Real Estate Sector and Bangladesh Economy

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ABSTRACT

The real estate sector in Bangladesh has experienced substantial growth in recent years, driven by factors such as rapid urbanization, population expansion, and increased foreign direct investment. This growth has led to both positive and negative impacts, including increased economic opportunities and concerns related to affordability and sustainability. The real estate sector in Bangladesh stands at a critical juncture, with significant potential for continued development. However, addressing the challenges and ensuring responsible growth are paramount to harnessing the sector's potential for the benefit of the economy and society.

Introduction

The real estate sector is the growth center for the development of an economy. Bangladesh, being one of the densely populated nations in the world has been experiencing severe inadequacy of housing shortage for its citizens. The share of urban population in Asia is 37% at present and is projected to be 45% by 2031. In Bangladesh, 25% of the population now lives in urban areas. This portion will be 34% by the year 2020. Bangladesh is the eighth largest populous country with respect to the share of world increase in population in urban areas (3%) between 2000-30. With the continued growth of population, land for human settlement will shrink in tandem. The area occupied by human settlements and supportive infrastructure in Bangladesh is quite high at 30 percent.

Real Estate Sector at A Glance

Real Estate Sector is one of the most attractive sectors to invest now in Bangladesh. Rapid urbanization has become an acute problem for the country. The rate of urbanization is estimated to be 5-6% annually for Bangladesh (REHAB, 2015). About 25% of Bangladeshis are now living in urban areas and 34% will be living by 2015 (REHAB, 2015) & 50% by 2025 (Singha D., 2001). There is acute shortage of housing supply in all urban areas and it’s increasing with current demand of 600,000 to 800,000 units all over the country, and particularly in Dhaka this demand is estimated at 60,000 units of real estate apartments combined with 200,000 units of replacement plus backlogs (REHAB, 2015). Dhaka is currently growing very fast compared to other countries.

Thus, there exists a high unfulfilled demand for plot & flat. This huge demand is highly attractive for the real estate producers. The Real Estate & Housing Association of Bangladesh (REHAB), which is the sole organization of the real estate agents, developers & builders, has more than 450 members registered in 2009 and around 350 nonregistered real estate developers are making business in this sector. According to REHAB they are currently supplying only around 8,000 to 10,000 units of housing apartments against the above-mentioned huge demand.

The approximate turnover in the real estate sector has been Tk. 20 billion, which contributes revenue of around Tk. 2 billion a year to the government. The real estate developers & builders have already supplied approximately 60,000 units to this sector market in the past 20 years. The sector now employs about 2 million people, which constitute architects, engineers, management officials, direct, & indirect labor. The average contribution to GDP of this sector in the last five years is 12-14%. In 2007-08 the growth rate of this sector fell to 5.93% down from 7.01% of 2006-07 (Amin S., 2008) that drastically dropped from previous years.

Although majority of the population are segmented in to the middle- and low-income groups, still the housing for all has been a fallacy in Bangladesh. The private sector housing real estate developers have contributed a small proportion in the national housing demand and supply gap for the last more than twenty years. Despite inadequate policy preparations, these real estate developers have been successfully doing business although the middle- and low-income households are still untapped. With the larger proportion of people living in this income group, the private housing real estate sector has a huge scope to grow in this country.

Existing Housing Situation of Dhaka

At present the housing condition of urban area in Bangladesh, in general, is quite unimpressive. In all metropolitan cities, there is an acute shortage of housing supply, and the backlog is continually on the increase. Inadequate supply of dwelling units for middle- and low-income people and high rental
value are among the most severe challenges afflicting urban living in Dhaka. At present in our country the annually required shelter varies from 3 lakh to 5.5 lakh units. Bangladesh will need to construct approximately 4 million new houses annually to meet the future demand of the next 20 years. Now Dhaka needs 50,000 new houses annually to accommodate its growing population. But the existing annual supply is only 20,000 units. So, there is a huge backlog, and it is increasing every year. (Mohiuddin, 2014).

Why the Real Estate Sector?

In Bangladesh, the rate of urbanization is very high further aggravated by high population growth rate and rapid rural-urban migration. The current trend of urban growth in this country is about 5%-6% per annum. This will change and increase demand for habitat. At present 28% of the population of Bangladesh live in urban areas, which will be 34% in 2025. The present estimated population of Dhaka is 10 million and estimated growth rate is 4.7% per annum. (Islam & Arefin, 2009). All these people need shelter. To satisfy the housing of this huge explosive population Dhaka has attempted to expand vertically. Here comes the need of the real estate sector. They have been playing a very important role in providing housing regardless of high, middle, and low-income people for the past two decades.

Real Estate Development

In our country real estate business started in Dhaka in the late seventies. The Eastern Housing of Islam Group is the pioneer in this business. During 1970s there were fewer than 5 companies in Bangladesh engaged in this business. In 1988 there were 42 such developers working in Dhaka and now in 2011 there are about 450 companies engaged in this business. From the early 1980s the business started to flourish and in the 1990s it reached its peak. Towards the end of the year 2000 there was a slight downfall in the real estate sector. In 2003 this sector started showing growth again. To strengthen the role of the real estate sector some pioneer real estate companies together built up an association named REHAB in 1991. At present it has about 140 members.

The fact that many cement manufacturing industries have now been set up in Bangladesh reflects the impetus the RES has given to our economy. In the last decade many steel mills would have shut down had it not been due to the support of the RES. Several new mechanized construction material manufacturing industries have recently come up due to the existence of this sector. Today about 500 architects and consulting engineers are directly supported by this sector; over 900 graduate engineers are holding management positions in this sector and almost 4,500 diploma engineers are engaged in this sector.

Relationship Between Real Estate Sector And The Real Economy In Bangladesh

From 1998-01, over the last 10 years, Bangladesh real estate sector grew at an average of 3.64% reaching the peak at 3.83% in 1999-00. Though it had a fall in 2000-01, there was recovery in 2001-02. For the last 5 years this sector grew impressively and showed a smooth rising trend. The comparative scenario of GDP shows a steady 6% growth for Bangladesh. According to the real estate experts, as GDP of Bangladesh is still below that of other South Asian Countries, Bangladesh has more to grow which can be fostered by the continuous increase in the share and growth of real estate sector in the country. This contribution of real estate and construction in GDP of Bangladesh was 16.20% in 1994-95, which became at 16.69% in 2020-21 and attained 17.22% in 2021-22. This share slowed down to around 8% in FY 2021 which is due to the high price barrier for larger portion of population to buy real estate apartments, and also almost saturation of the already existing high end population market. The housing real estate business’s untapped potential is quite evident from the real estate apartment penetration in neighboring countries compared to Bangladesh.

Financing the Real Estate Sector

Financial intermediation in the housing sector is not found adequate because of high interest rates and limited sources of funds. This is true both for the financing of the developers and the purchasers. The state-owned House Building Finance Corporation (HBFC) is burdened with bad loans, and loan disbursement has tended to be low in recent years. Delta-BRAC Housing came into this market as a private-NGO collaboration, but their interest rates are as high as 16 per cent which is higher than even that of the HBFC by one per cent. The major financing organizations for housing are the HBFC and the Commercial Banks while financing by other organizations like Delta-BRAC, National Housing and Micro credit lenders are insignificant.

Status of Real Estate Financing in Bangladesh

Besides the state-owned BHBFC, other sources of housing finance currently available in Bangladesh are commercial banks, employee loans, life insurance policies, and informal means. In the rural sector, the housing co-operatives are the major providers of housing finance. The 1993 ADB survey of homeowners of newly constructed houses showed that the most important source of housing finance was household savings (more than one third). Loans from relatives and friends were the second most common form of finance, followed by the sale of other parcels of land. Employer and bank loans (including Grameen Bank loans) were utilized by 13 per cent of new homeowners and BHBFC loans were only acquired by 5 per cent, all in the higher income brackets (Hoek-Smit, 1998). Moreover, several public agencies, such as the Housing and Settlement Directorate, Public Works Department (PWD), Local Government Engineering Department (LGED) and different City Corporations are involved in the financing and development of housing...
and residential infrastructure projects. After the Liberation, the then government inaugurated a program to rehabilitate the poor and the homeless in a number of Gusso Gram (cluster villages). Later, various governments have chalked out different programs to support the rural landless and homeless people, such as Sheikh Hasina’s government has initiated programs like Asrayon (shelter), Gharey Phera (return home) and Ekti Bari Ekti Khumar (one homestead one farm). Gritiyan Tahbil (housing fund) Project, a housing fund administered by the Prime Minister’s Office, provides low-cost funds to NGOs and private sector developers for the construction of houses for low-to-moderate income group people. Up to June 2006, BDT 83.74 crore was disbursed, and 36,500 houses were constructed out of the allocated amount of BDT 153.56 crore under house building loan among the rural poor. The rate of recovery against disbursed loans is 88 per cent. (Barua, Mridha, & Khan, 2010). Apart from these, the government has a program to lease land to private agencies for building houses for lower- and middle-income groups with cross-subsidy from the higher income groups. In this case, the government will be playing the role of an ‘enabler’ or a ‘facilitator’.

Foreign Direct Investments and Real Estate Development

Foreign Direct Investment (FDI) has both positive and negative impacts on the real estate sector of Bangladesh, depending on various factors and how it is regulated and managed. FDI can bring in significant capital inflow into the real estate sector, allowing for the development of new projects and the expansion of existing ones. This can help address the housing shortage in urban areas. FDI can lead to the creation of jobs in construction, property management, and related industries, contributing to employment generation in the country. FDI often brings with it advanced construction technologies and management practices, which can improve the efficiency and quality of real estate development in Bangladesh. A thriving real estate sector can contribute to overall economic growth by increasing property values and attracting further investment. FDI in real estate can be linked to infrastructure development, such as road networks, utilities, and transportation systems, which can benefit the broader community. International investors can introduce new property types, such as luxury apartments, commercial spaces, and integrated townships, diversifying the real estate market. (Faruq, 2023).

To maximize the positive impacts of FDI on the real estate sector in Bangladesh and minimize potential negative consequences, it’s essential for the government to implement effective regulations, promote transparency, and prioritize the interests of local communities and affordable housing initiatives. Additionally, a balanced approach that encourages foreign investment while safeguarding the interests of the domestic population is crucial for sustainable development in the real estate sector.

Conclusion

Real estate developers opened a new horizon for small families and the people of moderate income. Owning a house in Dhaka city is not a dream anymore. Easy installments and lower prices compared to building a house made it easier to fulfill lots of people’s lifelong dream. There are many people who own a piece of land in the city but cannot afford the expenses necessary to build their own home. RES eliminated these inconveniences.

Recently many developers are showing interest in expanding their activities in other major cities in Bangladesh. Then people of those cities will also be able to enjoy the facilities of luxurious apartments at reasonable cost.

References