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RESEARCH REPORT

**NATURE OF HOUSE RENT MARKET  
IN HIGH CLASS RESIDENTIAL  
AREAS : A CASE STUDY OF  
GULSHAN-BANANI AREA.**

BY

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DEPARTMENT OF URBAN AND REGIONAL PLANNING  
BANGLADESH UNIVERSITY OF ENGINEERING AND  
TECHNOLOGY DHAKA , BANGLADESH.

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A Project Report

Submitted in partial fulfillment of the requirements for the  
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by

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## ABSTRACT

Dhaka is the primate city of Bangladesh. Like all other fast growing Asian cities, Dhaka has its housing problems. House rent is playing an important role on housing problems. Since the rate of increase of new houses lags far behind the rate of increase of population, the resulting pressure upon the existing stock leads to high house rents. This is the scenario of low and middle income area and this facts have been revealed from some past research study carried out on this field. But there is no in-depth idea about the nature of house rent market in high class residential area like Gulshan, Banani and hence there is no idea about the impact of house rent on housing situation in these areas in particular and Dhaka city in general. The present study is intended to analyze some aspects of existing rent structure of model towns which may contribute to the new policies towards the solution of housing problems. //

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## CHAPTER - 1. INTRODUCTION AND OBJECTIVES



### 1.1. INTRODUCTION:

Rent, in law, is a periodical payment due from a tenant for the use of land, buildings, or other property. It is usually payable in money but is sometimes paid in kind. If payable to the land lord, as under a lease, it is called rent services, if to any other person, it is called a rent charge.

According to the British economist Alfred Marshall, rent is the income derived from the ownership of land and other free gifts of nature. Apart from renting lands, it is of course possible to rent houses, automobiles, television sets, and lawn mowers on the understanding that the rented item is to be returned to its owner in essentially the same physical condition. Thus house rent is implied to be a rent received from a tenant on leasing out a house or dwelling units.

There can be little argument about the enormous need for housing along with food and clothing, it is recognized as a basic human necessity. Housing basically is a product - a highly complex product, a bulky, durable and permanent product. It encompasses a complexity of pipes, ducts, wiring and plumbing. There are single family houses, duplexes, apartments, row houses, pucca, semi-pucca and kutchra houses. Housing is not only sold but rented. Home ownership reflects the achievement of both

economic and social goals. The economic ones emphasize a house as a good investment, as an incentive to save; as a way of improving credit standing in the community, and as freedom from landlords. The social reasons which encourage home ownership include family pride in owning, family security, a belief in the virtue of private property ownership, and a sense of better citizenship.

However, all families can not be home owners. A majority of city dwellers have to live in rented houses. Every tenant family have to spare a large share of their income to house rents. In a free market economy, the levels of rents of dwelling units are determined by the factors of supply and demand. If the quantity supplied at a given price exceeds the quantity in demand at that price (rent), the price will tend to fall; if the initial price encourages a supply of commodity (housing) which falls short of the demand at that price, the price tends to rise. The later condition is true for many third world countries, including Bangladesh. The public sector in most developing countries is ill-equipped to respond to this enormous urban challenge. The public sector frequently operates on obsolete legislative bases, reminders of the colonial periods when emphasis was given on control of habitat for the benefit of the colonial elite, rather than on stimulating development opportunities for the general population. In our country, the idea of model towns like Gulshan-Banani has also come out from the pocket of bureaucrats

who belong to the colonial elites. Time has come to evaluate these schemes of high class residential areas. Rent is a deciding factor to evaluate a housing scheme. How much viable for a poor nation to invest money on luxurious houses, this needs to investigate the house rent market in the high class residential areas like Gulshan and Banani.

#### 1.2. STATEMENT OF THE PROBLEM:

An important aspect of economic growth and modernization during the past few decades, especially in developing countries, has been the rapid urbanization. The urban centres, where business enterprises, government institutions, service centres, and national as well as international organization are located, expanded their boundaries and accommodated ever-growing sizes of populations. This expansion was mainly restricted to large and capital cities, whereas small towns and intermediate size cities remained of little attraction. The resulting unbalanced growth and urbanization created several regional and rural urban disparities. Population increase, unemployment and poverty pushed peasants and landless labourers from the rural areas into the cities in search of employment in non-farming sectors. Concomitantly, the rapid expansion of the geographical boundaries of the cities themselves and the lack of proper plan to meet the requirements of the fast growing population created numerous problems within the cities.

Bangladesh has been no exception as proven by the demographic process and the changes that have resulted in the process of modernization and rapid growth of the Dhaka Metropolitan Area.

During the last census period, the percentage increase of population of Dhaka city was very high. This rapid increase of urban population not only created new problems but also aggravated already existing acute urban problems like housing, transportation, literacy, unemployment etc. Of these the present study focuses upon one aspect of the problems of housing. Rent plays an important role on housing problems. Since the rate of increase of new houses lags far behind the rate of increase of population, the resulting pressure upon the existing stock leads to high house rents. This is the scenario of low and middle income area and this facts have been revealed from some past research study carried out on this field. But we do not have any idea about the nature of house rent market in high-income area like Banani, Gulshan, and also we have no idea about the impact of house rent market on housing situation in these areas in particular, and Dhaka city in general.

### 1.3. RATIONALE:

To improve the housing situation, some policies on house rents have been introduced by the Government but these were found

in-effective. There is an urgent need to formulate new policies towards the solution of housing problems. Such policies, however, need to be based upon an understanding of how the rental market actually functions. A comprehensive picture would be beyond the scope of this study. However, as an initial investigation, the present study is intended to analyse some aspects of existing rent structure of model towns and it is hoped that this report will provide useful information regarding the nature of house rent in high class residential areas of one of the rapidly growing cities of Asia, and form a basis for further research in this fields.

#### 1.4. OBJECTIVES OF THE STUDY:

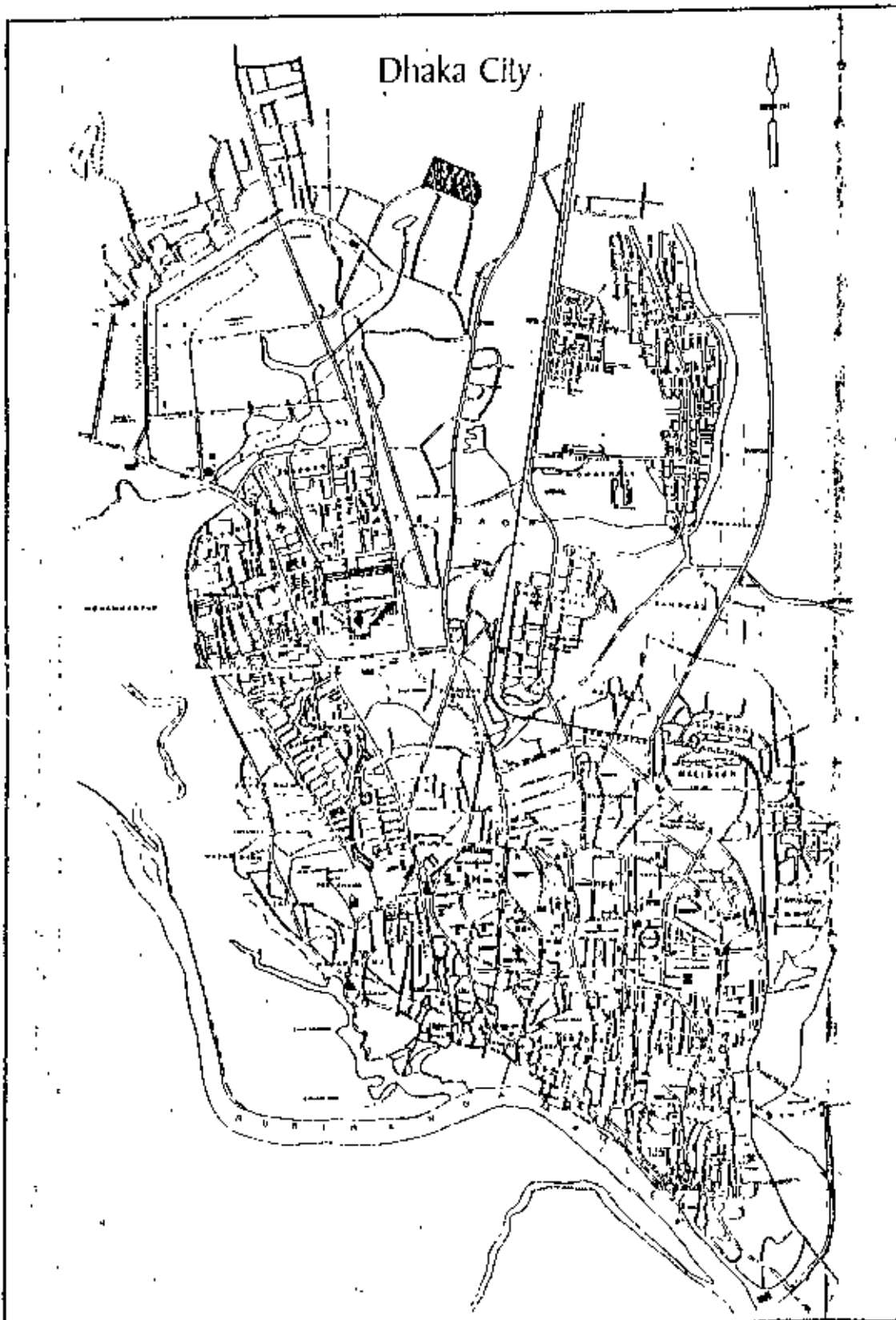
In brief the objectives of the study are summarized as follows:

- Collection of data and analysis of existing rent market prevailing in the study area.
- Identification of the level of house rents and the quantum of increase during the last five years.
- Analysis of local Real Estate market trends for leased space on sq. metre basis and forecast for future rent.

- Recommendations on rental housing markets so that they can provide guidelines to formulate effective policies to solving housing problems.

#### 1.5. SCOPE OF THE STUDY:

This study will focus solely on the initial information on the house rent market in high class residential areas and its impact on housing situation.



Map of Dhaka City (Location of study area)



## CHAPTER 2 : LITERATURE REVIEW

### 2.1. THE BACKGROUND OF HOUSING PROBLEMS:

The housing situation in developing countries is characterized by serious problems which vary from one country to another according to the economic, social and political system. Nevertheless, housing shortage, poor housing conditions and housing price higher than what people can afford are seen to be universal. The rapid population growth in our metropolitan areas over the past decade has been accompanied by construction of new housing both by the public and private sectors at a rate never encountered before. Continual population growth in metropolitan areas will certainly require a continued high rate of construction in future.

It has been observed that as the Dhaka Metropolitan Area grows, other problems of the city also emerge and the general living environment further deteriorates. The unbalanced development of the country between urban and rural areas, during the past decade perhaps was the main cause of explosive growth of Dhaka. Dhaka, as the focal point of economic and social functions, government and business administration and many other urban function, has become a major attraction for migrants from all over the country. As a result the urban population in Bangladesh grew at a very high rate of 6% per annum. The

urbanization in Bangladesh was relatively slow until 1961. While the urban population was 2.43% of the total at the turn of the century, it reached a level of 5.19 percent in 1961. Since then the pace has gained momentum to reach 8.41% in 1974, 12% in 1981, and now in 1991, some 15% of the total population of the country live in urban areas.

One characteristic of urbanization in Bangladesh is that the larger towns have been receiving a dis-proportionately larger share of the national population. According to the 1981 census results, 54% of the total urban population crowded into 6 cities with the population of hundred thousand or more. Of these the three largest cities of Dhaka, Chittagong and Khulna accounted to 46.54% and Dhaka alone contained over 25% of the total urban population. Dhaka is the largest, and among the fastest growing urban centres in the country.

Since the rate of increase of new houses lags far behind the rate of increase of population, the backlog of housing has been piling up resulting a continuous increase of house rents.

## 2.2. THE ECONOMIC CONDITION OF THE URBAN DWELLERS:

To be acquainted with the local commercial landlord and tenant market, it is necessary to understand the economic condition and affordability of urban dwellers. The effective

demand for particular sizes of housing unit is largely determined by aggregate household income, tastes and spending habits. Of these, income is the most important factor. In general the higher is the level of income the greater is the demand for larger and more luxurious houses. The per capita income of people in Bangladesh is not only one of the lowest in the world, also the income distribution is highly unequal. According to income grouping made by Bangladesh Bureau of Statistics in 1989 referring to the statistics of 1986-87 as shown in the Table - 2.1, the 52% of urban households had a monthly income of below Tk.3000.00 and 7% households were affluent having a monthly income of Tk.8000.00 and above. The distribution of households and average household expenditure per capita per month in urban areas in 1986-87 have also been shown in the same table. It can be easily derived from the table that 40% of the urban households had a monthly per capita expenditure less than Tk.400.00, and 85% of the households had a monthly per capita expenditure of less than Tk.755.00. Only 15% of the households had monthly per capita expenditure exceeding Tk.750.00 and the top 7% of households had expenditure above Tk.1000.00 per capita per month.

TABLE : 2.1

## HOUSEHOLD EXPENDITURE OF ALL URBAN AREAS OF BANGLADESH(1986-87)

Household income per month Taka	Expenditure per household per month Taka	Average household size	Av. percap. household expenditure Taka	Percentage of household	Cumulative percentage of household
<500	360.40	1.80	350.22	0.29	0.29
500-749	616.75	3.13	179.04	0.46	0.75
749-999	878.12	3.29	266.90	1.97	2.75
1000-1249	1101.20	3.84	286.77	4.57	7.26
1250-1499	1340.68	4.06	330.22	6.48	13.77
1500-1999	1711.47	5.08	336.90	12.91	26.91
2000-2499	2174.04	5.48	396.72	14.12	40.80
2500-2999	2639.40	6.02	438.44	11.28	52.08
3000-3999	3249.59	6.54	496.88	13.72	65.80
4000-4999	4220.08	7.16	589.39	12.91	78.71
5000-5999	5046.25	6.68	755.42	6.60	85.31
6000-6999	5961.30	7.30	816.62	4.86	90.17
7000-7999	6560.84	7.45	880.65	2.55	92.72
8000-above	10635.44	8.99	1189.03	7.29	100.01

Source : Statistical Year Book, 1989, B.D.S.

It was revealed from some past studies (Nur Nabi, 1981) that 85% of the household in Dhaka lived below the poverty level and 50% lived below the extreme poverty level who could not afford even the minimum standard housing in the market. Only the top 15% competed for standard housing in the market and of them less than 3% of the households were relatively affluent who could enjoy big and luxurious houses in the city. The house owners and land lords of Gulshan, Banani belong to this lucky three percents. They are politicians, businessmen, high officials (civil and military), doctors, engineers, lawyers, bankers, filmstars and social elites. Most of them have more than one house in the city. Those who are renting out their house either live in the less expensive area or stay abroad, Other than this most of these houses are built by the money borrowed from banks or House Building Finance Corporation. Therefore to repay the borrowed money the land lords prefer to lease out their houses instead of staying by themselves.

The tenants are mostly high-income people belonging to the groups of businessmen, politicians, contractors, foreigners. Besides this, business offices, foreign office, embassies, donor agencies, United Nations Organization offices are located in these areas. So, it can be concluded that both the land lords and tenants belong to the affluent group in the society,

### 2.3. HOUSING STUDIES IN BANGLADESH:

A review of housing literature in Bangladesh reveals that a large numbers of housing studies have been carried out using a wide variety of approaches and focusing on a number of issues. However, only those which are more or less relevant to this study are included in the review.

#### 2.3.1. HOUSE RENT STRUCTURES:

Mr. Nur-Nabi in his thesis entitled "STUDY OF URBAN RESIDENTIAL HOUSE RENT AND GOVERNMENT RENT POLICY: A TEST CASE OF DACCA CITY", has depicted house rent as a differential rent. The level of house rent is determined by various factors. These factors are enumerated and discussed below:

- (a) House types
- (b) Locations
- (c) Size of house
- (d) Utility services
- (e) Environmental characteristics of the area

#### (a) HOUSE TYPES:

House type is one of the important factors influencing the level of rent of a housing unit. But it is not easier to correlate between these two. There should be a simple relation

that the pucca houses are costlier than semi-pucca and kutcha, or that semi-pucca units are costlier than kutcha ones. This phenomena does not operate in all areas. Practically reverse picture was found in some areas where kutcha houses were costlier in rent than pucca or semi-pucca houses due to the house demand by low income people(Nur Nabi,1981). These findings suggest that there is no single monolithic rental market prevailing in Dhaka city depending on house types. There are other factors that should be co-related.

(b) LOCATION:

Location plays an important role to influence the level of rents in an urban area. In the absence of any other variables a household would be expecting to choose a location on the basis of personal profit maximization. This of course has different meanings for different individuals depending upon the occupation of household members, price of residential space and other factors. The general idea is that the level of house rent decreases as the distance from the C.B.D. increases. This generalization governs within a limited distance of 3 to 4 km only. With the expansion of Metropolitan areas there have been many satellite townships each with a C.B.D. of its own. So, the distance calculation from a single C.B.D. is not enough for conclusion. Other than this it was observed from the experience of some industrial areas that house rent does not always strictly correspond to distance from the central areas of the city.

(c) SIZE OF HOUSE:

It has already been mentioned earlier that the effective demand for particular size of housing units is largely determined by aggregate household income, tastes and spending habits. Of these, income influences greatly on house rent. Generally, the higher is the level of income the greater is the demand for larger and more luxurious houses, while with lower level of income the demand will be greater for smaller and cheaper houses. For same type of structures located in a particular area and similar in their environmental condition and service facilities, the rent levels of smaller unit was found to be higher on a per square feet basis, than those of larger structures, which do not have the same intensity of effective demand(Nur Nabi, 1981). The house builders, fully knowing the situation, still have been constructing bigger space houses. The reason behind it may be the larger house has less problems; fewer tenants involve less management. Moreover, the collection of rents from many tenants is difficult while it is easier from the fewer.

(d) UTILITY SERVICES:

This factor also contributes a great extent to rent levels of residential houses. The utility service facilities include infrastructure, water supply, electricity, gas, and sewerage etc. Better and improved utility services affect favourably while inadequate utility services affect adversely on rent levels of dwelling units.



(e) ENVIRONMENTAL CHARACTERISTICS OF THE AREA:

The physical surroundings of a dwelling unit and the environmental condition of the area have influence of rent levels. The environmental condition may not influence on the rent level of the dwellings of the low income people (i.e. for semi-pucca and kutcha structure) but it directly affects the residences where high income people prefers to live. For this reason larger space house built in Dhanmondi, Gulshan and Banani commands higher rents than those built elsewhere in the city.

There are many other factors which influence upon the level of rents of the houses. But those factors have not been studied in any previous researches.

## CHAPTER 3 : RESEARCH METHODOLOGY

### 3.1. METHODOLOGY:

For this project work, some primary observations and surveys were carried out to get into the study process. Other than this informations were also gathered from the secondary sources.

#### 3.1.1. PRIMARY SOURCE:

A sample survey was carried on one hundred twenty-one household units as random sample basis:

Observations were made in the study area and surrounding to get

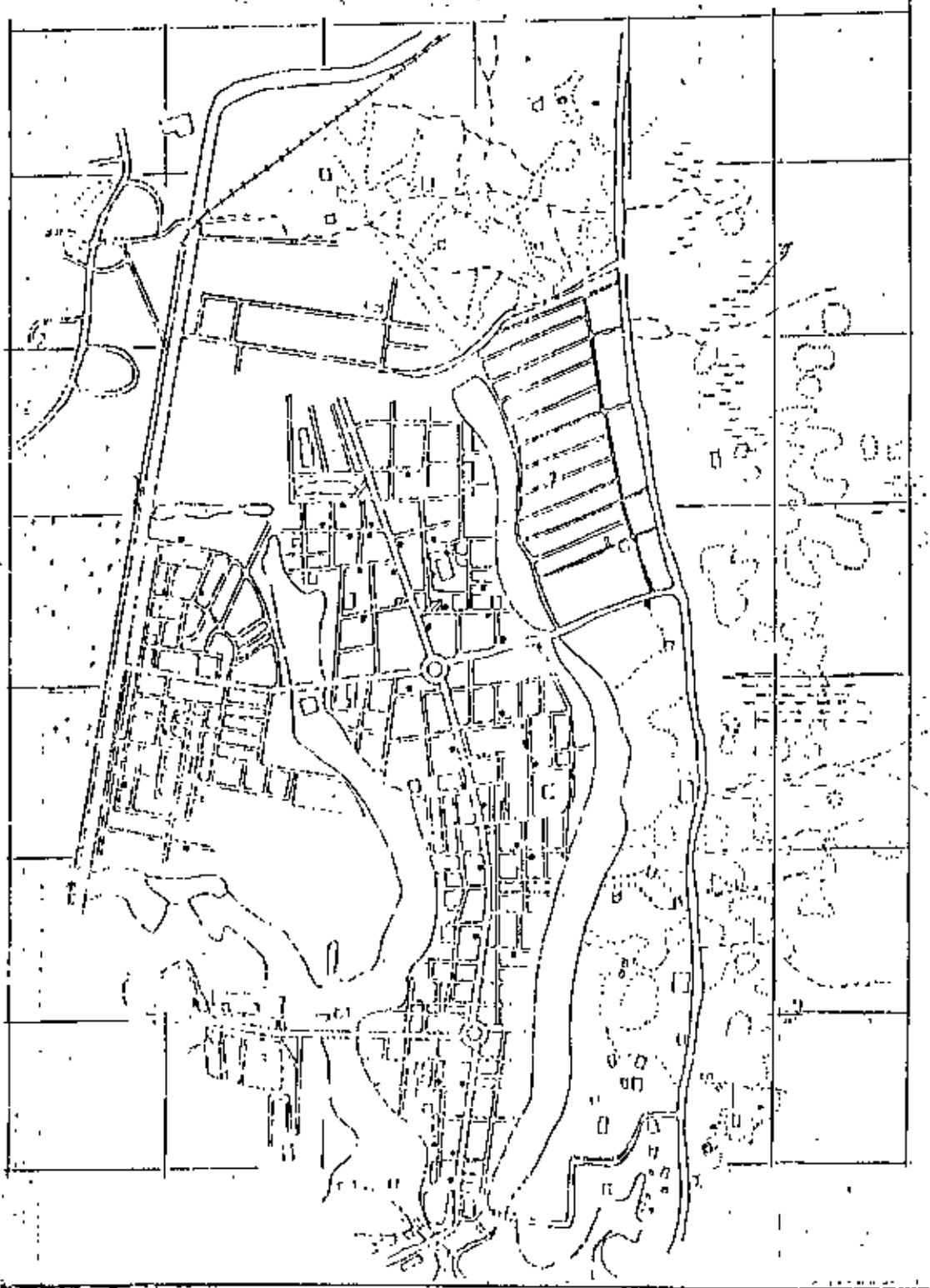
- Physical condition of the house
- Character and pattern of structures
- Dominating activity in the house.

Interviews were carried out with the concerned tenants and landlords to collect information.

#### 3.1.2. SECONDARY SOURCE:

Review and analysis of existing data were made to get information related to the project commissioned by various Government department or private source.

- Standard statistical methods were applied for analysing available data.



Map of Gulshan Banani Area (The study area)

## CHAPTER 4: DESCRIPTION OF THE HOUSES AND THEIR DWELLERS:

### 4.1. SAMPLE CHARACTERISTICS:

The sample was chosen on random sample basis. There was no need of cluster sample or pre-selected sample since areas under study were more or less similar in socio-economic and residential characteristics. The houses under study were residences, offices, business centres etc.

### 4.2. SOCIO-ECONOMIC, DEMOGRAPHIC AND RESIDENTIAL CHARACTERISTICS:

The residents who afford to live in these areas have a variety of socio-economic background. The dwellers constitute a large number of foreigners. They are either attached to foreign mission or business mission. Moreover, a large number of foreigners from different countries with different cast and creed reside here. So it has become a mini international enclave. People are usually indifferent in nature. They do not bother others job. People with different age and sex enjoy freedom of speech and culture. The widespread freedom has cast some shadows under the bright sun of modernization.

The foreigners from different countries are habituated to be confined with their own environment. So, they have organized their own clubs referring to their own identity such as American

Marine Club, Russian Club, Dutch Club, Australian Club, Swedish Club etc. Some club prohibits entrance for the outsider. None can enter there except members. Some clubs allow guests. Some clubs are open to all once a week. These clubs provide a wide range of facilities including swimming pool, tennis ground and squash court, cafeteria, bars etc. Other than this, these clubs render some essential services with information regarding shopping centre and other daily necessities.

Besides the foreign clubs, some Chinese, Korean, Japanese and French restaurants are in operation to fulfill the needs of the native as well as the foreigners. Recreation societies have come forward to aid with different types of video cassettes on rents. Some centres have been shut off on charge of corruption and illegal activities. The environment and situation have been changing the life style of Gulshan-Banani dwellers day by day. The businessman migrated from old Dhaka to Gulshan has lost his past heritage. He has turned his happy home to so-called 'club'. Geographically Gulshan-Banani is within Dhaka city but it stands as 'an other island' with the introduction of different culture and society\*.

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\*The idea has been reciprocated in the cover story of "The Weekly Bichitra" Year 13, Issue 47, on May 3, 1985.

#### 4.3. HOME OWNERSHIP, AND RENTERS' ECONOMIC CHARACTERISTICS:

The dwellers of Gulshan, Banani can be classified into two broad groups viz.(1) those who live in own houses and (2) those who live in rented houses. Now-a-days tenant dwellers exceeds the number of owner occupiers. Gulshan-Banani was a dream of the seventys'. It was planned for the social elites, to be implemented by national budget. The lands were sold to them with a token money of Tk. Sixteen thousand per bigha. But it was resold to the local rich people by the Government. and the then West Pakistani people at a cost of ten to hundred times more than the buying price. The majority of the tenants are foreign mission and foreigners. Most of the foreign Embassies in Bangladesh are located in Gulshan-Banani area. So, the biggest and most expensive houses are occupied by them. Other than the Embassies, the rest hig and costly houses are leased to the Embassies for their residences. Besides Embassies, the United Nations' Missions are the next valued customers. Though most United Nations Organization(UNO) offices are located in Dhanmondi, yet the officials of those offices live in these areas.

The native tenants account to be a minority in these areas. Most of the Bangladeshi tenants belong to the business men. Among others, they deal in Shipping, Export-Import, Indenting and Man Power Business. There are some privileged Bangladeshi officials whose residences have been earmarked in

these areas. However, all those who live in these areas, are economically affluent and rich people.

#### 4.4. PHYSICAL ASPECTS OF THE SURVEYED HOUSES:

Most of the houses in these areas are two storied Bungalow pattern building. They are structurally and aesthetically pleasing and beautiful. Both external and internal decorations tell the taste and culture of the dwellers. Costly materials from home and abroad are used. Roads are set out on grid-iron pattern. Proper road hierarchy is maintained. There have been sufficient open space, green space around the houses. The individual housing lot occupies about 5 katha to 20 katha lands. The service facilities like drainage, sewerage, gas, electricity are adequate.

## CHAPTER 5: RENT MARKET IN HIGH CLASS RESIDENTIAL AREAS OF GULSHAN AND BANANI:

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### 5.1. RENT MARKET:

The survey was conducted on 121 housing units on random sample basis from Gulshan-Banani area. These houses were more or less similar in structure, building materials and ancillary facilities. These house were categorised as :

1. Foreign Office
2. Foreign Residence
3. Bangladeshi Office and
4. Bangladeshi Residence

Out of 121 selected houses, there were thirteen (13) foreign offices, sixteen (16) foreign residences, thirty three (33) Bangladeshi offices, and twentynine (29) Bangladeshi residences. On analysis much attention was paid on the rent of the house per square metre in particular, and maintenance cost including the cost of electricity, gas, security, advance payment etc. in general.

#### 5.1.1 VARIATION OF RENT LEVELS:

From the survey data it was found that out of one hundred twentyone houses, the highest and lowest leased houses were rented out at Tk.90,000.00 and Tk.7,000.00 per month



respectively. But this does not indicate the actual house rent situation because of different sizes of the houses. The sizes of houses varied from 213.6 sq.m. to 1300.6 sq.m. and the per square metre rental value varied from Taka eighteen (Tk.1.75 per sq.ft.) to Taka one hundred sixtyfive (Tk.15.33 per sq.ft.). In Table 5.1 these one hundred twentyone houses are categorized in 8 groups depending upon their per square metre rate of rent. The average rent of these one hundred twentyone houses is found to be Tk.67.27 per sq. metre(or Tk.6.25 per sq.ft.).

**TABLE : 5.1**

**DISTRIBUTION OF HOUSING UNITS BY RENT LEVELS:**

Rent/M <sup>2</sup> in Taka	Mid-value Xi	Frequency fi	fiXi	%
10 < 30	20	7	140	5.78
30 < 50	40	32	1280	26.45
50 < 70	60	31	1860	25.62
70 < 90	80	29	2320	23.97
90 < 110	100	12	1200	9.92
110 < 130	120	5	600	4.13
130 < 150	140	3	420	2.48
150 < 170	160	2	320	11.65
		$\sum fi = n = 121$	$\sum fiXi = 8140$	100.00

$$\text{Mean} = \frac{\sum fiXi}{n} = \frac{8140}{121} = 67.27(\text{Taka})$$

Source: Questionnaire Survey, 1990.

**TABLE : 5.2**

**VARIATION OF RENT ACCORDING TO THE SIZE OF THE HOUSE**

Total Floor space of the house in M <sup>2</sup>	Rent per M <sup>2</sup> in Taka	No. of Houses surveyed
279 and below (3000 and below)	73.79	66
280-464 (3001-5000)	72.78	37
465-929 (5001-10,000)	52.00	13
930 and above (10,001 and above)	33.00	5

Source: Questionnaire Survey, 1990.

**5.1.2. VARIATION OF RENT ACCORDING TO SIZE OF THE HOUSES:**

In Table : 5.2, one hundred twentyone (121) houses are again categorized in 4 groups according to their floor spaces and average per sq. metre rent of each of the respective group is shown. From this table, it is evident that the smaller is the size of the house the higher is the level of rent. For instance, the average rent for houses of the size 279 square metre and below is Tk.73.79 per square metre, while for the houses of the size 930-1393 sq.metre the average rent is Tk.33.00. This special feature is a common phenomena to be expected where there are more consumers competing for a smaller supply of smaller,

less expensive houses, and more builders constructing larger, more expensive ones. It may be mentioned here that this pattern of rent variation was also found between two foreign embassies viz. the Embassy of Oman and that of France, which were included in this survey. The former possesses smaller floor space of 464.5 sq. metre with higher rent of Tk.108.00 per sq. metre while the later has larger floor space of 1300.6 sq. metre with lower rent of Tk.50 per sq. metre.

**TABLE : 5.3**

**VARIATION OF RENT ACCORDING TO THE TYPE OF USE**

Type of Use of Housing Units	No. of houses Surveyed Nos.	Average Rent per M <sup>2</sup> in Taka	Maintenance cost as a percent of rent
Foreign Office	13	82.15	45.67%
Foreign Residence	16	73.38	29.40%
Bangladeshi Office	33	70.84	36.76%
Bangladeshi Residence	29	51.03	22.72%

Source: Questionnaire Survey, 1990.

**5.1.3. VARIATION OF RENT ACCORDING TO THE TYPE OF USE:**

It was also revealed that there were variations of rent according to the type of use. The one hundred twentyone (121)

sample houses were categorized into four different types of uses, viz. Foreign Office, Foreign residence, Bangladeshi office and Bangladeshi residence. It is evident from the Table : 5.3 that rent for foreign office (Tk.82.15 per m<sup>2</sup>) is much more higher than that of Bangladeshi office (Tk.70.84 per m<sup>2</sup>). It may be due to the fact that the foreign office prefers the most luxurious houses with high class fittings, fixtures and interior decorations. Another feature of these findings is that rent for foreign office is higher than that of foreign residence. The similar situation prevails in case of Bangladeshi office and Bangladeshi residence. The highest rent is recorded for Foreign office and the lowest rent is recorded for Bangladeshi residence. So, according to the descending order, the rate of rents recorded for Foreign Office, Foreign residence, Bangladeshi office and Bangladeshi residence are 82.15; 73.38; 70.84; and 51.03 respectively.

## 5.2. ADVANCE AND MAINTENANCE COSTS:

Other than the above findings, it is evident from the survey that most of the tenants have to make an advance equivalent to six months to one year's rent at the time of entering into the contract. The findings, suggested by the results of the survey, show that the maintenance costs including electricity, gas, security etc. are higher for offices than those

for residences. This indicates that utilities and services are consumed more in the offices than those in the residence. The average costs of maintenance are found as 45.67%; 29.48%; 36.76%; and 22.72% of basic rents for foreign offices, foreign residences, Bangladeshi offices and Bangladeshi residences respectively.

### 5.3. NEW CONSTRUCTION, ABSORPTION AND SURPLUS:

Gulshan-Banani areas have been already developed. There is a few new construction in these localities. But there is no question of surplus because the housing market already has a backlog. During the survey a few to-let notices were found; but this is not an indication of surplus of houses. It is simply a transition period of transferring tenancy. So, there is little hope of rental surplus of housing market in these areas.

### 5.4. FORECAST FOR RENTS AFTER FIVE YEARS:

From the collected data the compound increasing rate of rent per year was calculated with the following formula:

$$P = P_0 (1+r)^n$$

where, P = the future rent

$P_0$  = the present rent

r = rate of increment

n = number of years

The compound increasing rate of rent was found to be varying from an annual increase of 4% to 24%. The information regarding the change of rent was available from 65 housing units. The increasing rates with the mean (average) are tabulated in Table : 5.4.

**TABLE : 5.4**

**FORECAST FOR RENT IN THE YEAR 1995 (5 YEARS)**

Rate of Rent Increase %	Mid-value $X_i$	Frequency $f_i$	$f_i X_i$	$\bar{x}$
4 < 8	6	15	90	23.08
8 < 12	10	20	200	30.77
12 < 16	14	12	168	18.46
16 < 20	18	11	198	16.92
20 < 24	22	7	154	10.77

$$\sum f_i = n = 66 \quad \sum f_i X_i = 810 \quad 100.00$$

$$\text{Mean} = \frac{\sum f_i X_i}{n} = \frac{810}{65} = 12.46\%$$

Source: Questionnaire Survey, 1990.

Taking the mean increasing rate of 12.46%, the present average per sq. m. rent of Tk. 67.27 shall have the value of Tk.121.00 after five years, in the year of 1996.

The required calculation of this forecast is given below:

$$\begin{aligned} P &= P_0(1+r)^n \\ &= 67.27(1+0.1246)^5 \\ &= 121.00 \end{aligned}$$

So, a moderate space house of 464.50 sq. m. will cost Tk.56,205 in the year of 1995 instead of present monthly rent of Tk.31,248. Forecast for rent has not been made beyond 1995 because of the uncertainties of the future rent market which is very much dependent upon the demand and supply situation of the housing market.

#### 5.5. FINANCIAL RETURN ON INVESTMENT IN HOUSING:

Though there is great demand in the housing market, yet the commercial land lords are not taking interest to construct new houses since the rate of return of money in this sector is not very much attractive. According to present market price, the construction cost of a high class residence is about Tk.8073 to Tk.9149 per sq.m. (Tk.750 to Tk.850 per sq.ft.) and that of a moderate residence is about Tk.6458 to Tk.6997 per sq. m. (Tk.600 to Tk.650 per sq.ft.)\*. Considering this rate, a high class housing unit of 557.42sq.m (6000 sq. ft.) costs about Tk.70,00,000 and a moderate housing unit of 278.70 sq.m. (3000 sq.ft) costs about Tk.40,00,000 including the land costs. If these houses were leased out at average rent of Tk.67.27 per

\* Source: Information collected during field surveys.



sq.m. the yearly rent collection would be Tk.4,49,972 and Tk.2,24,978 respectively. If these were the gross return from the capital of Tk.70,00,000 and Tk.40,00,000, the rate of return would be 6.43% and 5.62% per annum respectively.

The net return from the investment will be much lower because the net return is calculated on construction cost after subtracting the recurring housing costs from the rental income, and also depreciation cost of the building. Recurring costs are meant to include all the housing costs that the household pay regularly except those of mortgage repayment (if any). According to Mr. A.S.M. Abdul Quium, the net financial rate of return in housing of Dhaka city was 5.4 percent as depicted in his thesis entitled "Financing of Urban Housing" in 1978.

From these calculations the conclusion is obvious that at present the rate of return on housing, after taxation, is relatively low. Naturally this does not provide incentives for large scale private investment. But on the other hand, if these investments were deposited in Bank or invested on other avenues of investment, instead of housing, the interest rates would be much higher than those from rent collection. Hence, until the income from the house rent exceeds the opportunity cost of capital, the commercial land lords will not be encouraged to invest money in housing. However, commercial motive does not have a dominant role on investment in housing, specially in high

class residential housing. Other aspects like pride of ownership, sense of security, prestige and status play a greater role on investment in high class residences.

## CHAPTER 6 : SUMMARY FINDINGS AND CONCLUSION

### 6.1. SUMMARY FINDINGS:

The high class residential areas of Gulshan and Banani are mostly inhabited by the foreigners and affluent groups of the urban society. Most of the houses in these areas are built over generous plots of 10 to 15 Kathas. The houses are architectural-ly modern and aesthetically beautiful. These are also provided with modern amenities and facilities. Most of the houses are rented. There are very few owner-occupiers in the area. The tenants are mostly high-income people belonging to the groups of businessmen, contractors, politicians and foreigners. Besides, business offices, foreign offices, embassies and other foreign mission offices are located in the areas.

The study reveals that the houses rented out to the foreigners fetch handsome rent return for the house owners. But the houses rented out to the local tenants do not fetch as much as from the foreigners, and in many cases these rent returns are not attractive for property owners. The average rent return from the local tenants is low compared to alternative avenues of investment to attract substantial investment in this sector. Moreover, the number of foreign tenants are limited compared to the supply of houses in such areas.

From the study it is also revealed that the smaller is the size of the house the higher is the level of rents per square meter ( or per sq.ft.). This clearly indicates that the big, spacious and luxurious houses have limited demand in the rental market. Being unaware of this situation of rental market, more builders are constructing larger and expensive houses in these areas.

#### 6.2. CONCLUSION:

The study has examined only a few factors affecting the rent market in high class residential areas. The study could not examine many more factors like amenities enjoyed by the plot, effect of adjacent environment, the plot sizes etc; which very much affect the rent levels. Due to the unavailability of data and due to the constraints in time and budget, the study had to be confined to a limited scope. With this limited understanding it is very difficult to make any specific recommendation for a policy of high-class residential development. But the study indicates that there is a wide variation of rental market of high-class residential areas. Policies should be formulated to make the rental market more uniform and stable. However, further research and studies are required before such policies are prepared.

APPENDIX - 1 : GENERAL SURVEY QUESTIONNAIRE

BANGLADESH UNIVERSITY OF ENGINEERING AND TECHNOLOGY, DHAKA  
DEPARTMENT OF URBAN AND REGIONAL PLANNING.

1. Name of the Area : \_\_\_\_\_ Plot No: \_\_\_\_\_  
Road No. : \_\_\_\_\_  
(Identify the plot on Map)
2. Size of the plot : \_\_\_\_\_ Sft/Katha  
Plinth Area : \_\_\_\_\_ Sft  
No. of stories : \_\_\_\_\_  
Total Floor Area : \_\_\_\_\_ Sft  
Garage Area : \_\_\_\_\_ Sft  
Guard Shed : \_\_\_\_\_ Sft  
Servant's Quarter : \_\_\_\_\_ Sft
3. Distance of the house  
from main road : \_\_\_\_\_ Ft.
4. Ancillary facilities : \_\_\_\_\_  
No. of Air Coolers : \_\_\_\_\_  
Other facilities (specify): \_\_\_\_\_
5. Name and Occupation of  
the tenant : \_\_\_\_\_
6. System of Rent/Lease : \_\_\_\_\_
7. Amount of Rental/Leased  
Space : \_\_\_\_\_ Sft  
House Rent : \_\_\_\_\_ Taka Per Month

8. Other Expenses : \_\_\_\_\_
- (a) Electricity : \_\_\_\_\_Taka Per Month
- (b) Gas : \_\_\_\_\_Taka Per Month
- (c) Water : \_\_\_\_\_Taka Per Month
- (d) Security Expense : \_\_\_\_\_Taka Per Month
- (e) Other (specify) : \_\_\_\_\_Taka Per Month
9. Year of Rent Agreement : \_\_\_\_\_Month\_\_\_\_\_Year
10. Amount of Advance Money/  
Leased Money Paid : Tk. \_\_\_\_\_
11. Any Change in Rent in  
Future : Tk. \_\_\_\_\_Year\_\_\_\_\_
12. Previous Rent : Tk. \_\_\_\_\_Year\_\_\_\_\_

NAME OF THE INTERVIEWER : \_\_\_\_\_

DATE : \_\_\_\_\_

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