

**MASTER'S PROGRAMME IN URBAN MANAGEMENT
AND DEVELOPMENT**

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**Rental Housing: Myths and Reality
The Roles of Public, Semi Public and Private
Sectors in the Provision of Rental Housing in
Thimphu, Bhutan**

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*Dedicated to my beloved parents, all my family members
especially to my loving husband
Krishna Subba*

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Summary

Thimphu the capital city of Bhutan has developed from a small town in the 1980s to a major city functioning as the administrative and economic hub of Bhutan. With the development and urbanisation, new challenges have emerged in the city and one of the important impacts is on the housing sector, particularly on the rental housing, the dominant form of tenure. In the last two decades the number of rented dwellings have increased to a great extent. However the number of people desiring to stay in rented accommodation is even more thus making it difficult for the city dwellers to find an affordable place to live.

This research is an attempt to explore the roles of the public, semi public and private sectors in the provision of rental housing in Thimphu. The study is based on an extensive literature review on the subject of rental housing from various international experiences and on the fieldwork conducted in Thimphu during the period of July and August, 2005. A sample survey and interview was undertaken with the tenants and landlords to find out their demands, priorities and satisfaction from rental housing. Similarly government officials and decision makers from the housing development organizations were also interviewed concerning the policies and housing related issues of Thimphu.

The study also reveals the factors that contribute to the shortage of rental housing and the reasons for the escalating rents in the private housing in Thimphu which include the high cost of construction and building materials, lack of appropriate housing finance, high initial investment and shortage of affordable land.

Based on the evidence and information gathered during the field work and from the results obtained through the analysis of interviews and questionnaires, this thesis has been able to highlight the most important problems and opportunities related with rental housing.

Finally, this study concludes that rental housing is indispensable in housing the urban households of Thimphu, therefore, there is an immense need for further studies and research to be pursued in the field of rental housing.

Keywords: Household, Housing cost, Landlords, Management, Maintenance, Policymakers, Private, Public, Rent, Rental housing, Semi-public, Tenants, Tenure forms, Urbanization.

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List of Acronyms

ADB	Asian Development Bank
BDFC	Bhutan Development Finance Corporation
BNB	Bhutan National Bank
BOB	Bank of Bhutan
CSO	Central Statistical Organization
DUDH	Department of Urban Development and Housing
HDB	Housing Development Board
HDM	Housing Development and Management
HUDCO	Housing and Urban Development Corporation
IHS	Institute for Housing and Urban Development Studies
MoWHS	Ministry of Works and Human Settlement
NHP	National Housing Policy
NSB	National Statistical Bureau
Nu.	Ngultrum (Name of Bhutanese currency)
NHDC	National Housing Development Corporation
NPPF	National Pension and Provident Fund
RGOB	Royal Government of Bhutan
RICB	Royal Insurance Corporation of Bhutan
SABO	Swedish Association of Municipal Housing Companies
TMC	Thimphu Municipal Corporation
VROM	Netherlands Ministry of Housing, Spatial Planning and the Environment

Chapter 1 Introduction

1.1 Background

Prior to the early 1960s Bhutan was isolated from the rest of the world, but in the last two decades there has been rapid development and the bigger urban centres like Thimphu have been experiencing the pressure of urban growth. The concept of rental housing is a recent phenomenon in the entire kingdom, the primary cause is mainly indebted to the rapid process of urbanisation that has taken place in the last two decades. Since the concept of rental housing is relatively new, there has not been adequate studies and research conducted in urban housing in Thimphu. Even though the urban centres are still small by international standards, the urban problems are significant and complex to address. Thimphu, the capital city of Bhutan has an estimated population of 53,000¹ with an annual growth of 7.1% which is greater than twice the national growth rate of 3.1%.

The housing system in Thimphu can be broadly categorized into two types, namely the owner occupied and the rental housing. Owner occupied housing would mean that the owner owns and lives in that house, while the rental housing are those that are rented out and the household occupying the house pays a specific sum of money either on a monthly basis or for a specific period of time. The rental housing is a rapidly growing trend in Thimphu city. Thimphu being the administrative capital, most of the residents are civil servants coming from different parts of the country for employment or business activities. This has led to a high demand in rental housing.

There are three kinds of rental housing in Thimphu, the public, semi public and private rental housing. The Public and semi public rental housings are only accessible to the civil servants where as the private rental housings are accessible to everyone. The Public rental housing is owned by the government where as the only semi public rental housing is owned by a quasi governmental organization called the National Pension and Provident Fund. The provisions of rental housing from the public and semi public sectors are insignificant so most of the housing demands are met by the private sector. But the private houses are far more expensive than the other two. The public rental housings are built under subsidies and have a reasonable rent. There is security of tenure and in most cases tenants can live in the public and semi public houses as long as they work in the civil service. The semi public sector had a similar policy like the public sector with regard to the rent level. But in March 2005, they started charging higher rents for the newly constructed apartments than the old ones of the same category and quality.

The private rental houses or apartments are built and owned by private individuals who are either the senior government employees or businessmen. Most of them have built these houses with loans from the financial institutions. Over the last decade the construction of private rental apartments have increased significantly, but still the demand for houses far exceeds the supply as a result the rents for the private houses are rising rapidly and there is no mechanism to control the rents. Given the similar area and quality of a house, the increment in rent of the private houses has been twice as compared to the public or the semi public housing. There have been many cases where the tenants are given very short notice to either accept a 10-20 or 50% rental increase in the rent level or move out and look for other alternatives.

In the early 1970s, when the scheme of public rental housing started; the government built residential units for all income groups. Individual single detached houses with gardens were constructed for senior officials and apartments consisting of one or two bedrooms were constructed for middle and low income groups. But now the government is emphasizing in the

¹ Source: *Statistical year book of 2002*

construction of low income units. The semi public sector is building dwellings for all income groups. Whereas the private builders are constructing units mostly for the middle and high income families as it is more profitable for them.

In 2002 the Thimphu structure plan was completed and approved for implementation with the extension of municipal boundaries to 10 local areas in the north and south of the city. With the news of extension many people, civil servants and businessmen bought land in these areas which were previously agricultural land. The possibility of buying land and constructing a house for the middle and low income group is unattainable in the inner core of the city as the cost of the land is very high. The value of the land in the extended areas was less compared to the inner city. But with the finalisation of the structure plan, it has gone up by 70% in the last 3 years thereby increasing the value of the land in the inner core even more. It is becoming visible to a small extent that people with a higher income have constructed their own houses and moved to these extended areas, as they can afford to have a bigger spacious and better quality of life than in the main city.

The concept of rental housing is prevalent only in urban areas like Thimphu and other major cities. Since the concept of rental housing is very new, there has not been in depth study (research) in the filed of urban housing in Thimphu. But there is severe crisis facing the public and policy makers in general. Due to lack of rigorous research the various players in the rental housing market has their own myths and ideas about the problems of rental housing in Bhutan

This research study tries to look into the role of different sector in provision of rental housing in Thimphu and hence bring into light the reality of rental housing. This would allow the various actors to understand the underlying cause of the problem.

Instead of living in the myths it aims to bring out the reality and finding an optimal solution for an enhanced and effective market which would be beneficial to all the providers and consumers of the rental housing

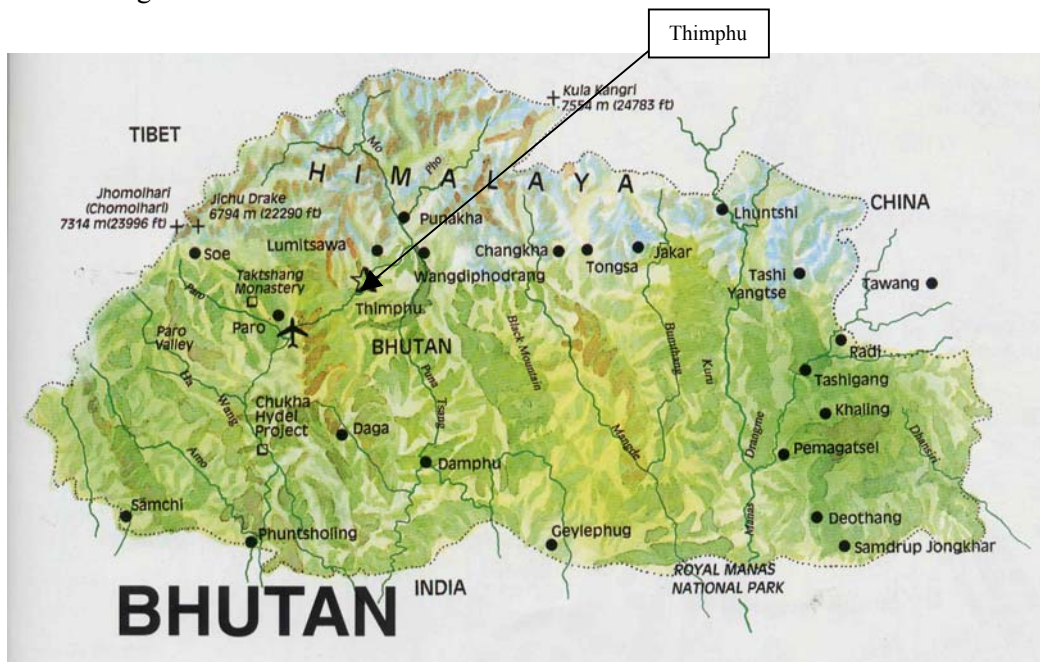


Fig 1: Map of Bhutan (Source: Thimphu Structure Plan)

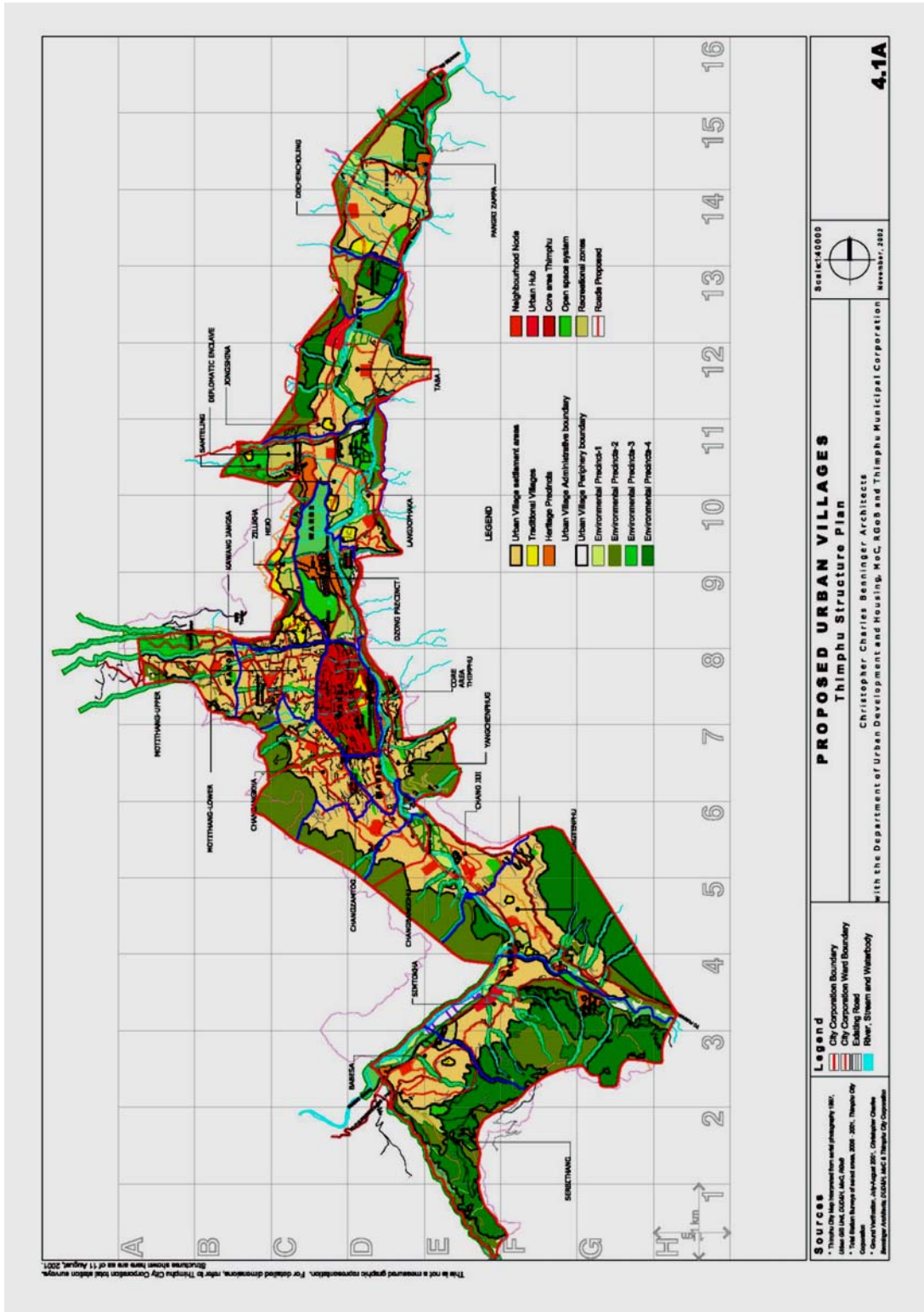


Fig 2: Map of Thimphu showing the urban villages demarcated by blue lines (Source: Thimphu Structure Plan) ***Each grid represents 1 sq.km.

1.2 Research Questions

The following questions are raised in this research:

- What are the current roles of the public, semi public and private sectors in meeting the demands for rental housing and what has been the development in the last 10 years?
- What are the reasons for the escalating rents in the private housing despite the increase in the supply of the public and private houses?
- What are the problems and opportunities of rental housing from the perspectives of tenants, landlords and policymakers?
- What is the impact on rental market due to the extension of municipal boundaries to the local areas in the north and south of the city?

1.3 Objective of the Research

The main objective of this research is

- To explore and find out the roles of each sectors, public, semi public and private on the provision of rental housing in Thimphu.
- To find out the demands, priorities and satisfaction of the tenants from rental housing.
- To find out the problems and opportunities of rental housing from different perspectives.
- To analyse the effects of the extension of the municipal boundaries on the rental housing market.
- To identify the factors that determines the rent in the private rental housing.

1.4 Scope of the Study

The context of the study is confined to Thimphu, the capital city of Bhutan. The research questions and the objective clearly define the boundaries of the study. The issue of rental housing market is the main research subject. The initial part of the study is about the roles of the public, semi public and the private sector in the provision of the rental housing. Each of these actors has different roles in trying to meet the demands for housing. The other part is about the extension of the municipal boundaries and how this will help in reducing the housing needs of Thimphu and what are its effects on the private sector rental housing.

1.5 Research Methodology

The research is a mixed type which uses both qualitative and quantitative methods.

The Qualitative study done was of exploratory nature, trying to explore and find out the roles and responsibilities of the public, semi public and private sector in rental housing provision. The quantitative aspect of the research includes the rental market analysis, quality and size of the house, degree of satisfaction from the services, security of tenure and agreements, household composition and housing category. The research methodology has been divided into three stages:

1. First stage: desk study (before field work)
2. Second stage: Field work
3. Third stage: desk study

Each of these stages has been discussed in detail below.

1.5.1 First stage: Desk study (before field work)

Literature review is the most important task at this stage. Although there are very little literature and information available of a Bhutanese context, but the research and publications done by others about rental housing from the global perspective both in developing and developed countries has provided a huge amount of useful and relevant information. Literatures on these topics were obtained from the HDM (Housing Development and Management, Lund University) library and from the internet. Lecture notes and handouts from HDM and IHS (Institute of Housing and Urban Development Studies) on the issues related to housing have been very useful and have provided with additional information.

It was in this stage the draft thesis proposals were submitted, there were two preliminary proposals submitted in February to get the thesis topics approved and one on the 5th of May together with the proposal for the fieldwork subsidy. In the mid of May, tutorial groups of 4 to 5 students were divided and each group were assigned with 1 or 2 staffs to guide in the progress. These groups met once a week till the beginning of July before going for the field work. The final thesis proposal was submitted on the 3rd of July and it was followed by a thesis seminar on the 5th, 6th and 7th of July where the plans for the fieldwork were discussed. This was also the period when thesis supervisors were assigned to supervise in the thesis.

1.5.2 Second stage: Field work

This stage mainly involved data collection and interviews with officials from various organisations of the housing sector. The data for the research is collected from Thimphu the capital city of Bhutan which has grown from a very small town in 1980 to a major city functioning as the administrative and economic hub of Bhutan. The main reason for selecting Thimphu as the city of research is that this city has been experiencing a rapid pace of growth with people migrating from other parts of Bhutan for employment and economic activities which has led to a major housing crunch faced by the city dweller. The fieldwork was conducted for a period of one month from 9th of July to 5th of August, 2005.

The following tools were used for data collection:

1. Questionnaires
2. Interviews
3. Documents, policy studies and personal observations.

A total of 35 rental households were selected for distributing the questionnaires, which were divided into the public, semi public, and private. Out of which, 15 questionnaires were distributed to the tenants of the private rental sector, 12 to the public and 8 to the semi public. The number of tenants selected to distribute the questionnaires were according to their role in the provision of rental housing. Since private sector provides the maximum number of rental units, 50% of the questionnaires were distributed to them, and then comes the public and the semi public sector.

Seven Questionnaires were also distributed to landlords of private rental housing. They were mostly chosen from the house owners of the interviewed tenants from the private rental housing to draw some comparisons.

Criteria for selecting households for distributing questionnaires

For Public Rental Housing:

The households were divided into various categories like Class I, II, III and IV according the classification done by the National Housing Development Corporation (NHDC).

The Project Manager of Real Estate Division, helped in picking the houses from the list to distribute the questionnaires. The houses selected were built at different sites and at different periods. Three samples from each category were selected making it a total of twelve samples.

For Semi Public Housing

Two samples from each category were selected according to the housing classification done by the National Pension and Provident Fund, (total of eight samples) and out of which two of the samples were specifically used for the newly constructed apartments, The Real Estate Manager of NPPF assisted in selecting the houses built at different periods from the list to distribute the questionnaires.

For Private Rental Housing

For selecting the samples from the private rental housing, the city was divided into inner core, the outer area and the extended municipal area and five questionnaires each were distributed in each of these areas. The houses were picked randomly from different types of buildings ranging from old deteriorated traditional apartment buildings which were constructed more than 20 years back to the new recently build apartments. This is done to find out the difference in rent level and other facilities.

Interviews

There were two types of interviews that were conducted, formal and informal. The formal interview was structured and conducted with a prepared set of questions at the back of the mind. It was done mostly to the senior government officials and policy makers who are involved in the issues of housing.

Table 1: The list of government officials interviewed from various organizations.

Organisations	Person Interviewed
National Housing Development Corporation,	1 Real Estate Manager, 1 General Manager, 1 Senior Architect, 1 Site Engineer of the Housing Project,
Thimphu Municipal Corporation,	2 Urban Planners, 1 Architect, 1 Senior Town Planner
National Pension and Provident Fund,	1 Real Estate Project Manager, 1 Senior Engineer
Bank of Bhutan (Financial institutions).	1 Deputy Manager
Bhutan National Bank	1 Loan Officer

Informal interviews were in the form of discussion and relied entirely on the spontaneous generation of questions in a natural flow of an interaction. It included friends and colleagues working at the housing departments and at the municipality, tenants of the rental housings and private landlords.

1.5.3 Third stage: desk study

This stage includes data analysis and the final writing of the thesis. It started with a colloquium on the 11th and 12th of August, where the results of the field work and the preliminary findings were presented. At the colloquium specialisation coordinators, thesis supervisors and fellow participants made useful and critical comments on the presentation which helped to find the shortcomings and improve the work.

After the fieldwork, the researcher began by reading through the field notes, interviews, documents and feeding the quantitative data into the computer. However, part of the analysis of data had already started during the fieldwork.

This stage also involved regular meetings with the supervisor for the comments and guidance. The first draft thesis was submitted on the 30th of August, and this was followed by a short

seminar for improving the presentation skill on the 2nd of September. The whole process of writing the thesis continued till the 12th of September 2005 when it will be submitted.

1.6 Thesis Structure

Chapter 1 is the introduction part where research relevance, objectives, questions and scope are stated. The methodology is also included in this chapter. This chapter plays a main role in guiding the other chapters and to make sure that the rest are structured around the central research questions.

Chapter 2 includes a literature review and the objective of this chapter is to review theories relevant to critical issues relating to rental housing from the international context. These critical issues for the literature review are classified as: Different tenure forms, The role of various actors in the provision of rental housing, Rent policy, Tenure condition, Housing cost, Technical standards, Legal issues and Housing management and maintenance.

Chapter 3 is based on the situation of rental housing in Bhutan with a special focus on Thimphu. The first part describes about the housing situation, types and tenure conditions, the second part goes to describe the actors involved in rental housing and the last part gives a brief description about the concept of rental housing, how and when did it start in Thimphu.

Chapter 4 presents the analysis and findings from the data collected during the fieldwork. The analysis and findings in this chapter are divided into different categories, analysis from the point of view of the tenants, landlords and policymakers, true pictures of rental housing depicted through the interviews and questionnaires, Problems and opportunities from perspective of the tenants, landlords and policy makers and the effects of the extension of the municipal boundaries to rental housing.

Chapter 5 is the final chapter where the researcher makes the conclusion based on the findings during the process of the research. Some recommendations are presented to improve the rental housing in Bhutan.

Chapter 2 Conceptual Framework and Critical Issues relating to Rental Housing

2.1 Introduction

Rental housing is a very common phenomenon in most of the countries of the world, be it developed or in developing countries. In most of the developing countries the rental housing stock has increased over the past decades, but rental supply has not been able to keep pace with the demand. The objective of this chapter is to review literatures relevant to critical issues relating to rental housing from the international context in order to draw some lessons for rental housing system in Bhutan.

These critical issues for the literature review can be classified as follows: **(i) Different Tenure forms, (ii) The Role of Actors in the provision of rental housing, (iii) Rent Policy, (iv) Tenure conditions, (v) Housing cost, (vi) Technical Standards, (vii) Tenants Rights, (viii) Housing Management and Maintenance.**

Each of these issues has been explained in detail below.

2.2 Different Tenure Forms

The rental housing stock varies between countries, within countries and between cities. The nature of the rental housing stock is very diverse and generally speaking, rental market can be divided into two parts: In some countries, rental housing is provided mostly by the public sector, in others by private landlords. But the forms of rental housing also vary considerably. In developed countries, most forms of renting are subject to the legal process, whereas in most developing countries this is not the case. So it is very difficult to generalize the nature of rental housing.

2.2.1 Public Rental Housing

Public sector rental housing is denoted as a regulated public service, providing tenants with a relatively high level of security charging them rent on a non-profit level basis (Mandič, 2000). Most governments have attempted to provide rental accommodation for some section of the society at one time or another. Governments have housed some of their own employees, most often its armed forces. Some of the public servants have often been provided with rental accommodation, particularly when they have been asked to work in cities where there was little appropriate shelter (UN Habitat 2003). In Nigeria, the government offers cheap rental accommodation to most professional employees. Educational institutions such as universities have frequently provided accommodation for some of their students and staff members. Most governments have invested in public housing intended for poor families.

Many social democratic governments also provided public housing on a substantial scale. In many British cities, public housing normally accounts for around 30 per cent of the housing stock and in Scottish cities; higher levels still. “In the Netherlands, the Dutch government pursued a policy of mass provision of non-profit rental housing, which, in the 1960s and 1970s, made this the largest tenure” (Acioly, Lecture notes 2005). But the situation in the United States of America is different: in the early 1990s, only 4 per cent of the housing stock was publicly owned or subsidized, compared with 40 per cent in the Netherlands. “Central government has played a major role in housing in the Netherlands since the start of the last century. The Dutch parliament passed the Housing Act in 1901 and laid the foundation for central government’s involvement in housing, urban development and later, urban renewal. The Act was introduced to eliminate the dreadful housing conditions that existed in Dutch cities at the end of the 19th century. Still today the government still continues to play an active role”(Acioly, Lecture notes 2005).

In Hong Kong public housing provides accommodation for 49% of its population. Out of this 32% comprises of public rental housing and rest 17 % as flats under the Home ownership scheme (Global Tenant, April 2004).

2.2.2 Private Rental housing

Private rental housing is dwellings owned by individuals or corporations and rented to households. The rent is a source of income for private landlords the apartments are mostly built with an intention of profit. Sometimes the private rental sector is regarded as a sector where dwellings are distributed through the market. Access is allocated by ability to pay and rent level is determined by supply and demand (Van der Heijden and Boelhouwer, 1996). Usually it is the richer section of the society that own and the tenants families seem to be poorer. The private rental housing is a good and safe business to be involved in many countries.

The vast bulk of rental housing across the world has been provided by the private sector, and increasingly by small investors. The exceptions are found in some Western European countries. In Denmark, Finland, Germany and Switzerland, some companies continue to put money into rental housing and in France, banks, insurance companies, pension funds and real estate companies rent out one eighth of the total housing stock (UN Habitat 2003).

In Asia, the vast majority of landlords also seem to operate on a small scale. In India most landlords were found to be operating at the individual or household level. Similarly in Pakistan, most landlords operate on a small scale and in Karachi, large scale landlordism of build structures are almost non existent (UN Habitat 2003).

2.2.3 Other Tenure Forms

Apart from public and private rental housing, other forms of tenure exist in some countries. “After the Second World War, the Netherlands had to cope with a severe housing shortage. To deal with this problem, the Dutch government launched a broadly conceived subsidy programme to finance the construction of social housing. The housing associations were formed which played a major role. Approximately 500 housing associations still exist and they manage two million housing units, which is about 30% of the total housing stock. This makes the subsidised rented sector in the Netherlands far larger than in any other European country ”(Acioly, Lecture notes 2005).

“Sweden has no social housing, public housing is present in the sense that multi-family rental buildings are owned by municipal non-profit housing companies but the rent is the same as privately owned flats of equal standard. There are no restrictions on which households can rent such flats. In Sweden housing allowances are used to help families that are less well off to pay the rent or housing costs irrespective of tenure form. Sweden also has a special form of cooperatively owned housing. The cooperative owns the building and the initial members pay a share of the building costs for the right to occupy a certain dwelling in the building. This share is thereafter passed on to the following occupants, each time at a market fixed price” (Åstrand, Lecture notes, 2005).

Table 2 Tenure forms in different western European countries.

	Owner occupied sector (%)	Private rental sector (%)	Social rental sector (%)	Other or unknown (%)
The Netherlands	46	13	40	1
Belgium	65	28	6	1
United Kingdom	68	10	22	–
Denmark	56	19	21	5
Germany	40	40	20	–
France	56	21	17	6
Sweden	43	17	22	18

Source: *Improving effectiveness and efficiency of Dutch housing associations by Jacco Hakfoort and Michiel van Leuvensteijn: Boelhouwer (1999)*

From the table above it can be seen that Germany provides the highest percentage of rental housing followed by the Netherlands. Whereas the United Kingdom has the highest percentage of owner occupied housing.

Housing construction is booming in most of the mega cities in south East Asia. The table below shows the tenure forms and distribution and we can understand that tenure form vary a lot from country to country.

Table 3: Tenure forms and distribution in South East Asia.

Tenure forms, and distribution (per cent of total stock), in South East Asia.

Country	Owner occupied	Rental, total	Public/municipal rental	Private rental	Employer provided	Others	Year
Taiwan ¹	9	12	3	9	6	3	2000
Singapore ²	20					80 ³	2003
Hong Kong ⁴	56 ⁵	44	31	13			2002
Philippines ⁶	41 ⁷	4				4 ⁸	1990
Malaysia ⁹	85	13	7	6		2	1998
Vietnam, Hanoi ¹⁰	78	22	15	7			2001
Thailand ¹¹	82	18				5	2000
Bangkok ¹²	54	41					1998
China, Peoples Rep. ¹³	47	46				7 ¹⁴	1996
Japan ¹⁵	60	34	7	27	4	2	1998
Macau ¹⁶	76,5	18,9			4,6		2001
Korea, rep of Seoul ¹⁷	41	16				41 ¹⁸	2000

Source: *Global Tenant- International Union of Tenants' Quarterly magazine April 2004*

2.3 The Role of Actors in Rental Housing

There are various actors involved in the rental housing, they are the landlords, tenants, sharers, and shareholders in the cooperatives. Each of these actors and their roles are described in detail below.

2.3.1 Landlords

The supply side of most rental markets is characterized by the landlords. There are private landlords who are mostly small-scale investors and own one dwelling only and very few own more than three. The other type is institutional landlord, which would include central government, local government, public enterprise, corporation, pension funds, investment bank or insurance company.

All landlords let property to obtain an income but the reasons they do so and the strategies that they follow in generating that income are highly diverse (UN-HABITAT, 2003). Some landlords do it as a commercial exercise and we can call them professional. The others are not letting for commercial purpose and we can call them non-professionals landlords.

For professional landlords, the rate of return or profit is the main objective. The institutional landlords such as investment bank, pension fund, insurance company or real estate developer, they pursue a diversification of their investment portfolio and investment in real estate fits into that strategy (Priemus and Mandič, 2000). The small scale ones not only think of rate of return but also want to take any incentives that may be on offer from the government and minimize their taxable income (Beer, 1999).

For non-professionals, they will certainly not be able to say whether their housing investment matches the potential returns from other activities. But the income of rent is still very important to them. The lack of commercialism has something to do with the fact that many do not know other way to make money, and for them rents seem to be more tangible than putting money into a bank or other kind of financial institution (UN-HABITAT, 2003). Rents for these landlords serve as a safety net against precarious employment, meeting household expenditure, housing improvements, a regular source of income when moving from waged employment to own account forms of employment, capital investment and rotation in business, as a form of pension after retirement and as investment for the next generation (Kumar, 2002 quoted in UN-HABITAT, 2003). From the housing life cycle point of view, renting is a temporary arrangement. Letting property also provides a partial solution to the problem of what to do with a house if it cannot be sold. Some inherit homes that they do not wish to live in. Others need to move but are unable to sell their existing home in order to buy another (UN-HABITAT, 2003).

Another kind of institutional landlords such as central government, local government or non-profit housing companies, they either let property for their employees or for a target group as the social rental housing.

In Sweden, Municipalities are the main actors and are responsible for housing provision at local level. Central government enacts legislation and provides the economic means for the municipalities to manage their task. Rental housing accounts for 47%, half of which is owned by private landlords, owner occupied homes accounts for 37% of the housing stock, and 16% owned by cooperative-tenant owner housing. There are municipal housing companies in Sweden, they are non profit companies and they own about 20% of the total housing stock (Åstrand, Lecture notes, 2005).

The Hong Kong Housing Authority is one of the largest landlords in the world providing over 640,000 public rental units for 600,930 households in Hong Kong as of 31 March 2003 (Global Tenants, April 2004). Which means that there is excess supply of rental housing in the market.

The other social landlords is the Hong Kong Housing Society, which has a rental housing of 31,000 social rented stock, which is relatively small compared to the public rental units provided by the Housing Authority.

2.3.2 Tenants

Tenants are usually families who are staying in a dwelling unit with a condition of paying a certain amount of money regularly. The characteristics of the tenant population depend fundamentally upon the nature of the local housing market. In certain cities one kind of household may own whereas in others the same kind of households may rent. A household's decision rests on the relative costs of renting versus owning and upon the relative size of the rental housing stock (UN-HABITAT, 2003). When UN-HABITAT analysed the characteristics of tenants, the following factors were taken into consideration:

(i) Income: The poor households tend to rent while the rich ones own. However most poorer cities differ from those in developed countries as many poor families can also own a 'house' in an informal or illegal way when free or cheap lands are available.

(ii) Age: Tenants tend to cluster at opposite ends of the age range. In most cities it tends to be a young person's tenure, particularly prevalent among students, those entering the housing market for the first time and migrants. Sometimes it is also an old people's tenure.

(iii) Household structure: Generally in most cities, certain kinds of households always tend to rent: recent migrants, foreigners, young and mobile households, single people, and couples without children. In the United States of America, 'one in three renter household consist of one person', similar pattern appears to be true in Sweden, where 40% of the household comprise of single person (Astrand, Lecture notes, 2005). In many developed countries like Sweden and the Netherlands, the number of household continue to rise, but the size of average household continues to shrink. While in the developing countries, both the numbers as well as the size of the household are rising.

(iv) Migration: Compared to the natives, the newly arrivals in cities are in an inferior position in terms of income level, social status and familiarity with the local situation. Usually they cannot afford or they do not have access to house ownership. So rental housing is the best option for the new those arriving new to the city. The main factor related to migration is the urbanization process.

(v) The life cycle. Many housing researchers have attempted to explain tenure choice in terms of an individual's life cycle. Young people tend to avoid the responsibility of homeownership whereas families are often obliged to take them on. Also the rate of household formation, size of families and rate of divorce also affect the tenure choice.

(vi) Culture: In some countries the youth tend to leave the family very early and in others they can stay with parents until getting married. This has a strong relationship with the indigenous culture. Some cultures have the fanatic bias towards the ownership which will also affect the nature and demand of rental house.

The other factors which the UN-HABITAT did not mention but appeared in some researchers' analysis include the nature of the economy and the rate of unemployment (Beer, 1999). He stated that an economy marked by greater flexibility in employment associated with decline of full-time, permanent work has great impact on the income level and security and the normal workers' access to house ownership would be more difficult.

2.3.3 Sharers

In most societies, many people share their homes with others. This arrangement may be temporary, brought about by long visits from distant relatives, financial difficulties or marital problems. Sharing has both advantages as well as disadvantages; it is advantages because it will be cheaper as both sharer and the host derive benefits from sharing. The disadvantage is about the lack of independence and privacy. If the rooms are small then sharing raises room densities and sometimes produces overcrowded living conditions. Servicing can also be a problem when sharing increases the number of people living in the property. Various surveys suggest that sharers can be identified by the certain features: The great majority of the sharers are related to owners, most sharers tend to be younger than tenants or owners, Sharers tend to be quite poor, many are only sharing for a time, some are more permanent residents than most tenants. Sharing is common in some cities than in others. Differences in the incidence of sharing may be a cultural feature of the society concerned.

2.3.4 Roles of various Actors in the Housing Process in Sweden

In Sweden there are public and private actors in the housing process. The public actors are the state, municipalities, National Board of Housing and Planning, and the private actors are owners (owners association, housing cooperatives, Swedish Association of Municipal Housing Companies (SABO), the Swedish Federation for Rental Property Owners, banks and contractors) and tenants (the tenants associations). The State exercises control over construction standards through building regulations. The regulations mainly concern structural engineering factors, durability, health, quality of living and energy. The state is also responsible for the setting of housing policies and providing a conducive environment for the other actors to play their role in the housing process. The state can also intervene through subsidies, directly or indirectly to the demand side and/or supply side (Åstrand, lecture notes 2005).

The National Board of Housing and Planning, plays a regulatory as well as an advisory role in planning, housing and environmental aspects at the national level. It promotes the quality in housing at reasonable prices. It also administers efficient use of government subsidies and improved energy systems. Municipalities are the most important actors in the area of housing. The Planning and Building Act (PBA) provides the framework within which municipalities can act. They are responsible for physical planning and issuance of building permits, they have an obligation to ensure that land is available for housing development and that the residents have accommodation. They are responsible for planning social care in the housing areas e.g. children facilities and special type of dwellings for the elderly and people with functional impairments. They can also issue financial guarantees for housing construction. Most municipalities have non-profit public housing companies which provide rental housing (Kursis, lecture notes 2005).

In cooperative housing associations (tenant ownership) a group of individuals form a housing cooperative in order to build houses for themselves. They occupy the houses as tenant-owners. In Sweden tenant-owner housing accounts to 20% of the total housing. Owners through the Federation for Rental Property can influence the rent for properties. Other actors are banks, credit institutions and contractors like Skanska and NCC play a big role in the housing process by investing their own funds in build-own/operate transfer (BOT) providing construction/development or mortgage loans. Tenants, through tenants associations negotiate and set rents for all rental housing (Åstrand, lecture notes 2005).

2.4 Tenure conditions

Secure Tenure as described, by the United Nations, is an agreement between an individual or group to land and residential property which is governed and regulated by a legal and

administrative framework. The Security derives from the fact that the right of access to, and use of land and property, is underwritten by a known set of rules, and that this right is justifiable. From the tenants point of view tenure conditions are very important and require a written agreement to have security of tenure and to improve the condition. For example in Norway tenants can stay in the rented apartment for seven years whereas in Sweden the tenure condition is for unlimited amount of time unless if they don't pay the rent in time or they cause nuisance to the society. From the landlords position, it is very important to have an agreement so that the pays the rent in time and will not vacate the house with a short notice. It is a safety tool for both the parties to protect their roles and responsibilities.

2.5 Rent Policy

It has been a goal of many governments to keep housing affordable for people on low incomes and this goal could be achieved through rent policy. In the Netherlands, rents and rent increases are subject to rules. This applies to both the private sector and the social sector. However this is not applicable to many other countries. To describe in detail about the rent policy, it has been divided into rent level, rent setting and rent subsidy.

2.5.1 Rent level and Rent Setting

As housing is a human right, with reference to the Universal Declaration of Human Rights (1948 Article 21.1) and the UN International Covenant on Economic, Social and Cultural Rights (1966 Article 11), rents have to be set at an affordable level.

Landlords always tend to argue that rents are too low, tenants say that they are too high. Both sides are likely to abuse the statistics. As such, it is rarely easy to establish the truth. Part of the problem about rent levels relates to what is meant by rents being 'too high'. Sometimes, rents make up a very high proportion of the tenant's income but are nonetheless still too low for landlords to make a profit or even pay for maintenance of the property (UN HABITAT 2003). Rents should be in reasonable proportion to the income. By Western standards – 'reasonable' level, means 20-30 per cent of disposable family income. If a tenant household cannot pay the rent being charged, the market would suggest that either the rent must fall or the household must leave, voluntarily or through eviction. If the rent falls, and landlords receive a smaller income, the danger is that the quality of the housing supply will decline. A further problem is that when there is a substantial difference between the level of rent that will encourage landlords to rent out property and the ability of rental households to pay that level of rent, landlords will stop investing in rental housing.

In the Netherlands, the Dutch government has set limits to increases the rent level since the Second World War. On one hand they want to keep housing affordable for people with modest means and on the other hand rent level regulations are an attempt to create a better balance between the cost and the quality of rental housing. This provides tenants with protection in a tight housing market. There are rent level controls even in social and private sectors (Acioly, Lecture notes 2005).

In Sweden, rent control was introduced in 1940s. It only permitted general annual rent increases to cover increased running costs for housing companies. It was phased out in the late 1960s, although it remained in force in many places into the 1970s. In 1968 a use value system for rents was introduced to strengthen tenants' protection from notices to quit and from excessive rent increases. The intention of the system was to give tenants substantial security of tenure, which means that there has to be a limit on rent levels. Rent levels in municipalities are set in negotiations between the local tenant association and the municipal housing companies. When rents are fixed, the size, standard, and location of individual dwellings are taken into account, as

is their proximity to services. The rent levels resulting from these negotiations are used as the benchmark for the privately owned housing stock in the locality (Åstrand, lecture notes 2005).

2.5.2 Rent Subsidy

The rent subsidy is a housing benefit and intended for people who are not able to pay the housing costs for their rental dwelling. It is part of an enabling approach to housing in which the goal is to create a well functioning housing sector that serves the needs of all key stakeholder groups. In many countries in order to be considered for rent subsidy, regulations are used that have to do with income, age, personal means and the rental price.

In the Netherlands, in 2002, nearly one million tenants were given rent subsidies for a total amount of more than 1,5 billion Euros. The individual amount per household was 136 Euro per month. Despite the fact that the social housing organisations are more careful; about housing allocation, there is still much use of the individual rent subsidy. This is mostly caused by the growing number of older people, pensioners and people with unemployment benefits (Acioly, lecture notes, 2005).

In Sweden the subsidies are different, the State subsidies the cost of housing in various ways both directly over central government budget and via the tax system. Interest subsidies are provided for all new production and renovation of tenants owned and rented dwellings. These subsidies are being topped up with temporary investment grants to stimulate increased production of rented housing. The general tax deduction for loan interest enables owner occupiers to reduce the expenditure up to 30 percent of interest expenses. In addition, State credit guarantees are provided in order to facilitate the financing of new housing. There are also State housing allowances. The purpose of these allowances is to enable low income households to live in good quality dwellings of an adequate size (Åstrand, lecture notes 2005).

2.6 Housing or rental Cost,

Housing cost or rental cost is a key issue in the analysis of living standards. In part this reflects variations in the quality of housing, but there are also significant cost variations that do not reflect quality changes or differences. Expenditure on housing is an important item in household budgets. Housing costs vary greatly from one household to another and from place to other.

In Sweden housing costs vary from one municipality to another. The age and standard of housing also effects the rent level. In 2002 the national average rent for a two room flat with an area of 70 sq.m was about SEK 4300 per month. In Stockholm the average rent for a flat of that kind is about SEK 4700 per month. Housing cost in Sweden rose sharply in the mid 1990s, both in absolute terms and as a share of disposable income. In 2000 an average household paid 26 percent of its disposable income in a rented apartment (Åstrand, lecture notes 2005).

2.7 Technical Standards and Quality of rental housing

The quality of the housing stock depends mainly on the following factors: the technical condition, the facilities in the dwelling itself, the dwelling's appearance, noise insulation and the floor space in the rooms. In many countries especially in the developing countries large numbers of tenants live in very poor housing conditions. It is a well known fact that homeowners look after their property whereas tenants do not. Studies have shown that *"homeowners, unlike renters and landlords, have both an economic and a use interest in their properties. This combination of interests seems to provide powerful incentives for owner-occupants to maintain their properties at a higher standard and to join organizations that protect the collective interests of homeowners in the area"*(Rohe and Stewart, 1996). Findings in the United Kingdom show that the private sector has a disproportionate share of the properties in the worst condition (DETR, 2000). Even in

Belgium, the housing quality of the rented dwellings is poorer in comparison with owner occupied dwellings (De Decker, 2001).

The quality of housing stock also depends on the country's housing policy and is also very much related to who owns the rental stock. Usually the landlords are responsible for the maintenance of the building.

2.8 Legal Issues: Tenants Rights

In Developed countries, majority of the tenants and landlords sign written contracts that conform to rules laid down in the rental legislation. This gives both landlords and tenants the right to go to the court in order to seek redress against wrongdoing by the other side (UN HABITAT 2003).

The International Union of Tenants, in the Tenants' Charter states that "the right to quality, affordable and accessible housing is a universal human right which must be legally enforced in the constitutions and legislation of all countries".

There are important information for tenants which the SABO (Swedish Association of Municipal Housing Companies) writes it as "Your Tenancy agreement is a valuable document, Pay your rent on time, Check your keys, Telephone numbers for service and emergency calls, Report faults and damage in the flats, Get a fire detector, Take Care of your flat, You have the right to peace and quite in your home and a few rules about the pets". Such information are very important for every tenants.

2.9 Housing Management and Maintenance

The management and maintenance of the existing housing stock is an important task for housing organisations. In the developed countries a large amount of money is spent on maintenance and management but this is not true in developing countries where they do not have enough money to meet the demands for housing. That is why most of the housing are badly in need of repair. It is common that the landlord is required to keep housing in good condition and is responsible for all the cost that this requires. Only the small, daily maintenance is the responsibility of the tenant. Maintenance can be carried out in two ways, planned and unplanned. Planned maintenance are long range carried out on parts of the building in a specific cycle of several years and they are major maintenance and requires a lot of capital. It could be either the entire facade of the building or specific facilities in the dwelling are tackled.

Management of the housing stock is more than just the dwellings in good technical repair. The quality of the living environment, management of the public spaces, maintenance of green areas, pavement surfaces, combating vandalism and decay are very important for improving the quality of life in the neighbourhood.

2.9.1 Example of Self Management of housing area in Holma, Sweden

A very good example of self management of housing area is in Holma, Sweden. The Swedish 'One Million Housing Program' was implemented during 1965 and 1975 with the aim to provide a large number of dwellings in ten years period in order to reply to the growing demand for affordable housing. So Holma is a neighbourhood built during this period. It is located in Malmo and is managed by the Malmo Municipal Housing Company (MKB). It has around 1046 rental apartments, in three and eight storeys high buildings (Does, thesis report 2004). The houses had technical problems and the area did not have access to the required services and facilities. There was one building separately kept for political refugees. It was not a safe neighbourhood and there was a lot of vandalism, which resulted in high vacancy. To keep the value of the neighbourhood and to increase and preserve the quality of living space, the MKB introduced the self management in the neighbourhood. They started an office at the neighbourhood which otherwise was at the

centre of the city and started treating the tenants as clients. MKB did a survey in the area and came in close contact with the citizens. Consultations were carried out to find out what the residents wanted to be done. The findings were that the neighbourhood was not integrated and the people did not have the feeling of belonging and attachment to the area. The tenants wanted a clean attractive and undistorted environment, improved performance of services, and improved security and social relations. So the self management is an approach in which people of the neighbourhood maintain the public space on voluntary basis. For their work they receive a fee per month in the form of rent reduction and at the end of the year a grant to buy garden equipment, plants and other material for the common outdoor space is also given. For places where there is no volunteer the MKB makes agreement with those who want to maintain part of the public gardens. Today 50% of the MKB Holma is self maintained and the improvement in the quality of life is visibly seen (Astrand, lecture notes 2005). From this example we can make out that the community participation is very important and the community should be treated like clients. They stay in the neighbourhood so they know what they want and what is good for them. But the result could be different in other place. It is also to be remembered that a success of a concept in one place will not necessarily be successful in other place.

2.10 Conclusions

Few decades back, the European cities were also going through the same situation what the developing countries are going through presently. Some of the new city-dwellers lived in the dead-end streets and alleyways of the old city centres. Others were housed in cramped, dark tenements. Public health in the more densely populated neighbourhoods were poor, due to a lack of clean drinking water, a sewer system or a garbage collection service. Cities were also plagued by social ills, such as crime, prostitution, child labour and alcoholism. Eventually the social situation deteriorated to such an extent that the government had to intervene. So in the developing countries too if the government plays an active role in the provision of housing, the problems could be reduced. But it is very rare that a model adopted in some country to work in another country. This is mainly due to the attitude of people, the difference in the living conditions and style. Presently in the developed countries the policy of the government is from quantity to quality but in developing countries like Bhutan, meeting the demand of housing is still a challenge for the government as well as for the private sector.

Chapter 3 Rental Housing in Thimphu

Rental housing in Bhutan is predominantly an urban phenomenon. It is seen mostly in the urban centres like Thimphu, where approximately 70-80% of the inhabitants are tenants. The large percentage of tenant household in Thimphu could be explained as it is an administrative capital of Bhutan and most of the people are not the original inhabitants of Thimphu but they come from different parts of the country due to their job or business activities. Majority of the household live in rental housing because they cannot afford to buy their own house. The rental sector in Thimphu can be divided into three types: the public, the semi public and the private rental sector. Each of these sectors has been elaborately described below.

3.1 The housing situation – types, tenure and condition

Different dwelling types and tenure arrangements exist in Thimphu but they are not easily accessible to all households. As in most other developing countries, lower income groups in Thimphu have great difficulties in finding suitable and affordable housing. There are two major tenure forms in Thimphu, they are ownership and renting. For the purpose of this research rental housing is the main focus and any discussion of rental housing in Thimphu refers to the hierarchy of housing classification originally established by the government; it is also used commonly by the private sector. In general, the house types are classified into four broad categories: Class I, Class II, Class III and Class IV. Class I and II type houses are usually considered for high and middle income occupants and are larger in size. Class III and Class IV are intended for lower income and generally have 2 and 1 bedrooms respectively.

The main tenure forms that could be seen in Thimphu are as follows:

1. Publicly owned rental housing
2. National Pension and provident Fund housing
3. Private rental housing
4. Owner occupied
5. Informal settlements
6. Others

3.1.1 Publicly owned rental housing

The publicly owned rental housing includes all the housing units constructed and rented by the government to house the civil servants. The rents are highly subsidized and relatively lower than the market rate, as a result most of the tenants continue to stay in these rented apartments till the tenure of their government service. Public rental housing in Thimphu consists of mostly apartment buildings of 2 to 3 storied heights, only those houses that were constructed in the beginning when rental housing started; they are individual or single storied houses.

When rental housing was started in the 1970s, government aimed at providing housing to all its employees. At those times the government was able to meet the demand with a little contribution from the private sector, but soon it was difficult because of lack of resources and increasing demand for housing.

According to the National Housing Development Corporation publicly owned housing stock accommodates 10.6% of the civil servants in 880 units in Thimphu. The Changjiji Housing project has added 669 units to the publicly owned housing stock, out of which 498 units has already been completed and allotted and another 171 units are under construction and is expected to be completed in a few years time. With this the total number of public housing stock will increase to 1549 units. This excludes housing provided by some departments like armed forces, hospital, power corporation, institutes and schools to some of their staff members.



Single individual house for high income government employee



Multi family Housing



(Low income government employee)

Single individual House



Multi family housing for middle income



Single individual house for high income

Fig.3: Publicly owned rental housing built at different periods
(Photos taken by researcher)

Until July 2003 government employees paid 30% of their income to occupy a publicly owned housing unit. The rent was deducted at source from the salary every month. After July 2003 a new policy has been implemented and rents are charged on usable floor area basis and in Thimphu Nu².3.50 are being charged per square foot³ irrespective of the class. The difference in various categories of public rental housing lies only in size and the number of bedrooms and toilets of the house. The materials and finishes used are of the same quality in all publicly owned housing.

The general condition of the publicly owned housing stock is fair. Every year certain budget is allocated for maintenance and repair. But this money is not even sufficient for the urgent and immediate repairs. So painting, resurfacing and other major maintenances of interior and exterior are not attended to.

Publicly owned housing are segregated by class and usable floor area basis which are mentioned in the table below.

Table 4: Civil Service Salary and Housing Categories ⁴

Housing classification	Civil Service Grade	Salary Structure	Usable floor area(Sq.ft)	No.of Units	Changjiji Housing project
Class IV (1 bedroom, 1 Toilet, 1 Kitchen)	17	3250-4450	271-300	72	-
Class III (2 bedroom, sitting room, kitchen, toilet)	16	3500-5000	301-700	421	498
	15	3850-5450			
	14	4100-6100			
	13	4350-6450			
Class II (2 bedroom, sitting room, 2 toilets, kitchen with store)	12	4700-7100	701-1100	245	-
	11	5300-7900			
	10	5800-8600			
	9	6400-9700			
Class I (B) (3 bedrooms, sitting room, 2 toilets, kitchen with store)	8	7000-9775	1001-3000	142	-
	7	8550-11850			
	6	9600-13500			
Class I (A)	5	10950-15300			
	4	12400-17275			
Special class	Above 2	18750-25050			

Bhutan Civil Service Rules and Regulations, 2002; Source: Housing Unit, Department of Urban Development and Housing, Ministry of Works and Human Settlement.

3.1.1.1 Changjiji Housing Project:

Changjiji is the largest Housing project in Bhutan. The complex is located towards the south of the main city at a distance of approximately 1.5 km. It is targeted to the low middle income civil servants. This project is government's response to the increasing housing demand. After more than a decade government decided to intervene and address to the housing backlog issues and initiated this project in the beginning of 2000.

² Nu is a Bhutanese currency, 1 USD ~ 43 Nu

³ 1 sq.m = 10.76 sq.ft

⁴ Bhutan civil service Rules and Regulation, 2002, Source: National Housing Development Corporation



View of Changji from the main city



Over looking the main city from Changji



Type II Building



Type I Building



Construction of phase III Buildings

*Fig.4: Changji Housing Project (publicly owned rental housing):
(Photos by researcher)*

The whole project comprises of 61 buildings providing accommodation to Low and middle income civil servants from grade 9 to 15 and the salary level varies from Nu.3850 to Nu.9700 per month. There are two types of building and they are categorised as type I and type II, both the buildings have 2 bedroom apartments. But the type I buildings have 4 units per floor making it 12 units in the whole building where as the type II building has 3 units per floor which means 9 units in one building. The average size of type I is 640 and for type II is 590 sq.ft. The construction was divided into three phases, Phase I and II has been completed which comprises of 10 buildings with 120 dwelling units and 45 buildings with 378 dwelling units respectively. The construction of Phase III buildings are under way and would add 178 more dwelling units.

3.1.2 National Pension and Provident Fund (NPPF) Housing

National Pension and Provident Fund (NPPF) Housing which otherwise is called the Semi public housing is the largest Real Estate developer in Bhutan. It was established in 2000, with the transfer of Government's provident fund scheme along with the real estate business management from the Royal Insurance Corporation of Bhutan (RICB).

The National Pension and Provident Fund (NPPF) today own 34 buildings with 234 residential units in Thimphu. 5 residential and 2 commercial cum office buildings are under construction and they will be completed by 2005 and 2007 end respectively.

Table 5: Housing classification of NPPF Housing

Year of Construction	Type of Building	Housing classification	Plinth Area (Sq.ft)	No of blocks	No. of Units	Civil service Grade	Rent per month
1980	I	3 bedroom, 1 Living cum dining, 2 Toilets, 1 Kitchen with store, 1 servants quarter with attached toilet	1,500	3	18	5 and above	4900
1980	II	2 bedroom, 2 toilet, 1 living cum dining, 1 kitchen with store, projected balcony	960	5	30	6 and 7	3260
1980	III (old)	2 bedroom, 1 living cum dining, 1 kitchen, 1 toilet, projected balcony	570	1	12	8,9 and 10	1960
1989	III (new)	2 bedroom, 1 living cum dining, 1 kitchen, 1 toilet, projected balcony	625	12	72	8,9 and 10	1960
2003	IV	1 bedroom, 1 living cum dining, 1 toilet, 1 bath, 1 store	350	4	48	below 10	1700
2005	II (New)			9	54	6 and 7	5000
			Total	34	234		

Out of 34 buildings 9 buildings were constructed in early 80s and 12 in 1989 when it was under RICB. Their conditions of these buildings have deteriorated due to age, long usage, earthquake and natural wear and tear and are in need of repair and maintenance. After the formation of NPPF in 2000, it immediately decided to build more dwelling units and has already added 13 buildings with 102 units within a period of five years and five more residential buildings are under

construction which will be ready in a year's time. These new buildings were constructed in the same site as infill housing.



View of the whole complex



View of Class I Buildings



IV Buildings (old)



III Buildings (new)



III Buildings (old)



II Buildings (new)

Fig.5: Showing Housing by National Pension and Provident Fund
(Photos by researcher)

NPPF considers its housing stock as an investment with an expected financial return. It manages its operation with the flow of funds from the contribution of the provident funds.

NPPF has a plan to acquire land in the near future and construct more rental housing. From June 2003 NPPF has started giving loans for housing with an interest rate of 10%. The maximum amount of loan is fixed as Nu.3 million, with a repayment period of 20 years.

NPPF also calculates rents on the basis of floor area and follows the same tariff as the government. However NPPF has included an annual increase of 3.3% and it has also increased the rent level in the newly constructed buildings.

The building condition of NPPF is same as publicly owned housing stock, with repairs and maintenance at the minimum. Every year certain budget is allocated for maintenance and repair. But this money is not even sufficient for the urgent and immediate repairs. So painting, resurfacing and other major maintenances of interior and exterior are not attended to. The major and periodic maintenance are carried out by the management of NPPF but the regular cleaning and maintenance are done by the tenants.

3.1.3 Private Rental Housing

The private rental sector consists of the housing units provided by the landlords. The bulk of the supply of housing units in the rental sector is done by the private landlords, accounting to approximately 70% of the rental housing stock in Thimphu. These houses are mostly constructed by individual landlords who own one or two blocks of apartments. In some cases it is passed on from the family. The landlords are businessman and senior government officials who are either retired or still in the service.

True figure are not available about the breakdown of the private rental stock, but considering the population of Thimphu as 53,000 as per statistical year book of 2002 and with an annual growth rate of 7% the population in 2005 is approximately 64,900. The average urban household family size of 4.32⁵ and the total rental housing provided by public and semi public sector is approximately 1800 units. There could be as many as 13,000 privately owned units. This figure includes both owner occupied and rental housing. The private sector has taken a lead in the provision of rental housing in the last two decades and construction has been still increasing and booming in the recent years. Construction from the private sector has been mostly for the middle and higher income households. The concentration of rental housing is more in and around the inner city where the single and double storied houses are being replaced by the modern three to five storied buildings comprising of spaces for commercial use in the basement and ground floor and 1st to the top floor designed for residential use or sometimes for offices.



Private rental housing for high income

⁵ Source: National Statistical Bureau, Bhutan Living Standard Survey - 2003



Newly built rental housing for middle and higher income



Traditional Bhutanese rental housing for low income



Commercial and residential building



Old private rental housing

*Fig.6: Private Housing of different types
(Photos by researcher)*

3.1.4 Individually Owned houses

These are owner occupied houses and they are seen of various shapes, sizes and qualities. The individually owned houses are predominantly seen at the out skirts of the main city where larger plots of land are available. These individual houses are affordable only to the richer class of the society and the middle and low income still stay in the rented apartments. Now with the extension

of the municipal boundaries, many middle income people have bought plots of land in the extended areas with the intension of constructing their own houses in the near future.

3.1.5 Informal settlements

Informal settlements in Thimphu are mostly in the form of labour or work force camps. They are not particularly significant in number but are an issue that requires attention. Even though they are countable in number but are still difficult to control and handle. The National work force have mostly built on government land. The temporary labour force settlements that are associated with specific construction projects also become long term settlements in one location or another.



Fig.7: Illegal settlement outside the fence of Youth Centre Office, Motigthang (courtesy: Thinley Penjore)

Very recently the Thimphu municipal corporation is taking some serious action to evict these squatted areas.

“The deadline to evict the 151 households illegally squatting on government land in Thimphu has been extended from 10th of August to 31st December 2005 according to the Thimphu City Corporation”, this was done in order to allow the school children to complete their academic year which ends in 18th of December. This is a very serious step taken by the City Corporation for evicting the household illegally squatting on the government lands. This action was taken in order to avoid the formation of slums and squatter settlements.

Eviction postponed to December 31

Posted on Sunday, August 14 @ 00:12:09 CDT EST

♦ **13 August 2005** - The deadline to evict the 151 households illegally squatting on government land in Thimphu city has been extended to December 31, according to the officials of the Thimphu city corporation.



108 illegal dwellers wait anxiously outside the Thimphu city corporation office

Fig 8: Source: Kuensel online, Posted on Sunday, August 14, 2005

3.1.6 Others

Other tenure form includes condominium and the company owned housing. Condominium or owner apartment is a new concept adopted in 2003, which allows the conversion or selling of individual apartments. Even though this type of tenure is in high demand but is still not very popular. This could be due to numerous problems encountered including lack of regulatory process concerning deposits and schedule of payments for the purchase of units before construction and city corporations' long process of approval of plans.

Company or department owned housing are those that are not included in the publicly owned housing stock. These are some of the departments that provide housing for their staff. These include the housing for the armed forces, hospitals, power corporation, schools and institutes.

3.2. Actors involved in rental housing

Following are the actors which are currently involved directly or indirectly in the Rental housing production:

- i) National Housing Development Corporation;
- ii) National Pension & Provident Fund (NPPF);
- iii) Thimphu Municipal Corporation (TMC);
- iv) Bhutan Financial Institutions;
 - Bhutan National Bank (BNB);
 - Royal Insurance Corporation of Bhutan (RICB)
 - Bank of Bhutan (BOB);
 - Bhutan Development Finance Corporation (BDFC); and
 - National Pension and Provident Fund,
- viii) Individual Private Developers / Private Sector.

3.2.1 National Housing Development Corporation (NHDC)

NHDC is a newly formed body which started functioning officially in July 2003. This came into being after the government recognised housing as a serious problem and needed immediate attention. It functions under the Department of Urban Development and Housing (DUDH) in the Ministry of Works and Human Settlement (MoWHS). It manages, coordinates and promotes a range of Housing programmes other than actual house construction. The management of all government housing stock is NHDC's primary role. NHDC is structured with three major operational divisions in addition to administration and finance. They are namely:

1. Design and Planning
2. Real Estate management
3. Construction management

Real estate management is the division which is responsible for the management of all the publicly owned rental housing. After July 2003 all the government owned housing assets have been transferred to NHDC from the variety of agencies who were managing their own housing stock.

NHDC has set forward three mandates, they include

- Provide safe, basic and affordable housing;
- Promote home ownership
- Create a transparent and well functioning housing market.

Together with these mandates, few of the important roles and responsibilities of NHDC are:

- Oversee and monitor the national housing program;
- Research and evolve better cost effective designs , new construction technologies and more appropriate use of local materials;
- Maintain NHDC as a lead agency like Housing Development Board (HDB) in Singapore and Housing and Urban Development Corporation (HUDCO) in India for promotion as well as development of urban housing at a national level;
- Acquire land and facilitate infrastructure for housing development;
- Develop and manage low cost housing scheme of the Government;
- Work closely with DUDH and the Municipal corporations and respective Dzongkhags⁶ for identification and demarcation of housing sites.

In the long run NHDC is foreseen as a self sustainable, shareholding and profitable entity. It will focus on reforming government's role in housing and providing support for housing to the low and middle income groups. It will not be oriented towards designing, constructing, building or managing housing units, but instead promote private sector to undertake these activities. However in the short run NHDC's activities are more inline with government's previous role in housing that is designing and building housing units mainly for civil servants.

3.2.2 National Pension & Provident Fund (NPPF)

The NPPF is the largest Real Estate developer in Bhutan. NPPF considers its housing stock as an investment with an expected financial return. For additional information see **section 3.1.2**

3.2.3 Thimphu Municipal Corporation (TMC)

Thimphu Municipal Corporation started functioning as an autonomous body with the enactment of Bhutan Municipal Act in 1999. Since then all necessary planning activities of the city including preparing of local area plans and its implementation has been carried out by TMC which earlier used to be done by the Department of Urban Development and Housing. So far TMC is not physically involved in the housing production and does not intend to get involved. Their main activity related to housing includes approving the building drawings and ensuring that the houses are built as per standard. The most important role that the TMC is likely to play in future is the identification of land for low and middle income and making it available to the developers either on sale or lease. The minimum time for processing and issuing of building permit is stipulated to be 9 weeks from the registration date of the building application which does not include the time taken by the applicant to revise and resubmit the incomplete drawings.

The building applications received and processed from the year 1999 -2004 are as follows:

Table 6: Building approval procedure in Thimphu Municipal Corporation

	1999	2000	2001	2002	2003	2004
Building Applications Received	80	66	80	105	108	117
Building Permit Issued	78	65	77	97	92	106
Applications Rejected/ Cancelled	2	1	3	8	3	9
Applications under process/ pending					13	34

Source: Thimphu Municipal Corporation

From the table we can see that the number of building applications received every year has been increasing. In the year 2000 -2001 the number reduced, this could be due to the fact that the

⁶ *Dzongkhags is the Bhutanese term for district*

preparation of Thimphu structure plan and Local area development plans started. The issue of building permits had been stopped during this period.

According to the architect from the building application section in TMC, about 80-90% of the drawings approved every year are apartment buildings with majority of them having commercial activities in the first two floors and residential units on the top floors.

Further, with the expansion of city limits to the north and south of the city, the responsibility of TMC has increased even more. TMC also looks after the land transaction that is taking place within its boundary. Presently it is a trend that the higher and the middle income groups are buying plots of land in the extended areas most of them with the intention of constructing their own house in the near future.

Prior to the extension of the municipal boundary the area of Thimphu was 9.85 sq.kms, but after the expansion, the boundary has increased to 26 sq. kms which is more than three times the previous area. These expansion areas have high potential in accommodating future residential growth on what is currently agricultural lands surrounding a series of villages. According to the Thimphu structure plan sufficient land would be available for new development and densification to accommodate almost double the current population.

Land value within the municipal area is valued in different ways;

- Government rate is dictated by the Land Act of 1979 and Land Valuation of 1996. These rates are used when acquiring private land for public purposes, but are extremely low by comparison to market rates.
- Financial institutions when valuing land as collateral for loans;
- The private sector when buying or selling in the market.

Table 7: Thimphu Land value⁷

Area in Thimphu	Government rate (Nu./sqft)	Financial inst. (FI) (Nu./sqft)	Market rate (Nu./sqft)	Average % difference (FI & Mkt) (Nu./sqft)
Commercial A (land under municipality, Lungtenzampa, BOD, Truck Parking, clock Tower, Lugar Theatre, RICB Building and Chubachu)	30	600-700	1,500-2,000	269%
Commercial B (Changzamtog industrial area, Motithang, Vegetable market, Hongkong market, Milk booth)	30	200-300	800-1,200	400%
Residential A (Changzamtog, Changgedaphu, Chubachu, Changjiji, NPPF colony, Mothithang, Changankha, Kawajangsha, Langophaka, YHS, & Riverview hotel)	20	100-200	300-500	266%
Residential B (Samarzingkha, Taba, Hejo, Semtokha, Lungtenphu, Zilukha & Babesa)	20	50-100	230	306%
Residential C (Dechenchholing, Parizampa, & Begana)	20	25-50	100-150	333%

⁷ Source: ADB, Bhutan Housing Sector Reform Project report 2002

3.2.4 Bhutan Financial Institutions

Housing either rental or owner occupied is always financed in the sense that all owners of housing must pay for their units over several periods. A lot of money is involved in the construction of rental housing.

There are various financial institutions involved in Housing finance in Bhutan. They are namely:

- Bhutan National Bank (BNB);
- Royal Insurance Corporation of Bhutan (RICB)
- Bank of Bhutan (BOB);
- National Pension and Provident Fund (NPPF), and
- Bhutan Development Finance Corporation (BDFC).

Mortgage financing is one of the major lending activities of these financial institutions. The general lending norms in most of the housing finance sector is based upon the maximum borrowing limit of Nu. 5 million. The loan term is normally for 20 year period with 10% interest rate per annum. The minimum collateral coverage demanded by the financial institutions is 1.5 to 2 times the loan amount. In order to access a loan from any financial institutions the borrower must have the property registered in his/her name or in his/her spouse's name. These institutions normally extend loan facilities for construction of a new house, expansion or for additional investment on the existing property.

On 31st August 2005 it was mentioned in the national news site, Kuenselonline that *“The size and suddenness of the developments in the housing sector is a concern, say analysts. In June 2005, financial institutions loaned nearly Nu. 4.0 billion, out of a total credit of about Nu. 10 billion to the housing sector. This dwarfed any previous housing credit, the latest of which was Nu. 1.0 billion in 2002⁸”*

Table 8: Financial Institutions Housing Mortgage Portfolios

Financial Institution	Housing Mortgage portfolio Level in Million	Percentage of lending
Bhutan National Bank (BNB)	Nu. 1,400 M	44%
Royal Insurance Corporation (RICB)	Nu. 674 M	21.0%
Bank of Bhutan (BoB)	Nu. 633 M	20%
National Pension & Provident Fund (NPPF)	Nu. 500 M	15%
Bhutan Development Finance Corporation (BDFC)	N/A	N/A

Source: Kuenselonline, Bhutan's daily news site, posted on 31st august 2005 (Is housing loan heating up?)

It was also mentioned that, *“As the housing boom picks up in Bhutanese towns, there is rising concerns about the increasing number of loans and the risks of bad loans. Earlier in the month of august, 2005 the bank of Bhutan (BoB) suspended its housing loan in Thimphu and Paro⁹ on the ground that its housing portfolio was getting hot and that need time to cool it off”*

From the table above it is clear that the Bhutan National Bank has the largest concentration of housing loan at Nu. 1.4 billion, RIBC's housing loan takes up nearly 50 percent of its total credit and is also the corporation's largest portfolio. The housing loan at Bank of Bhutan has increased up by 81 percent since it reduced its interest on housing loan in January 2004, from 13 percent to

⁸ Source: Kuenselonline, Bhutan's daily news site, posted on 31st august 2005

⁹ The neighbouring district with the national airport

10 percent. NPPF registered a growth of 111 percent in its housing loan in just under one year. Its housing portfolio more than doubled from Nu. 235 million in 2004 to nearly Nu.500 million in June 2005 (Source: kuenselonline, 31st August 2005).

3.2.5 Individual Private Developers / Private Sector

The supply of rented dwellings by the private sector has been very distinct and plays a very important role in the provision of rental housing in Thimphu. They provide approximately 70-80% of rental housing in Thimphu. Although there are no formal real estate developers in Bhutan, it is only the individual private developers who own one or two apartment buildings or owner occupied dwellings. Most of the supply of the rental housing is on a small scale. In the recent years the private sector has been able to contribute a lot to the housing industry. A wide range of rental housing is made available by them in response to the demand from various income groups. The middle and higher income groups may find rental accommodation in the private sector more easily than the lower income group.

The major concern from the private developers has been about the slow speed of land transactions, high interest rates from the financial institutions, lack of infrastructure, and the restriction in the import labour. It is a common trend that every developer is constructing an apartment building with the commercial activities in the basement and ground floor and residential or office facilities in the top floors. Very few percentages are seen to be building owner occupied or single lot dwelling units.

With the extension of the city limits, there are many land transactions that are taking place. Most of the land buyers are civil servants in high and middle income groups and business people with the intention to build their own house.

3.3 Concept of Rental Housing in Thimphu: How and when did it start?

With initiation of urbanization in the late 1960s, government started building residential quarters for the civil servants in the 1970s. Along with small contributions to the housing stock from private sector, it was adequate to meet the demand of the population at that time. Government slowed down its housing supply after 1977. In 1986, Additional housing stock was added by the Royal Insurance Corporation of Bhutan (now taken over by National Pension and Provident Fund) and the private sector. This has not been sufficient to meet the population of Thimphu which is rising at the rate as high as 7% per annum. Since the housing shortage was most visible in the two major urban centres of Thimphu and Phuentsholing, in 1999 studies were conducted by the Asian Development Bank (ADB) to review the existing stock of housing and to forecast the future demand in these two towns. These studies indicate a requirement of 3892 dwelling units in Thimphu for a five year period of 2000-2005.

In 2000, after a gap of more than a decade, the Department of Urban Development and Housing formally decided to build 669 rental dwellings to the lower middle income civil servants out of which more than half has already been constructed and allotted and the rest are still under construction.

Earlier housing supply through the private sector was limited due to high construction and land costs prevalent in the urban areas. Even though the cost of the land and construction have increased tremendously over the years but still the private construction is booming. This could be due to the fact that people think of housing as a steady source of income and a very good investment for future generation. So today we see a lot of construction of rental housing initiated by the private sector.

Chapter 4. Analysis and findings:

In this chapter, data's and information that were collected through questionnaires and interviews during the fieldwork are analyzed. The analysis and findings in this chapter has been divided into 5 different parts:

- Analysis from the point of view of the tenants
- Analysis from the point of view of the landlords
- Analysis from the point of view of the policymakers
- True Pictures of rental housing from the interviews and questionnaires
- Problems and Opportunities of Rental housing from different perspectives

4.1 Responses from the Tenants

To reach to this analysis and findings from the tenants, there were a total of 35 questionnaires prepared and distributed, out of which 30 responded. The distribution of questionnaire was done personally visiting each family in the evenings when they were back from their work. There were interview conducted to the tenants and it was informal and more of a kind of discussions.

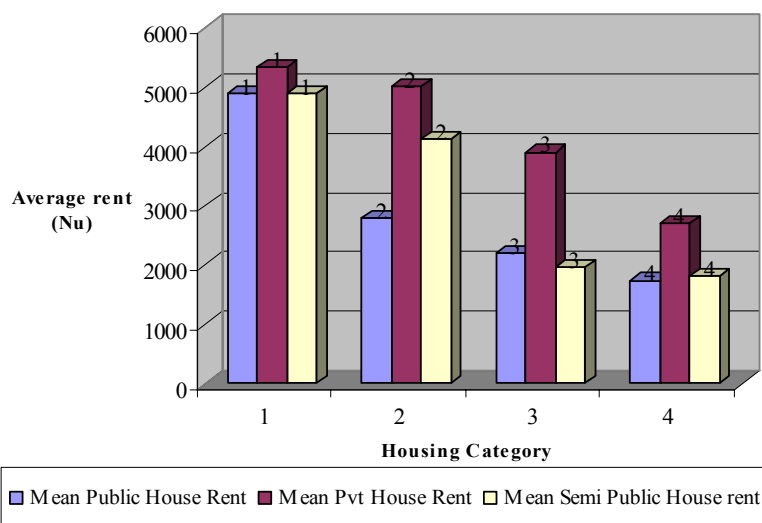
The point of view from the tenant has been done elaborately as both questionnaires were distributed and interviews were conducted. This is because they are the most important part of rental housing and they are the ones staying and can tell the actual situation. To do this various characteristics of rental housing has been identified and analysed. These characteristics such as rent level, quality and size of house, degree of satisfaction from services, agreement and sense of security and number of years living in Thimphu are discussed in detail below.

4.1.1 Rental market analysis:

The rent level in Thimphu varies greatly on who the provider is. The average rent for different classes of housing as well as for same class of housing provided by different sectors differs a lot. This can also be seen from the data analysed from the questionnaire.

The graph below indicates the average rent for different class of rental housing provided by different sectors.

Average rent for different class of rental housing



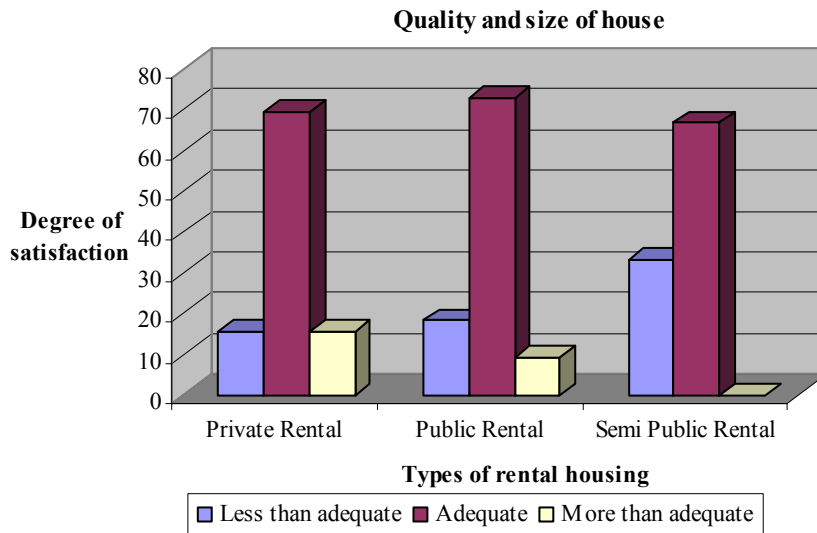
From the graph, it is clear that the public houses are always cheaper than the semi public and private houses, so people want to move to public houses given the opportunity. If we look at the average rent for class I building, the person staying in a private houses pays almost 8-10% more than in the public and semi public housing. But there is a sudden fall in the rent level in public housing from class I to class II type housing.

Fig.9: Average rent for different class of rental housing

This could be because class I buildings are mostly individual houses with bigger area where as the class II buildings are apartment units with smaller area. Since the rent levels are now calculated on the basis of the carpet area, the rent levels are higher for the bigger units. Similarly when we see for the semi public housing there is hardly any difference in the class I and class II, reason being that some of the tenants interviewed were from the newly completed class II buildings where the rent level has been set much above than the class I type and almost parallel to the private sector.

4.1.2 Quality and size of House

This is to find out the satisfaction of the tenants about the size and quality of the house with the amount of money they pay. Graph below indicates that although the private rental housing



charges more, but there is a higher degree of satisfaction from tenants living there. We can also see that the tenants of the semi public housing are more dissatisfied, this is due to the fact that they have smaller rooms and now they are more profit oriented and have started charging very high like in the private housing.

Fig.10: Quality and size of the house

4.1.3 Degree of satisfaction from services

The provision of services like water, drainage and infrastructure like roads are very important for housing. The households benefit directly from these services and infrastructure by saving time and money and can have better living conditions. Often investment on infrastructure and services encourage new construction and upgrading of existing housing, including the provision of more houses to rent. Here the degree of satisfaction from the various services like water, electricity, road, drainage, and common space has been analysed.

4.1.3.1 Water:

Water is very important and essential element in rental housing. It helps the family to stay clean and hygienic. There are lots of frustration and disputes seen in a place where there is no sufficient amount of water available. To quote a respondent who stays in a newly constructed public rental housing *“I have been staying here for the last nine months and water is the main problem in this house. I stay in the 3rd floor and we have to carry water everyday from the ground floor. The water comes in the unit at the ground floor either in the morning or evening for certain number of hours and if we miss that time we will not get water for the whole day. Because of this we have had lots of disputes with our neighbours. It was much better when we were living in a private house. It is especially very difficult as we have a small kid and requires a lot of water. Now we*

have to go to the relatives or friends house to do our laundry and for taking bath. Government should have allotted the houses when all the services were ready”.

From the graph below we can see that almost 60-70% living in the private houses are satisfied with water facilities. This is because landlord usually stays in the same house and if there is no water he is also going to suffer. It is also that the landlord owns one or two buildings and is easy to maintain. The degree of satisfaction in the semi public housing is also

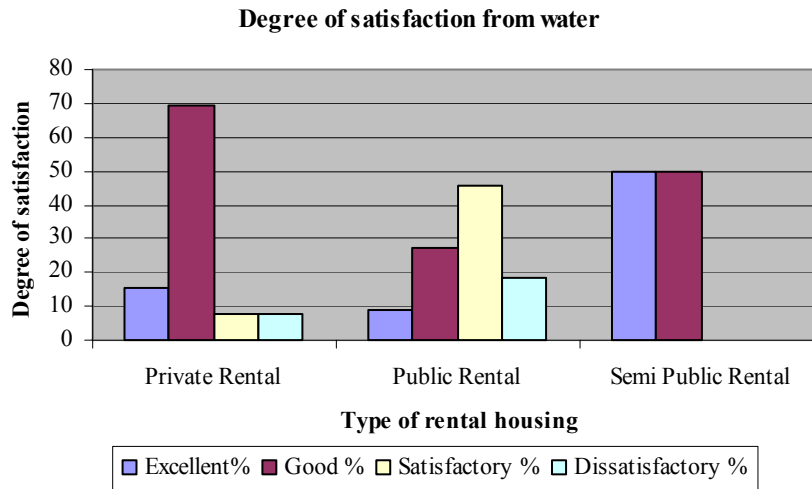


Fig.11: Degree of satisfaction from water

high, usually one or two person is assigned to do look after the services and the whole housing complex is in one location and has a maintenance site office in the same area so it is very easy to coordinate. Where as the public houses are scattered all around the city and even if people complain there is a lengthy procedure and the response is very slow.

4.1.3.2 Electricity

In general comparing to all the services, the degree of satisfaction from electricity is very high. Since there are good hydro power system in Bhutan the power cut outs and disruptions are minimum. But still we see a certain degree of dissatisfaction from the private houses. This dissatisfaction is not from the power supply but because the bill comes in the name of the landlord and is delivered to them very late and sometimes they have to bear the fine. In some cases the buildings are old and are in bad situation, so the sockets does not function and it is dangerous to use the heater and other electrical equipments.

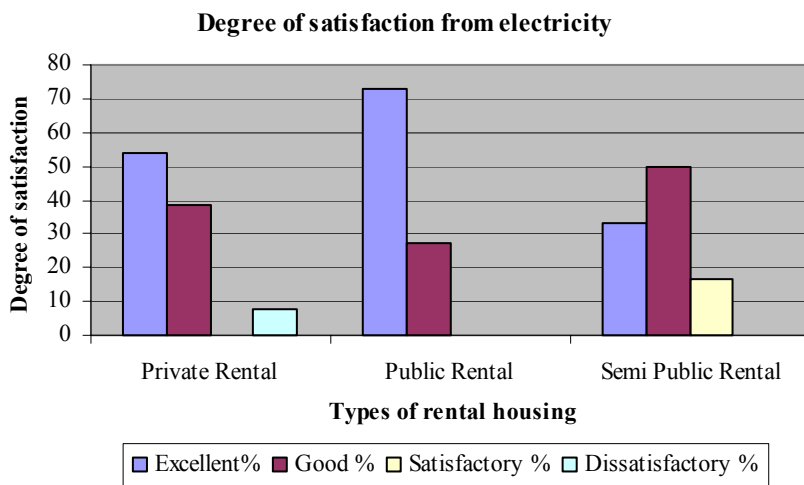


Fig.12: Degree of satisfaction from electricity

4.1.3.3 Road System

Here the word road means the direct access of road system to reach the houses and the general condition of the road. The degree of satisfaction is more from the semi public sector. As mentioned above this is because the whole semi public housing complex is in one location and it is easier to maintain. There is high degree of dissatisfaction in the private sector because some of the houses do not have direct access to the road, they have to walk for some distance to reach the house and it is expensive for the private landlords to make their own road. In general the dissatisfaction from road is due to the new construction that are happening around the city which is spoiling the condition of the road and in some cases the building materials are unloaded near the road making it very difficult for the vehicles to pass by.

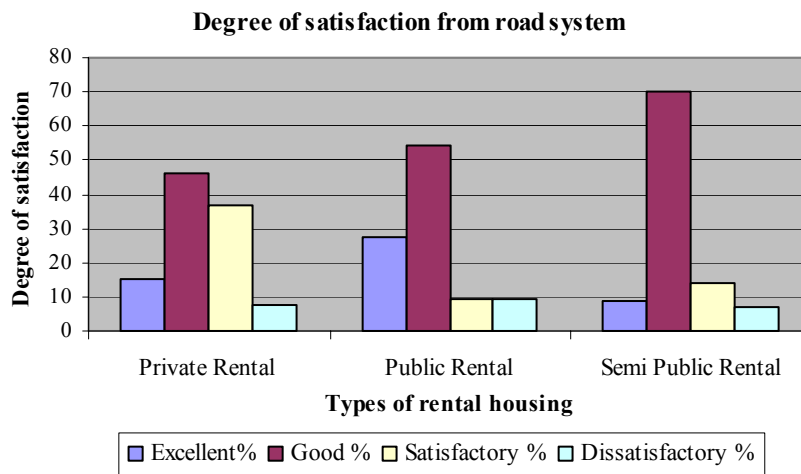


Fig.13: Degree of satisfaction from road system

4.1.3.4 Drainage

In general there is a lot of dissatisfaction seen in drainage as compared to other services. In private sector it is more because it is a very expensive service and requires a lot of capital and regular maintenance.

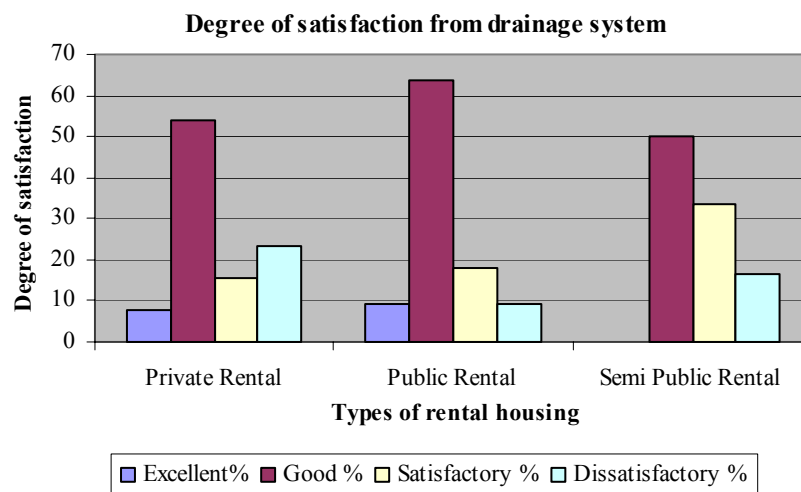


Fig.14: Degree of satisfaction from drainage system

4.1.3.5 Common space

The degree of satisfaction as well as dissatisfaction with regard to common space is almost equal in public and private sector, because there are some houses that have big common areas, play areas and parking areas but some have very small and narrow corridors designed to save on the expenditure as well as to utilize more space in the rooms.

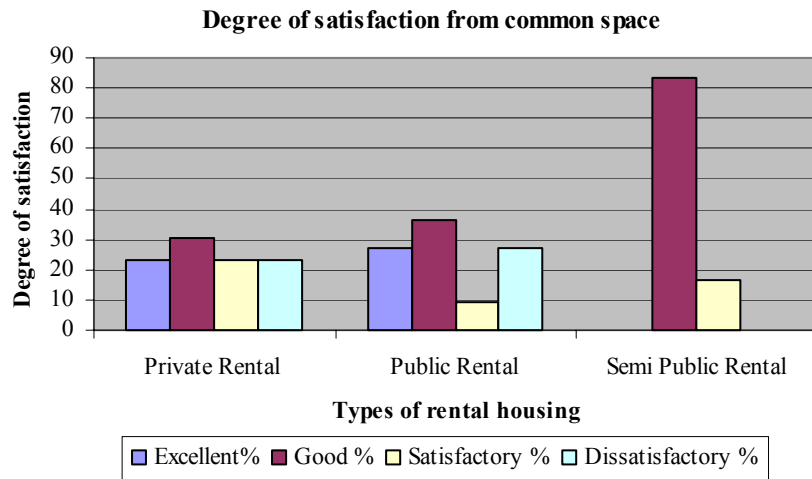


Fig.15: Degree of satisfaction from common space

4.1.4 Agreement and sense of security

It was very surprising to note that even though 75-80% of the people living in the private rental houses did not have a written agreement with the landlords, almost 70% felt secured in the house. This is either because they knew the landlord personally or they have been living in the house for a long time. But the sense of security in the public and semi public rental housing is 100% since they know that they can stay there till they retire.

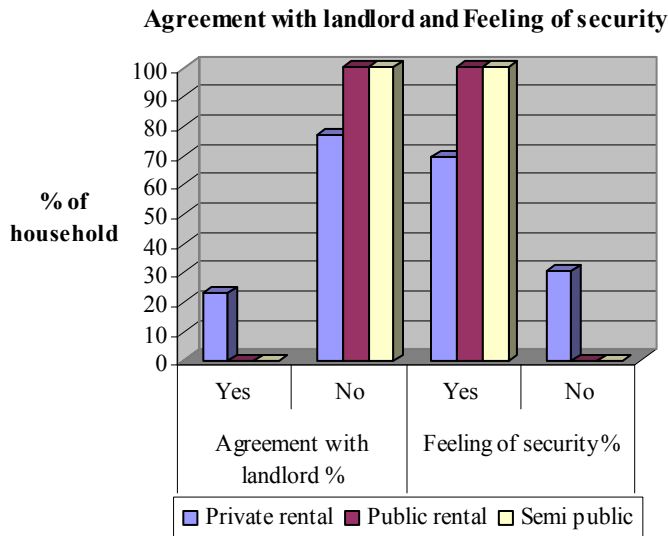


Fig.16: Agreement with land lord and feeling of security

4.1.5 Number of years living in Thimphu and in the present house

Rental housing does not seem as a transient solution but the households live in rented houses for a long time and in the interview it was found that many of the households have been living in the same rented house for more than 10 years.

The graph clearly shows that the people living in the government houses have been living there for long. Once people get a publicly owned house they do not leave unless if they get transferred to the districts or only after they retire. But in the private house people keep looking for options like cheaper rents and better quality.

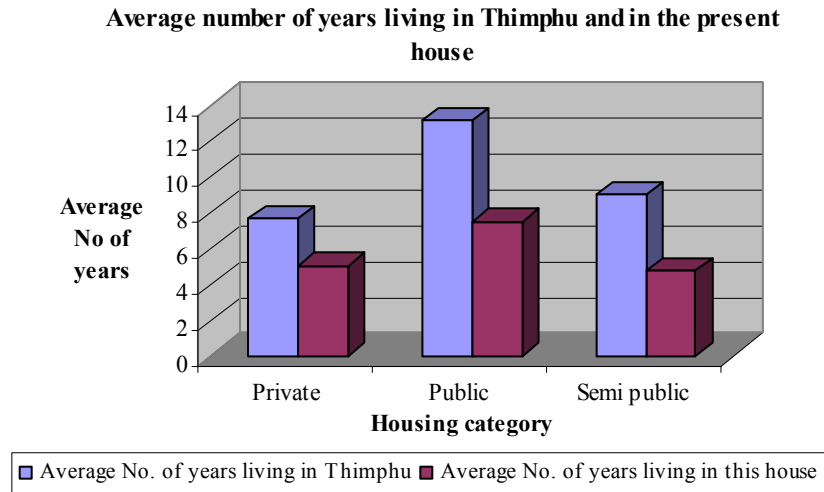


Fig.17: Number of years living in Thimphu and in the present house

4.1.6 Household composition and housing category

From the graph below we can clearly see that the higher income group who have more number of bedrooms and toilets have lesser number of people living.

Average number of people living in the class IV units with one bedroom and one toilet in almost all the sectors are higher than in the class I unit with three bedroom and two toilets. In an average 4.8 to 5 person share one toilet and a bedroom so we can say that they live in a very unhygienic situation and they have less privacy.

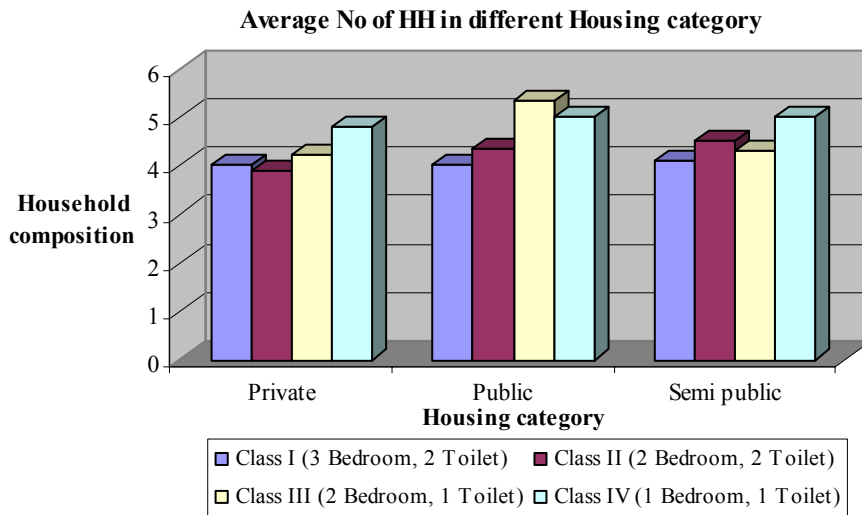


Fig.18: Household composition and housing category

4.1.7 Housing mobility

Housing mobility here means the number of people who have shifted their house, due to various reasons. There is a high degree of mobility in the private sector housing, but once the tenant is in the public or semi public rental housing they seem to live there for a long period of time. The reason for high mobility in privately owned housing were, either the tenant moved into a publicly owned rental apartment, or the previous house was very expensive and this house provided with better facilities or they were sharing the previous house with someone or were staying with the relatives before and in few cases they moved in to this house due to the proximity to job and other facilities.

4.2 Response from the Landlords

Most of the landlords in Thimphu are small scale ones who either have one or at the most three houses or apartment buildings for rent. These landlords are mostly private businessman, retired civil servants or the senior government officials. So far there is no private developer owning a housing complex or a real estate in Thimphu. There are no agencies like real estate brokers to mediate between the tenant and landlord. The tenants usually find the vacant houses through friends or relatives, the vacancy announcements of the apartments are also done in the kuensel¹⁰. The landlord in the rental market has preference over certain tenants. It is usually done through the recommendation of friends, relatives and even the other tenants who are staying in other units of the building. Different landlords have different perspectives, according to the interviewed landlords, some of them prefer to rent the units to families, and some prefer tenants with steady income and stable job. The tenants with high level of education, stable income and decent jobs are the most favoured groups of tenants.

For this research a sample of 7 landlords were selected for distributing the questionnaires. Some of the tenants were also selected from the same landlords who own the building. This was done for drawing some comparison. Out of seven, five landlords responded to the questionnaires. The survey was done personally and on the same day when the questionnaires for the tenants were distributed.

Most of the landlords interviewed were retired civil servants or businessman. The buildings on an average are more than 10 years old. Four out of the five interviewed landlords have no intension of building more rental housing, only one landlord wants to demolish her old building which was built more than 20 years back and has been passed on to her from her parents. She stated that *“Since the site is in a strategic location, I want to build a new apartment block in a few years time for the higher income family which will fetch me more income, now the building is in a bad shape and I do not charge much rent”*. She is not worried about loosing her tenants and she mentioned that her sister is constructing a new residential and commercial building in the next plot which was vacant, it is in the stage of completion and all the units have already been booked when she started her construction.

There are no high rise buildings in Bhutan, the height varies from the single storey individual houses to the maximum of five storey commercial, apartment or office building. On an average there are about 8 to 12 units in one apartment building. All the five interviewed landlords said that they build their houses with their saving and with loans from the financial institutions. But they also mentioned that getting loans from these institutions are very difficult, there are lengthy procedures and requires a lot of mortgage. mention

¹⁰ The only national newspaper in Bhutan

For the maintenance it is the same procedure for all the landlords that they do the maintenance themselves every five years. But the response from the tenants were the opposite, to quote a lady “we have been staying in this house for about 10 years but the landlord has not done any maintenance from the time we came to this house, instead we have to get our own plumber or the electrician to fix and repair things. We have also painted the house once with our own money”. This is a controversial response but it is true, very few landlords do regular maintenance.

Four out of five landlords responded that renting the house is not a profitable business, this is because most of them have not finished paying back their loans and more than half of their money earned from renting goes in paying the loan every month. But all of them seem to have an additional source of income, either the spouse is working or they have business and some of them get pension. The rent levels are set in most cases according to the location of the building, the rents levels at the inner city and at Motithang¹¹ area are relatively higher than the other areas. The rent increase is usually done every three years with an increase of 5-7%. Most of them do not have agreement with the tenants. But there is a sense of insecurity in the landlords as government and pension board are building more rental housing as well as there are many new private buildings being constructed.

Even though most of the landlords claim that renting is unprofitable but by contrast large number of landlords still continue to invest on rental housing. However there seem to be little doubt that it is an excellent investment. Some of them also see renting house not as a profit making business but to supplement their income.

4.3 Response from the Policy Makers

The policy makers here means the government officials who are directly or indirectly involved in rental housing. These are the key figures in the provision of public and semi public rental housing. The main aim of interviewing the policy makers is because they are the ones promoting the National Housing policy agendas and they can help to increase the quality and quantity of rental housing stock.

During the fieldwork, there were formal interviews conducted from the different government organisations, who are involved in the provision of rental housing in Thimphu. These organisations include National Housing Development Corporation, National Pension and Provident Fund, Thimphu Municipal Corporation and two financial institutions, Bank of Bhutan and Bhutan National Bank.

As discussed in section 3.2.1 NHDC is the main body to implement the National Housing Policy. They are the custodians of the all the publicly owned housing in Thimphu. The management and maintenance of these housing is also looked after by NHDC.

In the interview with the various staff of the NHDC, it was clear that at least for a few years to come government has no plans of constructing any new rental housing. They said that they are still struggling to complete the Changjiji Housing complex which was started in 2001, they expect it to be completed in a year or two and would provide more housing options for the low and middle income groups. Even though the city boundary has extended and the government can understand the problems that the city dwellers are facing due to lack of affordable housing but still the government has not been able to generate enough funds to be allocated for housing at the moment.

The Real Estate Manager mentioned that the return from the publicly owned housing is less and most of it goes to the repair and maintenance of the existing housing stock. According to him,

¹¹ Name of a residential area where there are predominantly higher class apartment buildings

government had allotted Nu.8.5 million for the financial year 2004-2005 and Nu.7.3 million for the year 2005-2006, out of which he says Nu.6.5 million has already been finished. He is worried as to how they will be able to manage the rest of the year.

The policy makers are also concerned that most of the tenants do not take care of the house, they make their own changes and even for small maintenance they do not take initiative to do it on their own. They said that although the National Housing Policy has a strategy of selling publicly owned housing, but government has not yet decided to begin the sales. There are both advantages and disadvantages of selling publicly owned assets and requires careful considerations. But they see that selling these apartments would raise revenue which could be invested in new housing projects and would also relieve government of the ongoing maintenance and management costs.

The site engineer of the Changjiji Housing project is not pleased with the standard of work the local contractors are doing. He thinks that since the work is awarded to the lowest bid, the quality of work is also similar. The contractors try to save in each and every material in order to make more profit. He also said that looking at the completed buildings we can already see so many faults in the construction and the finishing is very poor, there are already complains from the tenants who have recently moved in.

Based on the discussion with two of the staff members of National Pension and Provident Fund, it is understood that unlike NHDC, who has lack of fund for any new housing projects, NPPF is just the opposite. They have enough funds to invest in housing. But the problem they see is with the availability of suitable land. They said that after they took over from RICB, they have already done the densification of wherever space was available in the housing complex. Even though the rate of return is very slow they consider housing as a very good investment in the long run. For the new building that has been completed in early 2005, the rents have been increased and it is charged according to the market rate. They said it was because they had a long list of applicants for a limited number of apartments and there were many petitions from the senior government officials, so one of the option was to increase the rent and also they think that since they are profit making body, they should start charging the market rate.

Even in NPPF, every year certain budget is allocated for maintenance and repair. But this money is not even sufficient for the urgent and immediate repairs, painting and resurfacing. So the other major maintenances of interior and exterior are not attended to. The major and periodic maintenance are carried out by the management of NPPF but the regular cleaning and maintenance are done by the tenants.

NPPF has a plan to acquire land in the near future and construct more rental housing. From June 2003 NPPF has started giving loans for housing with an interest rate of 10%.The maximum amount of loan is fixed as Nu.3 million with a repayment period of 20 years.

Even though Thimphu Municipal Corporation is not involved in the production of rental housing, but they play a very important role in Housing. This is one of the most visited offices by the land owners and people who are planning to construct their houses. While discussing with the two urban planners who were involved in making the Thimphu Structure Plan and who have just completed making the local area plans, they see that if the plans are implemented according to the design, Thimphu would look different in 7 to 10 years time. But now they are facing difficulty with the land owners whose land has been touched during the design of the local areas. They say that they have tried to use as much government land as possible and minimise touching private land but at some places it could not be avoided.

Talking to the Architect of the building applications section, who deals with all the drawings of Thimphu Municipality, he says that about 80-90% of the drawings approved every year are

apartment buildings with majority of them having commercial activities in the first two floors and residential units on the top floors. The buildings that are coming up in the inner city are all multi storied residential or commercial use. There are only few people with a higher income who build individual houses for their own purposes in the new extended areas. He also mentioned that so far he has not got much drawing from the extended areas where people plan to build rental apartments.

The land record section has been one of the busiest sections in the Thimphu Municipal Corporation at present. According to the land record officer, they have been getting a lot of application about the land transaction happening in the new municipal areas. He also said that most of the people who are buying land in these areas are the middle income civil servants.

The interview at the financial institutions about the housing loans also shows that now many more people are aware of the housing loan. According to the Deputy Manager of Bank of Bhutan the percentage of loan amount has increased by 20% in the last one year. They have also reduced the interest rate on housing loan from 13% to 10%. He said that there are presently 409 live housing loan account holders with a total loan amount of Nu.632.69 million and housing loan has today become the bank's biggest borrowers. He mentioned that there is excessive lending for house construction in Thimphu and has bloated and heated up the housing portfolio. By June 2005, the banks housing loan increased by 81 percent since it reduced its interest on housing loan on January 2004.

Similarly the Bhutan National Bank is also doing extremely well in terms of housing loan. According to the Loan Officer of BNB, they started giving housing loan in 1997, and in a period of 8 years the total housing loan client as of 31st July 2005 is 726 and the total loan amount is Nu.1.55 billions. He mentioned that they have also reduced the interest rate in 2003 from 14% to 10% per annum and the repayment period is 10 to 20 years as per the clients' requirement.

4.4 True Pictures of rental housing from the interviews and questionnaires

The occupants of the rental housing in Thimphu are obviously the ones who best understand the issues of rental housing, its opportunities, constraints, problems and importance.

During the field visit for about a month in July 2005, 35 questionnaires were distributed to the tenants of rental housing covering all the range from high income to the low income groups. Apart from this there were various interviews conducted to supplement the findings from the questionnaires.

It was observed that every family has their own story to tell about their own needs, problems and constraints. Some of the stories that were told include:

A woman working and living in Thimphu for the last 10 years lives in private rented apartment with her son and a baby sitter. Her husband has gone for his further studies abroad. The monthly rent is Nu.3000 and she has a monthly income in the range of Nu.10000-12000, and her apartment building is an old traditional Bhutanese structure with one bed room, living, kitchen, store and toilet. She chooses to live there because it is close to town and other facilities. She left the previous house as the rent was very high and owner of the house was very fussy and bothersome. Even though she finds this house small but she feels more secured and has a reasonable rent. The only problem she sees in this neighbourhood is the problem with parking and there is not enough space for kid to play as the apartment is very close to the road. The building is also relatively old and is in need of repair and maintenance. She does not plan to leave Thimphu and go to the other district towns as she sees lots of opportunities and the schools for the kids are much better in Thimphu. Instead she plans to buy a plot of land in the extended area and build her own house in the near future.

Another interesting story about the rental housing situation is from a family who occupies one of the new government flats in the Changjiji project in Thimphu. This project is an attempt by the government to provide housing for the low and middle income employees. The house was allocated in the name of the wife who is a civil servant and has an income of about Nu.6000, the rent for this house is Nu.2100 per month. The husband is also a government employee and has a monthly income of Nu.12,000. The family of 4 occupy a 2 bedroom third floor apartment. Before moving on to this house they were staying in private rental housing and were paying twice the amount as house rent. They are very happy with this house and feel more secured and really appreciate the opportunity offered to them by the government. Both of them are young and intend to work and live in Thimphu till they retire.

A couple and their three children rents a pension and provident fund class III flat. He pays a monthly rent of Nu.1960 for a two bedroom flat. The building is very old and is in need of repair and maintenance, the walls have cracked and the railings of the staircase are broken. He can easily afford the rent on his relatively good income of Nu.10,000 per month. But he is worried about his family when he retires as the flat is tied to his job and he will have to vacate.

One more couple and their two children moved to a publicly owned apartment nine months back. They are very happy now and feels that this house as their own. Before getting this house they were sharing a private rental house with one of the relative. The husband works in the Survey of Bhutan and gets an income which is just sufficient to run the house, and the wife does not have a job. The only additional income they get is from the tour of the husband. Both the children are studying and they have been living in Thimphu for more than 10 years and find the life very expensive and not being able to have much saving. They plan to go back to the village after the retirement and after the children have finished their studies and settle their as they have sufficient land in the village.

These stories are few of the many heard and many more that exist. What is clear is that people in the private sector feel that the rental value is very high as a result they are unable to save. But the people in the public and semi public housing feel very lucky to have been allotted a government flat. Most people look at the rent of the house and very few look at the quality of the house. So as a result majority of the people are not being able to live in a good standard and hygienic condition.

4.5 Problems and Opportunities of Rental housing from different perspectives

This section presents the problems and opportunities of rental housing. This was a general question which was asked during the fieldwork to different sets of people starting from tenants, landlords and the policy makers and here are the views from the different perspectives.

The problems and opportunities of rental housing have been divided into groups according to their type.

Table 9: Problems and opportunities of rental housing

	Problems	Opportunities
Tenants	<p><i>Migration and increase in population</i></p> <ul style="list-style-type: none"> • The rural urban migration and increasing population. • More demand for housing and difficult to find house. <p><i>Supply</i></p> <ul style="list-style-type: none"> • Limited supply of affordable rental houses. • Less supply resulting in sharing of house. • Feeling of Insecurity. <p><i>Location</i></p> <ul style="list-style-type: none"> • Far away from office. • Lack of regular public transportation. <p><i>Rent Level</i></p> <ul style="list-style-type: none"> • The low supply of rental house as a result escalating rent. • High rent eroding household budget and increasing poverty. • Frequent increase of rents. • Rents are not fixed depends with the will of the owner and not on the quality of the house. • Uncertain about future level of rent. <p><i>Cost and Quality</i></p> <ul style="list-style-type: none"> • Very expensive to live in private rental housing. • Low quality. • Lack of maintenance. • Unaffordable. • Deteriorating housing conditions. • Difficult to find good quality affordable rental apartments. 	<p><i>Government Intervention</i></p> <ul style="list-style-type: none"> • As a tenant the only hope is that government would come and increase the supply of houses thereby bringing down rents. • Some real estate company could give opportunity to be owner in the long run. • Government can play a role in fixing the rent. <p><i>Choice and quality</i></p> <ul style="list-style-type: none"> • Very safe even when away for vacation for a long time. • Spacious houses in the private sector. • Can choose to live in any kind of house according to the budget if the rental market performs well. <p><i>Flexibility and mobility</i></p> <ul style="list-style-type: none"> • Greater flexibility in terms of location and size of house. • Greater mobility and choice. • Low initial investment.

<p>Landlords</p>	<p><i>Government intervention</i></p> <ul style="list-style-type: none"> • Government and other real estate company might enter the market there by pushing the rent down and affecting the rental income of the landlords. <p><i>Problems with tenants</i></p> <ul style="list-style-type: none"> • Tenants do not pay the rents on time. • Too many people live and share the house, too many visitors. • Tenants do not take care of the house. <p><i>Cost</i></p> <ul style="list-style-type: none"> • High cost of construction, high cost of building materials as most of the building materials are imported from the neighbouring town of India which is almost 6-7 hours drive to Thimphu. • The rate of return is very slow. • The interest rates from the financial institutions are very high and the procedures are very lengthy and require a lot of mortgage. • High initial investment. 	<p><i>Migration and increase in population</i></p> <ul style="list-style-type: none"> • With increasing urban migration the demand for house increases and government and other real estate agencies cannot meet the demand thereby providing landlords with an opportunity to charge higher rents. • Higher rents mean more income for the landlords. <p><i>Investment and return</i></p> <ul style="list-style-type: none"> • Rental Housing is an important asset and investment for future generation. • Though the rate of return in rental housing is slow but there is a constant and steady flow of return.
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Policy Makers	<p><i>Demand</i></p> <ul style="list-style-type: none"> • People are demanding more houses. • Increase in urban population and not being able to meet the demand for rental housing. <p><i>Conditions</i></p> <ul style="list-style-type: none"> • The condition of rental housing is deteriorating. • Lack of fund for the construction of rental housing. • Lack of qualified manpower in the field of housing. • In Semi public Housing they have enough money, only problem was the lack of available land. <p><i>Lack of participation and responsibility</i></p> <ul style="list-style-type: none"> • Tenants make their own changes without prior permission in the rented apartments. • Lack of responsibility from the tenants. 	<p><i>Provision and Supply</i></p> <ul style="list-style-type: none"> • To provide safe affordable housing. • To create a transparent and well functioning housing market. • Promote private sector involvement in housing. • Redevelop and densification of government vacant land. • The supply of rental housing is not determined by the public and private sector, but NGO and even international bodies also have a role to play. • Provides accommodation for the poor and for those households who cannot afford to build their own house. <p><i>Economic and financial sustainability</i></p> <ul style="list-style-type: none"> • Rental housing provides economic development by providing business opportunities. • Improves financial sustainability and contributes to poverty alleviation.
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From the table above it is evident that the problem of one group is an opportunity for the other. On one hand the tenants say that it is very expensive to live in private rental housing this have been stated by several tenants while on the other hand the landlords say that the rate of return is very slow and the cost of construction and materials are very high. Similarly the rural urban migration and the increase in population is seen as a problem by the tenants and the policy makers but it is an opportunity for the landlords.

Rental housing is seen as a positive phenomenon by the entire group. Tenants see rental housing as the best option for the people arriving new to the city; it has greater flexibility in terms of location and size of house and greater mobility and choice. The initial investment in rental housing is low and is affordable to all the income groups. From the landlords point of view, even though the rate of return in rental housing is slow but there is a constant source of income and as an important asset and investment. According to the policy makers, rental housing provides housing for all income groups. It provides the economic development by increasing business opportunities and improves the financial sustainability and contributes to poverty alleviation.

4.5 Effects of Extension of Municipal Boundaries

Thimphu is a linear city with the development taking place along the two sides of Wang Chhu¹². The presence of hills and forest on east and west of the valley constrain the growth and development of the city in these sides. The north south alignment of the city makes it possible for it to grow only in these two directions.

Thimphu is an administrative capital with almost half of the estimated population to rely in one way or another on a government wage. The past growth trends and development of the city have not been recorded. It was only during the early 1980s that proper demarcation for the urban boundary was made. The urban boundary during 1984 encloses an area of 830 hectares¹³ with an estimated urban population of 14,500 (Penjore, 2001). The urban land in Thimphu during those days were under-utilised and the development that took place were as a result of natural growth without much formal planning intervention.

During 1986, the city boundary was further extended to include the two areas, namely Changzamtog in the south and Langjophakha in the north, where haphazard and rapid growths were taking place. The total area after the extension was 985 hectares. Besides these two extended areas, residential developments had simultaneously taken place in other areas outside the urban boundaries over the past 10 to 15 years. The reason for these developments at the outskirts of the city is mainly because the land prices were relatively cheaper compared to the land prices within the urban areas. More over the house construction in these areas does not have to comply to the building regulations and the by laws that are applied in the urban boundary.

The rapid and unplanned developments taking place outside the urban boundary as mentioned above have been a major concern of the government and subsequently the urban boundary was again extended during 1997.



Fig 19: View of city from the extended municipal area

The urban Thimphu is now known by Inner Thimphu and Outer Thimphu after the extension of the municipal boundary. The old urban area is called the Inner Thimphu and the extended areas are referred as the Outer Thimphu. The whole area combined is known as Greater Thimphu and has an area of approximately 2600 hectares.

¹² Name of the river that runs through Thimphu valley

¹³ 1sq.km=100 hectares

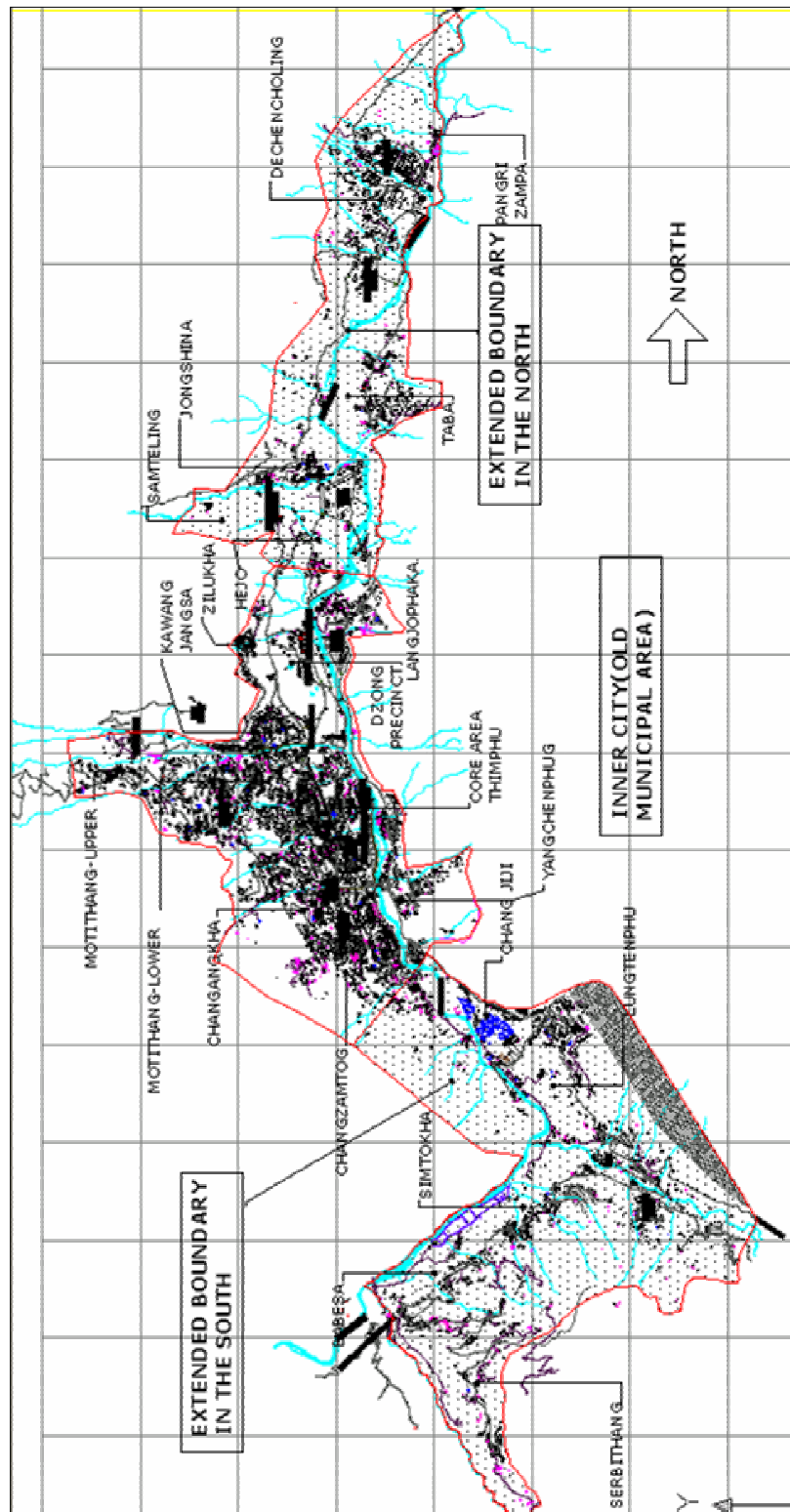


Fig.20: Map of Thimphu showing the extended boundaries (Source: Thimphu Structure Plan)
 ***Each grid represents 1 sq.km

***Dotted area in the north and south represent the extended municipal areas

The demarcation of the new boundaries has brought about immense increase in the land values over the last 7-8 years in the extended areas. The price of the land in these areas before the extension of the boundaries ranged from Nu.15,000 to 20,000 per decimal. After the announcement of the extension, the price increased to Nu.60,000 per decimal and the post demarcation value of the local areas is priced above Nu.100,000 per decimal.

There are many land transactions that are taking place in these areas. Large paddy fields are subdivided and sold to the buyers as plots of land by the land owners. Many people have bought plots of land and they are mostly the higher and middle income groups. They see it as an investment and think that the land value will keep increasing. Many people dream to make their own residence in future and settle as private rental housings are unaffordable. Most of the people have bought single plots of 13 decimal, which is the minimum required plot size specified by the municipal corporation, few have bought 2 plots, with a plan to sell one and construct their house in the other plot.



Fig.21: View of the extended municipal area in the south with the newly constructed express way

So far the effect of the extended boundary has been insignificant in relation to the provision of rental housing. This could be due to the fact that the approval for the building permits had been stopped when the local area plan was under preparation. Now it is under implementation but still there has not been many rental apartments that has been under construction. But in the next 5-10 years time there will be a considerable impact in rental housing due to the extended boundaries as there will be many people constructing their own houses and would start moving out of the city this will lead to an increase in the availability of rental dwellings in the city.

Chapter 5: Conclusions and Recommendations

This chapter will bring forward the conclusions and recommendations based on the analysis and findings. The research questions that were formulated at the beginning of the research have been used as a guidance to find out whether the objective has been met.

5.1 Conclusions

In this research, the researcher has made an effort to document the development and the roles of the public, semi public and private sectors in the provision of rental housing in Thimphu. It is evident that rental housing in Bhutan has not been given much importance. As a result literature on this subject is very scarce and limited. This research is one of the first of its kind which would help in mapping the situation of rental housing in Thimphu. It is also an important contribution to the emerging rental sector for the purpose of reference and documentation.

Housing has not been at the governments' priority lists, this is reflected by little effort that the government has made despite the enormous problem faced by the public in Thimphu. It could also be seen at the proportion of development as compared to other organizations in the country and the governments' budget allocation and spending in this sector in the last decade and half. Government has not been able to put much attention and provide remedial measures due to lack of government funds to develop additional rental housing. However in the recent years the government has made heavy investment on the low and middle income housing after a period of 10 to 15 years. But the tenants have already been facing severe problems with the facilities like water, roads, sanitation etc even after two years of completion of the complex.

The semi public sector has also contributed to a certain extent in the last few years after the creation of National Pension and Provident Fund in 2000. In the past Pension and Provident was handled by the Royal Insurance Corporation of Bhutan. But in a three years period the NPPF has become highly profit oriented as they have increased the rental price of the newly constructed apartments to a level which is beyond affordable. The high rent levels in the market only leave the salaried people with a small portion of their income for basic necessities of life. So if government does not come up with a suitable housing policy then it can lead to inequality crisis.

The most important segment in the provision of rental housing in Thimphu is the private sector as they provide almost 75-80% of the rented dwellings in Thimphu. But there has been less understanding about the nature of the small scale landlords which is mainly due to the lack of effort made to analyse their impacts in the rental market and also undermining their importance in the housing sector. There is lack of institutional framework to support the involvement of the private sector in the delivery of rental housing. In spite of all the shortcomings and setbacks, the private sector has been able to make a stand and invest in rental housing and proved that they can be a major provider in the housing sector.

The Publicly owned housing is built by different departments and organisations which are now under the management of National Housing Development Corporation. The rent level in the public housing is subsidized and tenants are only the civil servants and can live there till the tenure of their service. It has been found that management and maintenance of the public housing stock is a big burden on the government financial resources.

The semi public housing is also for the civil servants. The old stock was built by the Royal Insurance Corporation of Bhutan and from 2000 it is taken over by the National Pension and Provident Fund and since then they have a separate division for real estate management and they have been very active and have added some new stock in the last few years. The management and

maintenance is carried out by the real estate division but so far they have not been able to do major repairs and maintenance.

The buildings in the private sector vary from old traditional building to the newly built modern apartment blocks. They are for all categories of people and there is a greater choice for the middle and higher income groups. The major maintenance and management of the apartments are also carried out by the individual landlords and only the small and regular repairs are in most of the cases done by the tenants. It was also found that most of the private landlords build rental housing with their savings and loans from the financial institutions but getting loans from these institutions seems to be very difficult as the procedures are very lengthy, requires a lot of mortgage and the interest rates are also high.

Despite the construction of more rental housing by the private, public and semi public sector, the rental price seems to be escalating in the private sector. It has been noticed that the rates of return from rental housing is very low on account of the high cost of construction and high price of building materials as almost 80% of the building materials are imported from the neighbouring country India. High transportation and labour cost also adds up to the construction cost. Lack of regulation on rent control and non implementation of the tenancy act which was passed in early 2004 are also some of the reasons for the monopoly from the private landlord and increasing rents at their wishes. All these factors have led to the lack of affordable rental housing in the market, especially for the low income group. To bring down the rent level in the market the housing stock should be increased and private landlords must be encouraged to invest in housing which will bring about more competition in the rental market. The unavailability of land and the high cost of land and construction, the low rate of return and high cost of borrowing from the financial institutions makes it difficult for any other kind of rental units than multi occupancy units.

There is a high demand for rental housing close to the services, places of work and other urban facilities. It has been found that there is a greater level of satisfaction in the quality and size of the house in the privately rented apartments as well as a higher level of housing mobility in this sector. But the mobility in the public and semi public housing is almost nil once they have moved in to these units.

The landlords of the privately owned apartments have preference over certain tenants. The tenants with high level of education, stable income and decent jobs are the most favoured groups of tenants. It has been found that even though most of the tenants do not have an agreement with the landlords but still they felt secured in the rented apartment.

As mentioned earlier the concept of rental housing is a new phenomenon in Bhutan and most of the information available are myths and not the reality based on scientific research. There has been rising price of the rental house, the rental market is imperfect and there is short supply of rental houses. Therefore there has been increasing frustrations among the tenants, landlords and the policy makers in Bhutan. As a result policy maker, tenants, landlords and general public have their own myths about the rental housing problems.

Myth Number One:

The biggest myth is that the rental housing problem is the product of lack of attention from the policy maker but the reality is different. The government in the recent years is very much aware of the seriousness of the housing problem and are working hard to provide sustainable solution by entering into the rental housing market which is evident from the opening of NHDC and Changjiji Housing complex. The government is also encouraging semi-public institution like NPPF to enter into rental housing and encouraging financial institutions to provide loans and

advances to the public for construction of rental houses at lower rates than before. The government has recently introduced tenancy act to protect the rights of tenants and landlords.

Myth Number Two:

This myth is that is that general public feels that the government has the capacity to handle the rental housing problem but lacks political will. The reality to this is different, government lacks finance and housing expert to provide solution to the rental housing crisis in short run.

Myth Number Three:

This myth deals with the general belief is that the private rental houses are squeezing money out of tenants and the tenants are at the mercy of the house owners but the ground reality is different. From the research findings it is clear that the tenants in the private rental houses enjoy security of tenure and the provision of facilities like water, electricity, size and quality of the house etc are much better than public and semi-public rental houses. Bhutan being a small and well knitted society, in the long run the relationship between the tenant and the house owner develops into a family relation. Therefore the rents and other things are decided through a mutual negotiations and brotherhoods, whereas there situations is not available with the public and semi-public houses.

Myth Number Four:

The Myth of high profit margin for the house owner is not true because most of the house owner has built the rental houses on loans, which is availed at 10% to 15% interest rates. This results into long gestation period and low internal rate of return. Sometimes the owners are forced to sell their houses in order to liquidate their housing loans and at other times the financial institutions confiscate the property for the unavailability of the house owner to pay the instalments.

Lastly to conclude, rental housing in Thimphu does not seem to be a transient solution, the households live there for a long period of time, especially in the publicly owned housing where the rent levels are low and there is security of tenure. It is also clear that the rental housing is the most important alternative for the new people arriving to the city.

5.2 Recommendations

During the field visit to Thimphu for a month in July, 2005, it has been found that very little research has been conducted about rental housing in Bhutan. The message therefore is that there is a necessity of further research in the field of housing with a focus on rental housing not only in Thimphu but also in other urban centers of Bhutan. These are data's of national importance and could be used in calculating the affordability level of people. It could also be used to get the actual percentage of the providers of rental housing.

It was an important finding that even though most of the tenants and landlords did not have a written agreement they felt secured to stay in the privately owned housing. But since the rental sector is growing rapidly, it is very likely that more conflicts might appear. So it is highly recommended to develop and encourage the signing of clear agreements and contracts in order to protect the rights and responsibilities of both the parts.

It has been noticed that selling of publicly owned apartments have been one of the strategies of the government which has not been implemented so far. On one hand home ownership would relieve government of its management and maintenance burdens and generate revenue that could be used for other housing projects. But on the other hand it is very risky as there is a limited number of publicly owned units and these might fall into the hands of few influential and higher income group, creating more problem of housing for the lower income group. So the best solution instead of giving home ownership is that, it is recommended to start a National Housing

Company which would function as an independent company. An interesting example for this would be the Swedish Municipal Housing Companies. So in future NHDC can function as an independent company and play a role in increasing the supply and improving the quality of rental housing.

There is a high potential of redevelopment and densification of the public vacant land in the inner city. The total of 83 hectares comprising of both government and private owned land is lying vacant in the heart of the city with most of the areas already having basic infrastructure services except sewerage and street lighting (Penjore, 2002). These vacant lands could be used for the construction of the rental housing.

The bulk of the supply of housing units in the rental sector in Thimphu is in the hands of private landlords. So it is appropriate that when considering rental housing, attention should be concentrated to the private rental sector. Incentives like tax relief for certain years could be used as a strategy to encourage owners to create rental accommodation.

The public transportation in the city could be improved and made more efficient so that people could commute from far easily and people would be encouraged to make rental houses in the extended areas and more affordable houses would be available.

Lastly NHDC should be the only forum where government should be involved otherwise it should withdraw from the direct provision of housing and should concentrate on enabling different sectors to make contributions to the provisions of rental housing especially by encouraging large scale investment in rental housing.

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Swedish Association of Municipal Companies (SABO): www.sabo.se

Swedish Housing Cooperative Centre: www.sbc.se

VROM International Netherlands Ministry of Housing, Spatial Planning and the Environment
<http://www2.vrom.nl/pagina.html?id=7560>

Annexes

I. Questionnaire for Tenants.

1. Type of Rental Housing:

Public	<input type="checkbox"/>
Semi public	<input type="checkbox"/>
Private	<input type="checkbox"/>

2. How many people live in the House?

3. Do you share the House with anyone?

No Yes

If Yes Please fill the parts of Question 4

4(i). How many people share the flat?

4(ii). How long have you been sharing the Flat?

4(iii). What are your reasons for sharing the Flat?

- A. Financial Reason
 - B. Lack of Vacant Houses
 - C. Family Bonding
 - D. Other Reasons (Please Specify).....
- Please rank the reasons according to the priority.

5. How long have you been living in this House?

6. What are the reasons for leaving your pervious House?

7. What is the range of your income in Ngultrums ? (Give the range)

Less than 1000	<input type="checkbox"/>	8001-10000	<input type="checkbox"/>
1001-3000	<input type="checkbox"/>	10001-15000	<input type="checkbox"/>
3001-5000	<input type="checkbox"/>	15001-20000	<input type="checkbox"/>
5001-8000	<input type="checkbox"/>	Above 20001	<input type="checkbox"/>

8. How much do you spend on Housing?

9. Do you have any other additional source of income?

No Yes

If yes please mention.

10. How many numbers of rooms does the house have?

Rooms	No
Bedroom	
Living /Dining	
Toilet/Bathroom	
Kitchen	
Store	

11. What is the area of the house?

Less than 50 m ²	<input type="checkbox"/>	81-90 m ²	<input type="checkbox"/>
51-60 m ²	<input type="checkbox"/>	91-100 m ²	<input type="checkbox"/>
61-70 m ²	<input type="checkbox"/>	101-110 m ²	<input type="checkbox"/>
71-80 m ²	<input type="checkbox"/>	Above 111m ²	<input type="checkbox"/>

12. What do you think about the quality of the house, are you happy with the size of this house?

Less than Adequate Adequate More than Adequate

13. How do you like the quality of your neighbourhood?

Excellent Good Satisfactory Dissatisfactory

14. What do you think of the following services?

a. Water:

Excellent Good Satisfactory Dissatisfactory

b. Electricity:

Excellent Good Satisfactory Dissatisfactory

c. Roads:

Excellent Good Satisfactory Dissatisfactory

d. Drainage and Sanitation:

Excellent Good Satisfactory Dissatisfactory

e. Common Space:

Excellent Good Satisfactory Dissatisfactory

15. Who is responsible for the maintenance of the common space (corridor, staircase, common play area)

House owner Public sector Tenants Others(Please Specify)

16. Why did you choose to live in this location?

17. How do you travel to your job/ work place?

Car Public Transport Walk Share Others

Allotted by the government Close to the town and facilities

Unavailability of vacant houses Close to work Others

18. Are you looking for any another house?

Cheaper Near to work Near to town and other facilities Others

19. Have you applied for the government quarter?

Yes No

If yes, when did you apply

20. Do you have agreement with your landlord?

Yes No

If yes, for how many years

21. Do you feel secure in this house/ or do you feel that you could be send out of this house with a short notice?

Secure Not secure

22. How often does the land lord increase the Rent?

Every year Once in 3 years In 5 years More than 5 years

23. What do you think about the self management of the neighbourhood, will you be willing to participate?

Yes No

24. What do you see as problems of rental housing?

25. What do you see as opportunities of rental housing?

II. Questionnaire for the Private Landlords.

1. Name: _____
2. Occupation: _____
3. Gender: Male Female
4. When did you build this apartment?
Less than 1 year 1- 3 years 3 – 6 years
6 – 9 years More than 9 years
5. What was the cost of construction per square feet for the building? _____
6. Do you intend to build more rental housing?
Yes No
If yes, when do you intend to build _____
7. How many rented dwellings do you have? _____
8. How did you finance your construction?
Only Saving Only Loan
Saving + Loan Others
9. Is it easy to get loans from the financial institutions?
Yes No
If No, please answer the following

(i) The procedures are lengthy / difficult	<input type="checkbox"/>
(ii) Requires lot of mortgage and security.	<input type="checkbox"/>
(iii) Other reasons (please mention)	<input type="checkbox"/>
10. Who does the maintenance of the house?
House owner Public sector Tenants Others(Please Specify)

11. How often is the maintenance done?
In less than 5 years Every 5 years
Every 10 years More than 10 years
12. Is it a profitable business of renting out the units?
Yes No
13. Do you have any other source of income other than renting out the house?
Yes No
If Yes, Please mention
14. How do you set the Rent level?
By the number of rooms By the area of the rented unit
By location Others (please specify)
15. Do the tenants pay the rent on time?
Yes No
If No, how do you make them pay?
16. How often do you increase the rent?
Every year Once in 3 years
Once in 5 years Others (please specify)
17. What is the percentage increase in the rent?
18. With the start of the tenants act recently, has it created a threat to your business?
Yes No
If Yes, Please mention
19. How do you allocate the tenants?
Have a list Through friends Through family
Advertise Others (please specify)
20. Do you have an agreement with the tenants?
Yes No

21. Do you get worried if the government builds more rental housing that your business will go down?

Yes No

22. Do you have any vacant dwelling/ have you had any vacant unit before?

Yes No

If Yes, When and how many?

23. What do you see as problems of rental housing?

24. What do you see as opportunities of rental housing?

III. Interview with Government officials at National Housing Development Corporation, Ministry of Works and Human Settlements, Thimphu Bhutan.

The most important interviews were held with four government officials in National Housing Development Corporation. These interviews were held on the 14th and 15th of July 2005 after taking a prior appointment on the 11th of July 2005. The interviews were held at the offices of the respective officials. The interview with the real estate manager lasted for two hours and with the other officials it was about one hour each. Besides the pre designed questions, they expressed their own opinions about the rental housing in Thimphu as well as in Bhutan. Various policy documents and papers related to the housing system in Bhutan were also given to the researcher for reference and as personal copies.

The main questions that were raised during the interviews include:

1. What is the structure and function of NHDC, brief history about the formation of the authority?
2. Detailed data of the housing stock managed by NHDC.
3. What is the role of NHDC in the provision of rental housing?
4. How is the housing stock divided: Percentage of public/ semi public/ private rental and ownership?
5. What are the tenure conditions set by NHDC? “Tenants act of 2004”
6. What is the rental policies set by NHDC?
7. How are the rent levels set for various categories of rental housing?
8. Do you give any kind of subsidy or allowance system, (like housing subsidy, capital subsidy or rent subsidy)?
9. How do they get the finance usually to construct the rental housing?
10. How is the allocation of the rental housing done?
11. Construction cost and production cost
12. How are the sites for the rental housing selected for construction?
13. What is the household composition?
14. Who is responsible for the maintenance of the rental housing and how often is it done?
15. How much money is allocated for the management and maintenance of the housing stock?
16. What do you think of initiating the self management system in the housing areas?
17. Do they plan to build new rental housing in the extended boundaries, where and when?

18. What are the plans for the construction of new public rental housing in future?
19. What do you see as the biggest problems of rental housing?
20. What do you see as opportunities of rental housing in future?

IV. Interview with Government officials at Thimphu Municipal Corporation.

1. How is the housing stock divided: Percentage of tenure forms, public/ semi public/ private rental and ownership?
2. What is the area of the municipal boundary existing as well as after it has been extended?
3. How many dwellings are there in Thimphu? What are the categories?
4. What are the reasons for extending the boundaries?
5. How many people have bought plots of land in the new extended boundaries?
6. How many have started construction in the new boundaries? Do they intend to build rental houses or private individual residences?
7. Do you think that this will have an effect on the rental market in Thimphu?
8. Who are the people that are moving out of the city?
9. How many new dwellings are build in the last ten years and the categories as to how many rental and how many owner occupied dwellings?
10. What is the household composition?
11. What is the average population density?
20. What do you see as the biggest problems of rental housing?
21. What do you see as opportunities of rental housing in future?

V. Interview with Officials at National Pension and Provident Fund, Thimphu Bhutan.

1. What is the structure and function of NPPF, brief history about the formation of the authority?
2. Detailed data of the housing stock managed by NPPF.
3. What is the role of NPPF in the provision of rental housing?
4. What is the percentage of rental housing provided by NPPF?
5. What are the tenure conditions set by NPPF? What is the rental policies set by NPPF?
6. How are the rent levels set?
7. Do you only allow the civil servants? Do you let them continue staying after their service or do they have to vacate?
8. How do they get the finance usually to construct the rental housing?
9. How is the allocation of the rental housing done?
10. Construction cost and production cost
11. How are the sites for the rental housing selected for construction?
12. What is the household size?
13. Household composition
14. Who is responsible for the maintenance of the rental housing and how often is it done?
15. How much money is allocated for the management and maintenance of the housing stock?
16. What do you think of initiating the self management system in the housing areas?
17. Do they plan to build new rental housing in the extended boundaries, where and when?
18. What are the plans for the construction of new public rental housing in future?
20. What are your biggest problems?
21. What do you see as opportunities of rental housing in future?

VI. Interview with Officials at Financial Institutions:

Bank of Bhutan and Bhutan National Bank

1. When was the loan scheme for housing started?
2. What are the procedures for getting a housing loan?
3. What is the interest rate for housing loan?
4. Have you change the interest rate for housing loan, if so what was the rate before and what is the present rate?
5. What is the maximum repayment period for housing loan?
6. What is the total amount of housing loan that you have given and how much has it increased from the previous years?
7. What do you keep as the collateral or how much should the mortgage for getting a housing loan?
8. There are a lot of construction happening around the city, s many people must be taking loans for the construction, what is the risk that are involved in giving the loans?