

- Ezebilo, E., Nao, L., Hamago, L., and Thomas, M. (2017). Dynamics of market prices for residential properties in Papua New Guinea: Evidence from Port Moresby (PNG NRI Discussion Paper No. 158). Port Moresby: PNG National Research Institute.
- Gerdesmeter, D., Reimers, H.E., Roffia, B. (2009). Asset price misalignments and the role of money and credit (European Central Bank Working Paper No. 1068). Frankfurt, Germany: European Central Bank,
- Jaeger, A., and Schuknecht, L. (2007). Boom-bust phases in asset prices and fiscal behaviour. *Emerging Markets Finance and Trade* 43(6): 45–66.

Acknowledgements

The author would like to thank the Australian Department of Foreign Affairs and Trade (DFAT), for the financial support.

About the Author

Professor Eugene Ezebilo is Associate Professor of Economics, specialising in Environmental and Resource Economics. He is the Program Leader of the Property Development Program at the PNG National Research Institute.