



Uttara Property Market Summary

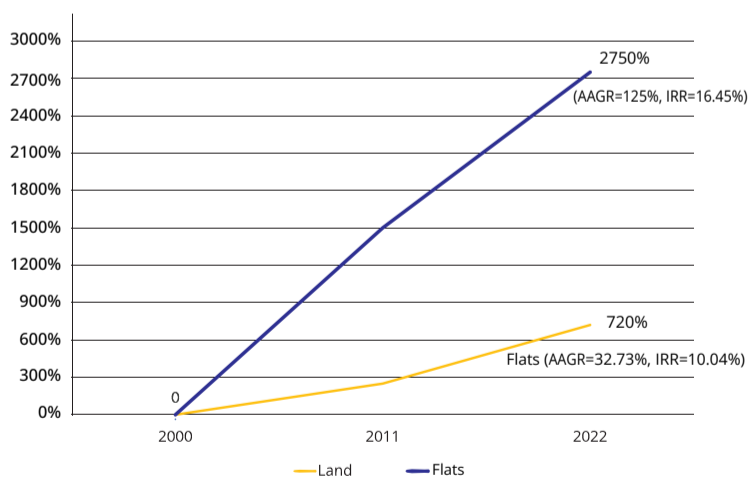
| 2022 Overview and 2023 Outlook



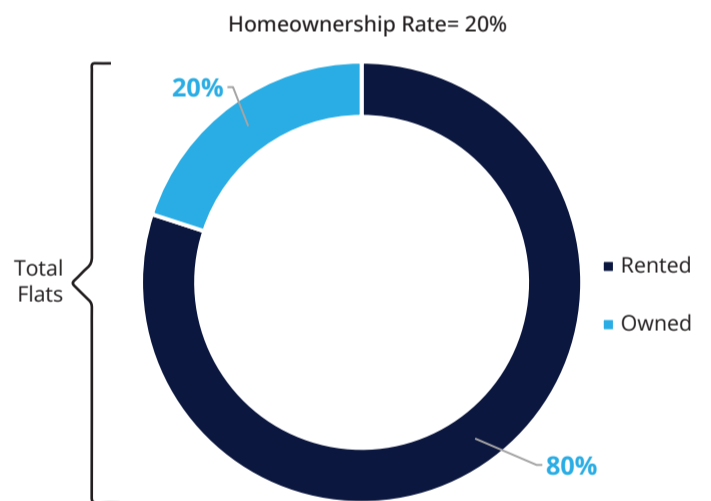
Uttara

Real Estate Market History and Overview

Dhaka, Bangladesh has seen a massive appreciation of property and land values over the past 2 decades- according to a recent study by the Institute for Planning and Development approximately a 720% increase in the price of flats and a 2,750% increase in the price of land over the past 22 years from 2000 to 2022, resulting in a whopping average annual appreciation rate of 32.73% for flats or an IRR (compounded annualized growth rate) of 10.04% excluding rental income, and an even more astronomical annual appreciation of 125% for land, or an IRR of 16.45%.



Some periods have seen a drastic increase in price, while others have seen not as much growth; however, the years that did see an increase raised the average annual increase to a much higher figure. These increases in flat prices have occurred due to a few reasons. The primary reason is due to the fact that there is a huge undersupply of flats in terms of home ownership for the average earner in Dhaka city- it is estimated that the population of Dhaka is 2.25Crore people, or 22,478,000, with a Home Ownership rate at only 20%, meaning that out of all of the homes/flats that are in Dhaka, only 20% out of them are lived in by an owner.



The remaining 80% of the flats that exist are being rented out by a flat owner to a tenant, which shows that there is a disproportionate undersupply of affordable homes in Dhaka, and an oversupply of dwellings that serve only a fraction of the population who have the means of affording a flat; typically sized at 1800-2200 square feet. In the previous years (predominantly 1-2 decades ago), many apartments constructed consisted of 2 units per floor, sized at about 800-1400 square feet per flat (depending on the land size measured in Katha), whereas now, the majority of developers capitalize on as much space per floor for a unit as possible due to landowner demands for higher space per unit, the fact that it is easier to sell flats in bulk to High Net Worth Individuals, the DAP amendment in 2022 which lowered the Floor Area Ratio (FAR) even further, the rising input costs of labor and materials, as well as the soaring price of land for doing Joint Venture development.

LANDOWNER DEMANDS FOR
LARGER
SPACE PER UNIT

This exacerbates the supply-side issue where the average person cannot afford a flat anymore, as according to The Business Standard (03 October 2022), with the population of Dhaka increasing by 5 Lakh people every year on average, 2,500 new buildings of on average 6 floors and 2 units being approved by RAJUK yearly, and about only 30,000 new flats being built

5
LAKH
PEOPLE

annually, housing on average 5 people per flat, meaning that only 1.5 Lakh out of the 5 Lakh additional population is

2,500

NEW
BUILDINGS

yearly. On top of this, with the population being 2.25 Crore people, there are only 3.5 Lakh holdings (residential buildings) in the city. Furthermore, since August 2022, a new amendment was made to the Detailed Area Planning (DAP) of Dhaka,

reducing the Floor Area Ratio (FAR), where before, in Uttara a real estate developer could have a buildable area of 14,500 sft on a 5 Katha plot if there was a 20 foot road adjacent to the plot (6-10 floors), and now real estate developers can only build approximately

11,100 sft on the same 5 Katha plot with a 20 foot road which will lead to even more pressing supply-side issues, as if a 5 Katha plot cannot house more than 60 people on average, then the housing situation will get more dire for the population of Dhaka. Additionally, since the new DAP rules were made in August 2022, not a single real estate developer has had a plan approved to begin construction on plots. From an urban planning sense, this is not an ideal situation to say the least. The new DAP rules in one sense have encouraged the development of more affordable homes by facilitating the construction of flats that are smaller sized, ranging from 400-600 square feet in size, which is in fact ideal for a city with a high population density such as Dhaka.

30%

ADDITIONAL
POPULATION
BEING HOUSED
ANNUALLY

If there are minimum 5 units in a building with a square footage of 400-600 sft, then an additional 0.75 points is added to the FAR, which can make a gain of up to 2,500 sft buildable area. However, from an investment perspective, this is a golden opportunity, as has been throughout the history of the city. With the price of one flat in a core area like Gulshan far exceeding the budget of most individuals who are considering to invest, developers have begun exploring other avenues for development that are not as established. In the case of commercial, as well as residential development, it seems that Uttara Model Town, originally planned as a suburb, is now one of the hottest destinations for developers to build office spaces or sell flats to home dwellers or simply investors.

NEW AMENDMENT IN DAP REDUCED FAR

From a pure investment perspective in terms of two variables: price appreciation and rent growth, a fully developed area such as Gulshan has already risen seven to tenfold in price, whereas a relatively undeveloped area such as Purbachal (East Dhaka) can only see appreciation in land value but provides no avenue for investors to invest in income generating properties. One of the areas that hits a sweet spot in terms of price appreciation of existing properties as well as rent growth potential is Uttara. This is due to the fact that in many sectors within Uttara, not only are there older buildings that have seen a massive growth in both price and rent, but have potential to see even more growth as more commercial and residential buildings get constructed.



Uttara Property Market Summary

2022 Overview and 2023 Outlook

Economy

The past year has seen some turbulent times, from the beginning of the year until the end. Many phenomena have occurred such as the Russia-Ukraine war, the DAP amendment, a shortage of US Dollars in the Central and local banks and an interest rate cap to contain a potential unfavorable interest rate environment. The Russia-Ukraine war has led to severe supply chain disruptions, increasing the price of oil globally from January at \$77.17 a barrel to June at \$122.71 a barrel, and thus affecting the prices of raw materials and input costs for real estate construction worldwide. In terms of raw materials prices, the first half of 2022 saw a moderate amount of inflation of 5.86% in January to 7.56% in June, and then the effects of the Russia-Ukraine war compounded when inflation skyrocketed to a level of 9.52% in August. Afterwards, inflation staggered towards a lower level of 8.71% in December.

FLAT REGISTRATION TAX AMOUNT SHRANK FROM 14% TO 10% DURING COVID

From December 2021 to December 2022, the prices of local and imported raw materials saw a significant rise due to inflation.

From the local materials- sand, cables, paint, and cement on average saw a 15% increase in cost. From imported materials- construction sheeting, tiles, stones, and MS (Mild Steel) saw a rise of about 20% on average. Using a weighted average, the total cost of inputs regarding raw materials for construction increased by 16.5%. Along with this, typically the labor rate increases by 8% per annum, but from December 2021 to December 2022, it increased by an anomalous amount of 10%. Rounding both the cost of labor and materials together once again in a weighted average, the total cost for a real estate project increased by 15% from year end 2021 to 2022. This in turn significantly affected the price of the average flat in Dhaka. On top of this, the rising prices of real estate also contributed to an appreciation in value for land as well as properties; therefore, amalgamating both the cost of inputs as well as the price of land resulted in a huge hike in prices for apartments on the primary market, i.e.,



Uttara Property Market Summary | 2022 Overview and 2023 Outlook

the price of an apartment sold by a developer. Whereas in Uttara, one year prior, at year end 2021, one could find an apartment sized at 1,800-2,200 sft for 10,500 TK/sft, now they are finding the same type of apartment for 13,000 TK/sft.

In tandem with increasing input costs to construct properties, the US Dollar shortage amongst banks in Bangladesh has caused many lags in the production of goods in the country. For the majority of the past year, many banks have not even able to service LCs (Letters of Credit) due to the US Dollar shortage; therefore, the production rate has decreased as many businesses are not being able to import goods. This affected many sectors including the garments sector as well as the real estate sector, and was another major reason why input costs have increased so much- as there is a high demand for imported raw materials, but there is an undersupply of dollars to finance the LCs. In January 2022, the Forex Reserve of USD in Bangladesh was \$44.9

Billion, and it drastically decreased to a value of \$33.7Billion by December 2022, a decrease of about 25% in a single year. The US Dollar shortage was primarily caused by high import payments, and low remittances as well as lower export earnings.

The interest rate for business loans is currently capped at about 9%, and home loans is capped at about 8.5%, meaning that taking a loan of 30% of 1.2 Crore for a 1200sft flat amortized over 25 years to buy a flat would mean the total payment of interest and principal to pay back that loan would be BDT86,96,452.4, an extra 50.96 Lac on top of the borrowed amount. The majority of customers of flats are now finding themselves unable to buy a flat outright unless they buy full or majority equity with no debt or minimal debt, as prior to this, the price of a flat was much more affordable. In, for example, 2012, lending interest rates were at their all-time high within the past 2 decades, at 13.9%, almost double of what it is today. However, there were much higher sales of flats in 2012 in Dhaka than in 2022. This is due simply to the fact that each person's purchasing power was much greater at that time, as even though interest rates were at 13.9%, the price of an apartment was 5,500-6,500 TK/sft, whereas now, in the same area, it is around 12-13,000 TK/sft. As can be seen, the price of flats has nearly doubled since then, and therefore a 13.9% interest rate on 30% of a BDT 72Lac apartment of 1200 sft was not as burdensome as it is today, with only BDT 77,50,820.67 of principal and interest to be paid to buy a flat.

In 2020, there was an initial slowdown of sales of flats in the first half due to the pandemic, but after the government initiated a change in the fiscal policy of the country by reducing the registration tax amount from 14% to 10% on July 5th, 2020, suddenly the sales of flats began to surge again, as well as the price of properties. Inflation and appreciation of land and flats has therefore caused the price of buying a new flat in 2022 to become unaffordable for many given the current home loan interest rate environment of 8.5%.

There have been ongoing discussions that the Central Bank could lift the interest rate cap, allowing the market to potentially drive up the interest rates from 9% to 12-14%. If this were the case, buying a flat would become even more unattainable for the majority of the population. However, in another sense, a double-digit interest rate would definitely combat inflation by preventing cheap credit to be circulating in the marketplace, thereby reducing the total number of NPLs

(Non-Performing Loans). Along with this, newly issued government bonds would become more of an attractive investment, offering double-digit returns as well annually, enticing people to invest in debt instruments and ultimately decreasing the money supply in the economy. Reducing the money supply could have a resultant effect on the exchange rate, potentially causing it to appreciate against the US Dollar.

In the year of 2023, it is forecasted by financial institutions that a recession could occur due to the shortage of US Dollars in the Forex Reserve of Bangladesh Bank, as well as rising inflation and high debt service costs. A recession has been predicted in many Western countries as well due to high interest rates and low forecasted growth rates, such as the US and the UK. Since Bangladesh's export economy and financial activity is connected with Western countries such as the US, any shocks to the US market would result in shocks in Bangladesh's economy. A recession due to the aforementioned reasons in Bangladesh could cause unemployment rates to increase, businesses to face losses, and ultimately lower the investment appetite of many due to lower purchasing power and lower income growth due to the potential layoffs and shutdowns of businesses. This could restrict the growth of property and land prices in many areas considering that not many people will still be able to buy properties at such high prices when their purchasing power is reduced significantly.

Inflation Data

January '22	5.86%
June '22	7.56%
August '22	9.52%
December '22	8.71%

Increase of Input Cost

Local Material	15%
Imported Material	20%

**COST OF REAL ESTATE PROJECT
INCREASED BY 15% IN END YEAR
2021-2022**

Uttara Property Market Summary | 2022 Overview and 2023 Outlook

However, considering the factors that result in a shortage or undersupply of constructed flats in Dhaka, the areas that have not been fully developed as of yet where there is ongoing construction will be the pockets of growth in the city that will potentially produce a high return on investment regardless of a recessionary environment.



Investments & Market Temperament

Uttara Sector 1 Primary Market

Sold Units
Total Sold & Unsold Units

=0.6757

The growth of an area can be measured by 3 metrics: job growth, median income, and positive net migration patterns.

Proxy statistics can be used to estimate these three metrics, as there are no official statistics for them for specific areas. Job growth is created by the additional number of new companies in the area, indicated by the number of commercial projects, namely offices, completed throughout the past 1-2 years, paired with their occupancy rates.

A rising median income is indicated by the number of new ongoing residential developments as well as completed developments in the area, paired with the ratio of the number of flats that have been sold in proportion to the total number of flats that are available (sold and unsold). Sector 1 has 8 ongoing projects under construction out of which 3 projects have an unsold inventory of 12 flats (out of 17 sellable flats from the 3 projects, excluding landowners' flats, where if they were counted as total number of units there would be 27) and 5 are sold-out inventory (each project with approximately 4 sellable flats meaning 20 flats

have been sold), making the ratio of sold units-to-total sold and unsold flats $(20+5):(25+12)$ or 0.6757. This means that regardless of rising inflation and flat prices, sales in the past year have still been relatively high in Sector 1, indicating a rising median income. Sector 3 has approximately 22 ongoing projects that are still for sale. Sector 5 has 8 ongoing sellable projects, Sector 7 has 26, and Sector 9 has 4 in progress as well. It can be said that the ratio of sales to number of flats available (total number of flats in all ongoing projects) is a relatively high figure, with a majority of the sales occurring in the first half of the year for the flats that have started their selling stage prior to or starting from the first half of 2022, and sales happening slightly slower for those that have begun their selling stage during the second half of 2022. This could indicate that in the first half of the year when inflation was rising but still not at its highest, the sales-to-total inventory ratio was higher, and after June 2022, sales slowed down due to the inflationary environment peaking.

Finally, positive net migration patterns are when an area has more people moving in than moving out. This can be approximately measured by looking at the job growth and median income of the area, as well as seeing if there are any infrastructure projects ongoing nearby.



In the case of Uttara sectors 1,3,5, and 7, there is a high potential of price appreciation of flats due to positive net migration patterns specifically, with there being notable developments of megaprojects upcoming in nearby areas, such as the Line 6 of the MRT (Mass Rapid Transit), that connects Diabari in Sector 15 to Motijheel. Along with this, Purbachal, which in the future years is to become a CBD (Central Business District) with many office spaces and commercial developments, is to be easily connected with Uttara through the BRT. The BRT will be spanning from Uttara to Tongi Cherag Ali, making one of its stops at Purbachal on the way. This will potentially allow many people that will work in Purbachal who might find that the cost of rent and living there is very high in the future, to find themselves living in Uttara- a relatively suburban area of Dhaka city, where the cost of living is to be relatively more affordable than in a to-be core metropolitan area. This also causes decentralization to happen as a more affordable lifestyle in Uttara would cause people to live there instead of all moving to Purbachal where most of the business activity would be surging

2-3.5%

RENTAL RATES OF RETURN

From an investment standpoint, the real estate market can be split into two categories: the primary market, and the secondary market. The primary market is when real estate developers sell flats to customers. The secondary market is when a flat owner of an existing flat decides to sell of his flat to somebody else in the marketplace. It is estimated the circulating supply of flats sold on the secondary market is about 20x the size of the flats sold on the primary market; however, the pricing and valuation of flats on the secondary market is being influenced by the prices of flats on the primary market. Typically, a price of a secondary flat is set based on the prices of other comparable flats in terms of location, age, square footage and specs. If, all else being equal, a 1400 square foot flat in Uttara Sector 3 is valued at 1.1Crore based on the price of similar properties categorized by age of the property, square footage, and specs, making the price/sft 7,857, and if a newly constructed apartment with completely different specs and square footage has a price/sft of 13,000, suddenly, the price of the older flat would have also increased by 10-30%. This change in valuation is not just happening due to comparable buildings in this case, which would cause only a mild increase in price as market rates do not typically move that fast. Thus, the prices of these older flats are largely influenced by the prices of newer developments, regardless of common aspects.



This new valuation is due to the three metrics- job growth, rising median income, and positive net migration patterns, which are indicated by the rate of sales of the newer developments that are constructed in the area.

A phenomenon that has been noticed by many is that even though the prices of flats and land are appreciating rapidly, there has not recently been a noticeable change in rental rates, throughout most areas in Dhaka. It is generally anticipated that, in the event of a rise in prices for properties, the rent is also hiked, to match inflation. However, in the past year from 2021-2022, even though there was a surge in inflation, rental rates were not hiked across the board for residential properties. With a home ownership rate of only 20%, it is a fact that across Dhaka, most people that buy apartments tend to rent them out as an investment, rather than keeping them a place to live in themselves.

This means that only a small fraction of the population can still afford to buy apartments of larger sizes (1,800-2,200 sft), meaning that there is an oversupply of rented homes, namely, for the flats that are below 1,800 sft in size. It has been established, that by no means, is there an oversupply of purchasable homes, as if there were, then the price of homes would depreciate rather than appreciate. However, on the other hand, there is an oversupply of rented homes, meaning that the rental

rates of return on buying a property as an investment is relatively low, ranging from 2-3.5%, varying from property to property based on factors such as the location, age of property, square footage, as well as features and common spaces of the property. In Western countries such as the US and Canada, an asset class that can be comparable to apartments in Bangladesh is a Multifamily Property, which ranges from 4 units per building up to 500+ units.

The returns on investment for these income-generating assets range from 3-5% typically. This means that the rental income less expenses per unit give a rental yield or Cap Rate (Capitalization Rate) of 3-5%, so in order to recover the cost of investment purely from generating rental income, it would take 20 years on a good deal. In Dhaka, it is possible to turn an apartment that yields 2-3.5% to yield 3-5% ROI purely from rental income, but it would require major renovations and interior design to boost not only the rental returns of the property, but the valuation of the property as well. Many properties on the secondary market in Uttara have such low Cap Rates due to the fact that they are overvalued as their prices are too high in relation to the condition that they are in, and this is due to newer developments charging high prices (due to rising input costs, inflation, and rising property and land values) which serve as a benchmark price for these older properties.

Uttara Property Market Summary | 2022 Overview and 2023 Outlook

Thus, older properties on the secondary market are many times overvalued for a buyer due to the asking price owners are offering which buyers are not willing to take, and since these properties are not being maintained and are highly depreciated, the property owners are not able to charge higher rents for tenants. In general, one can say that Uttara at this point is time is a buyer's market, with a handful of flats going for sale, but very few sales actually happening. A buyer's market occurs when there are a notable number of properties for sale so that a buyer has many options to choose from when buying a property. There is a high 'properties for sale' : 'properties sold' ratio because of the discrepancy between what many sellers are valuing their properties at and what the buyers are willing to pay to acquire those properties, and this gap is exacerbated due to the fact that sellers are not accounting for the age, depreciation and lack of maintenance of their properties when stating a selling price. If the common areas, lift, parking space, generator, and substation of the building, as well as the tiles, fittings, fixtures, and interior designs within the flats were up-to-date and modern, then the sellers would be able to sell at the prices that they are stating, as the properties could then be comparable to newer developments' prices. Considering that these old properties are distressed properties,

there would be no rental demand for them if rates higher than BDT 20,000-25,000 were being charged monthly, for a flat in Uttara with a square footage of 1,300-1,600 sft and a selling price of around 1.05-1.5Crore (approximately 8,000-9,400 price/sft). One area of profit potential is increasing the sales turnover and demand for these older properties on the secondary market by acquiring, renovating, leasing, and disposing of them at a markup after a few years. This would revitalize the demand for existing properties of higher age, and allow for healthy investment opportunities in the secondary market where properties are often times undervalued given their distressed condition compared to the prices of new properties in the area, as well as boosting the rental yields on properties, combined with their locational advantages.

In conclusion, there are many pockets of growth in Dhaka despite the forecasted recessionary environment in 2023. Given the undersupply of homes for the majority of the population along with the construction of megaprojects in various areas in the city and the ongoing real estate development in multiple sectors in Uttara, it is estimated that many properties in Uttara among other areas will witness a sizeable appreciation in value.

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