Internship Report

On

Prospects and Challenges of Irving Properties Ltd in Real Estate Business of Bangladesh

Submitted To
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Lecturer
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Submitted By
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August 10, 2014

Mr. Arifuzzaman  
Asst. Professor  
BRAC Business School  
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Sub: Submission of Internship report

Dear Sir,

With due respect, I would like to inform you that I have completed the internship report on “Prospects and Challenges of Irving Properties Limited in Real Estate Sector of Bangladesh”. It is immense pleasure for me because I have successfully completed this report by receiving your guideline as a supervisor.

I have endeavored to prepare this report from my level of best to accumulate relevant & insightful information about the Irving Properties Ltd. It is a great experience for me to make this report.

I make to ensure you that if you have any query about any matter collecting information regarding this report so please ask me and I will best try to answer you.

Yours Sincerely,

Md. Tusher Hossain  
ID: 12164048  
MBA  
BRAC University
Acknowledgement

Thanks to almighty God for special blessing in completing the report. Because I think it is very difficult task to research on “Prospectus and Challenges of Irving Properties Ltd in Real Estate Business of Bangladesh” and procedures for a student capitalizing only four months practical work experience. On the way of completing this research paper successfully I have got some people are co-ordinating me, without their kind help and generous support it would have been difficult for me to complete this Internship report.

First and foremost, I would like to acknowledge my heartiest gratitude and indebtedness to Mr. Arifuzzaman, Senior Lecturer, BRAC Business School, BRAC University, for his guidance, supervision and help in all stages of carrying out my work. He deserves my special thanks for giving me his valuable time in spite of his busy schedule for reviewing my script very patiently.

Last but not the least, I also express my heartiest thanks and gratefulness to Md. Shamim Salehin, Account Manager, Irving Group, Md. Morshed Alam, Anwar Hossain, Marketing Manager, Irving Properties Ltd for providing me continuous support during the whole of the placement period. I have also received valuable information and suggestion from Mr. Sushanta Chowdhury, Senior Officer, Business Development and Promotion, Irving Properties Ltd and other peoples of the organization from time to time.
Executive Summary

Bangladesh is a densely populated area with acute shortage of housing especially in cities. The present population density is approximately 964 per sq. km. Total population is 158.57 million. The population growth rate is 1.566, meaning that every year more than 2 million peoples are added to the population. There is huge gap between house supply and demand in the urban area, particularly in Dhaka. The country’s urbanization rate is 3.1 indicating the mounting housing pressure on urban governments. Dhaka, for instance, has a population of 14.25 million and every more than 0.5 million is added to this mass. For this reason within a short history of real estate industry, at present there is more than 1500 developer companies in market and it is increasing day by day. Since a large number of companies in this industry therefore the level of competition is very high. On other hand external environmental factors such as Economic, Social, Technological and Political forces has huge impact in this industry. Political instability and economic crisis has become major issues for falling down the business at this sector. But it is for a short time. These days are not so far where this industry will get back its previous time. For having a huge demand of houses in the market unfortunately government has lower contribution in real estate sector in considering the demand. Private sector contributed significantly to the supply of urban housing, particularly in the capital.
Chapter-1
INTRODUCTION
1.1 Introduction

Real Estate is one of the major industries in Bangladesh. It contributes 12-15% in National GDP. About 5 million skilled and unskilled human resources are directly and indirectly involved in this sector. The public sector was traditionally unable to meet the housing demand in the country. Real Estate companies took initiatives for private housing since early 1980s. The demand for apartment housing was increasing gradually and more and more developers came in the market.

Dhaka is the most important and capital city of Bangladesh where every year people are increasing. The population of Dhaka City is increasing terrifyingly, current population growth of Bangladesh is 2.06% but the population growth of Dhaka City is 4.2%, its share of national urban population was 25% in 1981, 31% in 1991 and 34% in 2001 respectively. So it is very clear that housing problems is acute beside the increasing population. Real estate is playing an important role to solve the housing problem and contribution to the economy. Real estate business is also becoming more significant business in the last couple of years. The business of real estate is the profession of buying, selling or renting land, building or housing. Three decades back the dwellers were reluctant to live in flats in Dhaka city, due to increased land cost as well as construction cost and other reasons such as reluctance of individuals to spend time and energy in house construction, increased awareness of apartment living and western influence. As a result apartment-owing is becoming increasingly popular and demand. Many apartment builders have appeared in the market in recent years. Twenty years ago there were fewer than five companies in Bangladesh engaged in developing apartments while today there are more than 2000 developers. It may be mentioned here that in1988 there were less than 20 such developers in Dhaka, now-a-days 1500 & above developers are working in Dhaka City among them 1226 developers are members of Real Estate & Housing Association of Bangladesh (REHAB). Nevertheless, there are many other companies/individuals engaged in such development in smaller scale and selling apartments to friends and relatives only. With a rising population and increasing housing demand, apartment culture has grown up in Dhaka. It first appeared in Dhaka near Central Road and subsequently the city experienced a boom in apartment development in all residential areas including Paribagh, Moghbazar, Seddeshwari, Shantinogor, Dhanmondi, Mirpur, Banani, Old DOHS, Gulsan, Baridhara & Uttara to name just a few in line with this.

During the last decade, the total volume of real estate, renting and business service sector increased every year which implies a positive growth in the sector every year which implies a positive growth in the sector but compared to overall GDP growth this sector expanded at a slower rate. The growth in this industry also facilitated a fast growth in many linkage industries like glass & glass products industry, brick industry, cement industry, ceramic industry, iron and steel industry etc over the last decade. Such consistent growth in the real estate sector is mainly due to a consistent demand at the consumer end.
1.2 Background of the study

I am servicing as a Sr. Accounts Officer in Irving Properties Ltd. from February, 2011. This report covers External and Internal Environmental factors that may influence the business of Irving Properties Ltd. and the challenges it may face in real estate business of Bangladesh and meet the solution. However, since the information of business strategies are confidential and sensitive in nature, so that I tried to construct this report with the help of available information.

1.3 Significance of the study

Knowledge and learning become perfect when it is associated with theory and practice. Theoretical knowledge gets its perfection with practical application. As our educational system predominantly text based, inclusion of practical orientation program, as an academic component is as exception to the norm. This Internship Report is an important partial requirement of MBA program. As the parties; educational institution and the organization substantially benefit from such a program, it seems a “win-win situation”. That is why practical orientation is a positive development in professional area. Recognizing the importance of practical experience, BRAC University has introduced a three months practical exposure as a part of the curriculum of MBA program. In such state of affairs the present aiming at analyzing the experience of practical orientation related to an appraisal of the Rupayan Housing Estate Ltd.

1.4 Scope of the study

As I was an intern, my scope was very much limited and restricted. I had maintained some official formality for the collection of data of my report.

1.5 Objective of the study

**Major objective:**

- To highlight the Prospect sand challenges of Irving Properties Ltd in Real Estate Industry of Bangladesh.

**Specific objective:**

I. Understanding of external environmental factors that influence the business
II. Identifying the strengths and weaknesses of Irving Properties Ltd
III. Highlighting the challenges that may be faced by Irving Properties Ltd
1.6 Methodology

The report is prepared based on information from Irving Properties Ltd. and Real Estate Housing Association of Bangladesh (REHAB).

The following techniques and methodologies were used to collect the necessary information:

- Discussion with the personnel who worked with the industry and collect the industries past history & current situations.
- Discussion with the personnel of Irving Properties.
- Collect information from prospectus, Annual Report, Brochures and other internal document of Irving Properties Ltd.
- Collect information from internet

After collecting all the data, I have analyzed it based on the objective of my proposal.

1.7 Limitation of the Report

Although, I am servicing as an Account Officer, I obtained whole-hearted co-operation from employees of Irving Properties Ltd. All the day, they were so busy, but they gave me much time to make this report properly. But they were not able to give me many documents that I would require, on the way of my study; I have faced the following problems that may be terms as the limitation of the study.

• Limitation of time

Since I am permanent employee of this company therefore, I have some assigned responsibilities that need to perform within the organization. For which I get few times to spend for preparing this report. Due to the time limit (Twelve Weeks), the scope and dimension of the report has been curtailed.

• Data insufficiency

Since all the officers were very much busy, they were not always able to provide me much time. On other hand Irving Properties Ltd is a new company in Real Estate business; there is not enough data to analyze the proper growth according to market economy. Moreover, all strategic information is not possible to collect.

• Fear of disclosure

Another limitation of this report is Irving’s policy of not disclosing some data and information for obvious reasons, which could be very much useful.
Chapter-2

ORGANIZATION’S PROFILE
2.1 Introduction

Irving Properties Ltd is a sister concern of Irving Group’. “Irving Group” is a rising and first growing business conglomerate in the country striving to fulfill the growing demand of the nation in various sector such as; Construction & Development of commercial and residential buildings, Travel Agent, Tour Operator, Internet Service Provider (ISP), Lube Oil, Banking, Leasing Finance & Insurance and Human Resource (Manpower Recruitment) and others. Each of these businesses is dedicated to providing customers with the highest-quality, most highly effective products, systems and services. Dynamic leadership of Mr. H. B. M. Lutfur Rahman, Chairman of the group has geared up the group business in a logical sequence.

The Group has come a long way in reaching its goals by complimenting to client needs, learning real time lessons from past projects, Innovating and partnering its project implementation process. Presently the Group focuses on meeting and responding to the ever changing needs of the consumers both home and abroad.

Irving Properties Ltd is a committed real estate company in Bangladesh. They have wonderful ideas to show the architectural beauty in the development side. Giving the best quality and service is their main commitment. They have successfully handed over several projects in Banani, Uttara, Dhanmondi and Basundhara. They started their project as Residential Apartment Building. However, now they are working on commercial building as well.

2.2 Brief History of Irving Properties

The first venture of Irving Properties is "Iqbal Center" an 18 + B storied commercial building located in Kamal Ataturk Road, Banani and Dhaka. The entire building was completed under its supervision and technical support.

The success of erecting "Iqbal Center" has given the confidence to Irving Properties to get involved in Real Estate Development Business. But from the very beginning Irving Properties adopted the policy that it will adhere to "Quality" rather than the "Quantity" because it wanted to emerge as a Symbol of Quality & Excellence. So Irving Properties are very careful in selecting their partners in joint venture.

Irving Properties Ltd designed all of its projects by the renowned Vistara Architect, the recipient of prestigious Berger Excellence Architectural Award. M/s. Vistara Architect has completed various projects such as Bashundhara City, Grameen Head Office, Peoples Leasing Tower, Nafi Tower etc.

2.3 Features

- RAJUK approved projects
- Dispute free lands
• High quality construction
• Modern Functional Design
• In time handover
• After Sales Service

2.4 Culture and Mission

Over the years of relentless efforts Irving has broad based its foundation comprising of six universal values: Spirit, Pride, Determination, Commitment, Passion and Integrity. These are much more than mere words. The culture of Irving is a tangible force, one that transcends geography and language, and permeates everything Irving does. These values inspire the way it serves its customers, who rely on Irving professionals as a true partner in their business success.

2.5 Strategy

A clearly defined strategy guides Irving’s daily actions. It means adding new products and services to solve a broadening array of customer challenges and doing so around the world. While executing this strategy Irving focuses all its action directly to achieve highest satisfaction.

2.6 Major Players in the Industry

Major market players in the Bangladesh real estate market has been historically Eastern Housing Limited, Shinepukur Holdings Limited, Bashundhara, BTI and Sheltech. This market share has not changed much during the last few years. Eastern Housing occupies near about 40% of market. Its annual sales revenue is 2082.72 million and net profit 226.70 million (Annual Financial Report, 2013). Shinepukur Holdings Limited occupies near about 35% and remaining 25% captured by other companies. But from last few years some companies are doing very well in this industry. Their growth and new design in construction create a positive image in the market. Among them Navana, Dom-Inno, Concord, Genetic, Assets and Assure are mentionable.

2.7 Products

In real estate business diversity of product is very low. Actually diversity is based on size of apartment. Irving Properties deals only on buildings. They have no any operation in land oriented business. Irving constructs two type of building. Such as-

1. Residential Building
2. Commercial Building
2.8 Project Status

a. List of Handover Project

<table>
<thead>
<tr>
<th>SL</th>
<th>Name of the Project</th>
<th>Location</th>
<th>Area of Project land</th>
<th>Size of the building (Storied)</th>
<th>Type (Commercial / Residential)</th>
<th>Project cost</th>
<th>Project Commence- ment year</th>
<th>Date of completion/ Handover</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Irving Shanchari-1</td>
<td>Banani</td>
<td>13 Kathas</td>
<td>6 storied</td>
<td>Residential</td>
<td>7.5 Crores</td>
<td>2005</td>
<td>2009</td>
</tr>
<tr>
<td>2</td>
<td>Irving Shanchari-2</td>
<td>Uttara</td>
<td>5 Kathas</td>
<td>6 storied</td>
<td>Residential</td>
<td>2.8 Crores</td>
<td>2006</td>
<td>2009</td>
</tr>
<tr>
<td>3</td>
<td>Irving Shanchari-3</td>
<td>Dhanmondi</td>
<td>5.67 Kathas</td>
<td>7 Storied</td>
<td>Residential</td>
<td>3.43 Crores</td>
<td>2007</td>
<td>2010</td>
</tr>
</tbody>
</table>

b. List of Ongoing Project

<table>
<thead>
<tr>
<th>Name of Project</th>
<th>Location</th>
<th>Land Area</th>
<th>Size of Project</th>
<th>Ratio</th>
<th>Estimated Project Cost</th>
<th>Date of Commencement</th>
<th>Present status of the Project</th>
<th>Date of Handover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irving Ontora</td>
<td>Banani, Dhaka</td>
<td>7.1 Kathas</td>
<td>2900 sft</td>
<td>50%</td>
<td>9.29 Crore</td>
<td>February, 2010</td>
<td>90% complete</td>
<td>June, 2014</td>
</tr>
<tr>
<td>Irving Rishta</td>
<td>Gulshan Link Road, Gulshan, Dhaka</td>
<td>7.25 kathas</td>
<td>2800-3200 sft</td>
<td>50%</td>
<td>14.18 Crore</td>
<td>March, 2011</td>
<td>40% Completed</td>
<td>January, 2015</td>
</tr>
<tr>
<td>Irving Boichi</td>
<td>Bashundhara Dhaka</td>
<td>3.50 kathas</td>
<td>1750 sft</td>
<td>50%</td>
<td>3.55 Crore</td>
<td>September, 2011</td>
<td>65% Completed</td>
<td>September, 2013</td>
</tr>
</tbody>
</table>

c. Upcoming Project

Many more projects are under negotiation. Due to ongoing unfavorable economic situation, slowness in sale, Irving Properties are very much calculative and selective in choosing new projects. However, they are hopeful that, very soon they will be able to make agreement for 6/7 projects at Banani, Baridhara, Gulshan, Basundhara and Shymoli.

Irving Properties believe in qualities and give emphasis on great life styles, facilities and location. Their aim is to provide a luxury and affordable life. Their winning strategy is built on three basic tenets of providing reliability, professionalism and excellence in services.
Chapter-3

EXTERNAL ENVIRONMENT ANALYSIS
3.1 Introduction

The real estate industry is the most growing industry of Bangladesh. It is very important for real estate industry to analyze its external environment. An external environmental analysis studies information about a business's industry, competition, and political and social environments. These factors affect the business but are out of its control, such as when a new political party takes office and changes regulations, in turn requiring the business to invest in new equipment or modify its products. An analysis of the external environment includes a list of factors in a business's external environment and their influence on the business.

There are some components of external analysis. Those are following:

- The macro environment
- Industry structure
- Critical success factors

3.2 Macro Environment/ PEST Analysis

Every organization operates in a larger macro environment of forces that shape opportunities and pose threats to the company. The four major forces, that is, Political, Economic, Social and Technological forces that affect the developing and the real estate industry as a whole are discussed below.

Political Forces

The political forces include laws, government agencies and pressure groups that influence and limit various organizations and individuals in a given society. There are lots of rules and regulations created by the government for several reasons, first of all to protect companies from each other, to protect consumers from unfair business practices and to protect the interest of the society.

Political forces heavily affect the real estate industry. The political situation is not stable in this country. Due to unstable political conditions the completion of projects on due time become much more difficult. For being lengthy in construction, overhead expenses of the projects some time becomes twice of budgeted expenses. Which increase overall production cost of the projects.

On other hand, whenever a new Government comes, there is a change in interest rates of deposit, loans, etc. The tax situation is affected. There are new policies regarding Export, Import and other activities that might affect the industry negatively.

Economic forces

Economic forces are the factors the affect the consumer buying power and spending patterns, some countries have subsistence economies where the consumers consume most of their own
agricultural and industrial output. At the other extreme there are industrial economies that constitute rich markets for many different kinds of goods.

Real estate industry is directly related to the economic factors, especially the consumer spending and savings pattern. Because purchasing an house or apartment involves higher amount of money. When people have higher income and high level of saving then they can think about to purchase a house or land.

There had been much change in the real estate sector due to economic forces. After collapse in share market and business sale in real estate industry has fallen near about 50%, because people have no enough money to effort a new house.

Social Forces

These are the forces related of society’s basic values, perceptions, preferences and behavior. People grow up in a particular society that shapes their basic belief and behavior pattern. These forces affect the survival and success of an industry.

Changes in living standard and pattern have also increase the potentiality of real estate business. Now a day people are getting interested in nuclear family. In last three decades, families have emerged as nuclear type from joint type. The average size of family in Dhaka City Corporation area in 2005 was 4.2 (STP, 2005). Such families find it convenient to dwell in apartments with two or three rooms. Land value of Dhaka is too high to afford by most of the middle and higher middle income people. However, on relative scale apartments are within the affordability of this economic class. Sometimes the land percale seems to be unavailable in the suitable locations. At the same times apartments are available in every part of the city. They do not want to live in combine family. For this increasing demand of small houses real estate industry has a huge scope in Bangladesh.

Technological Forces

Technological factors include innovation from research and development, advances in automation, and the rate of technological advances. New technologies can reduce costs or lead to further innovation due to improved quality aspects or new products. By looking at the Real Estate Industry one can see that the majority of materials such as cement and bricks cannot be differentiated effectively. However, the production costs remain high for a majority of construction materials, especially for cement, due to the high energy requirement to produce the high-volume product. Consequently, the industry made great efforts to test and use new material combinations as substitutes for conventional raw materials. Since the Real Estate Industry is highly cost competitive, manufacturers are engaged in developing multi-functional materials and seek for efficient waste recycle and reduction techniques. In terms of product innovation, companies gear to enhance the durability performance of the products which reduces the maintenance and repair costs of construction works. Industry leaders thus
state that even slight alterations in the production process will entail large scale measures to reduce the environmental footprint and costs. Nevertheless, further research approaches need to be undertaken in order to optimize the commercial viability of new substitutes, in order not to lose reputation or even market shares in this volume and cost competitive industry

3.3.a. Introduction to the “five forces model” of Porter

Michael E. Porter, an US economist and a faculty of Harvard Business School has produced this model in order to describe the five competitive forces through which a particular market can be analyzed. Porter model is a static model but goes further than traditional neoclassic economic models, including the so-called structure-conduct-performance (SCP) paradigm. Broader view in this model enables better understanding and insight into a market. Neoclassic models focus on very specific parameters like the number of suppliers and customers, barriers to entry and the homogeneity of products. Porter’s model also includes these parameters mainly within the category ‘industry competitors’ that determines the rivalry among existing firms. But his model considers four additional forces too that determine the bargaining power of suppliers and buyers, and the threat of new entrants and substitutes. These additional forces can have substantial effect on the market outcome and the competitiveness of the sector. Due to the generic characteristics of the model this model can be applied to describe any industry. In this report the model is applied to the real estate industry in Bangladesh. In the following sections attributes of the model are described. The parameters have been adjusted to the real estate business in Bangladesh to some extent.

Bargaining power of suppliers (Real Estate Firms)

This is the power producers of real estate products can exert on the price and volumes of real estate products in the real estate market where producers and customers meet. This is one of the factors determining the total volume in a particular period for real estate products. This bargaining power of producers is affected by different parameters that are in point.

- **Number of producers**: This refers to the total number of real estate firms in the market. The greater the number, the lower the bargaining power a producers can exert on the purchasers. The opposite is also true i.e. a small number of producers indicate a high degree of market concentration, and thus a favorable bargaining position for producers.

- **Differentiation of Input mix**: Difference in the combination of inputs and the way a firm collects the inputs create a big difference in the market when considered in total costs perspective. It provides the real estate firms to compete towards the costs in the market to influence price and profits. A firm that buys land today with plan to construct houses in five years from now on has an advantage over the firm which buys lands after five years to construct the houses.
• **Importance of volumes to producers:** A producer who depends on a few purchasers is very sensitive for a decline in sales. For example producers who produce housing only for the people in Gulshan runs the risk in case the Gulshan market is fully penetrated or the market is experiencing downturns or the market does not show positive reaction to the new houses. On the other hand producers who have many purchasers don’t run this risk because it’s pretty unlikely that all markets experience downturns at a certain point in time.

• **Switching costs for customers:** If customers have to incur a significant costs to switch the firms, then it’s normal that customers don’t switch unless there is a major mishap. But it also works for the companies who secure quality of products to exert some power on the buyers.

**Bargaining power of buyers**

According to Porter bargaining power of buyers is, “the ability to force prices down, bargaining for higher quality or more service, and playing competitors against each other”. The parameters of this force are described below.

• **Buyers-producers ratio (concentration):** This is the relation between the number of buyers and the number of producers. If there are many producers producing products bargaining power can be limited due to competition. On the other hand if there are just a few producers serving buyers their bargaining power can be high.

• **Buyers know the production costs:** Market information can increase the awareness of consumers. Information on tariffs of competitors, production costs, profit margins etc. can be considered as market information. Therefore once a buyer knows this information, it can influence the buyer’s behavior especially switching behavior.

• **Availability of substitutes:** Availability of substitutes and the information about those substitutes can significantly increase the bargaining powers of buyers.

• **Price sensitivity of buyers:** Higher sensitivity to the price by a buyer, higher the chance of switching producers. It means producers have to pay more attention to their price policy to remain competitive.

• **Price of total purchase:** Buyers consider the total price that includes the price of relevant services like gas and electricity connection, lift service, parking lot price etc. Now if these services make the total amount bulky buyers get an incentive to switch the producers; at least they go for bargaining with the producers.

• **Strategic importance of the product:** This is more or less related to the concept of Geffen goods. Higher price of the house works as the symbol of status or ego for a
certain buyer. At the same time buying a house in Gulshan might be a strategic reason for a buyer rather than buying a house in Dhanmondi.

Threat of new entrants

Threats of new entrants are sometimes the result of abnormal profits in a particular sector. It’s widely argued that the real estate sector in Bangladesh still produces the abnormal profits for the firms though there is not available data to prove that. Related parameters to describe this force are in point.

- **Legal barriers to entry:** Legal barriers that are normally imposed by the government are due to varied reasons. It can be a through patent or something else like this. In Bangladesh real estate market there is nothing like this. This kind of barriers reduces the risk of new entry in the market almost at a zero level.

- **Economies of scale:** This works as a barrier when potential new entrants perceive the market as an attractive one and wants to enter into the market. Economies of scale of the existing firms allow them to play with price and therefore they put the price in such a way new entrants does not feel any attraction to the market.

- **Initial investments and fixed costs:** Bulky initial investment can provide an advantage to the existing firms as they can use the “play tough” strategy to make the market unattractive to the potential entrants.

- **Learning curve advantages:** Incumbents can gain substantial learning curve advantages during the years of presence on the market. If incumbents enjoy unbridgeable learning curve advantages new entrants can experience this as a barrier. Learning curve advantages strongly depend on the related market, specifically the market openness. For example, in general several years R&D experience is more difficult to catch up then being active on the market.

- **Brand Loyal Customers:** High brand loyalty from customers to a certain brand can make a market unattractive to the potential players in the market. Therefore large firms spend their huge focus on building brand loyalty.

- **Switching costs for buyers:** High switching costs can reduce the buyers’ intention to switch which fade the profit potential for a new entrant.

- **Availability of important resources:** Availability and access to the critical resources is one of the very first things a new entrant has to confirm before deciding to get inside of a market. In real estate market of Bangladesh it’s not easy as the lands for example for the constructions is decreasing day by day.
Threat of substitutes

This refers to the extent by which buyers can replace their current products by another one. In the context of this report substitutes does not mean the pure substitutes of the core products. In fact here substitute means the substitutes of different dimensions of core products. The core product is house and different dimensions include among others location, luxury, producers etc. The relevant parameters are the followings.

- **Loyalty of customers:** High level loyalty of buyers to a certain firm and its products reduces the substituting behavior and vice versa. Price, status, ego, are some other factors that continuously contribute to the substituting behavior of buyers.

- **Switching costs:** If the costs of substitutions are high buyers are negative towards substitution normally. In reality buyers try to compare the gains from substitutes and the costs of substitutions to decide whether they will go for substitution or not.

In addition to that if substitution offers innovations buyers might be attracted to the substitute products. In this case ‘early adopters’ are a logical target market for a firm.

- **Economic advantages of substitutes:** To be accepted by the buyers, as substitute a product must offer economic advantages of having it. If the buyers think that the potential economic advantage is not rational, substitute products face the harsh reality.

- **Potential new substitutes:** This is related to the potential new entrants in the market with new ideas to act as substitutes. Success of these potential new products as substitute depends on the intensity of the newness of the ideas.

Rivalry among existing firms

This refers to the intensity of competition within an industry. As in this report author talks about the real estate sector in Bangladesh, the parameters are adjusted with the Bangladesh market situation.

- **Market concentration:** Market concentration determines how many firms are in control of how much of the total market. If there is high level of concentration, competition is not fierce normally. Only few firms enjoy almost all the benefits.

- **Types of market & profits potential:** It refers to the market structure i.e. whether the market is monopoly or oligopoly or perfect competitive. In perfect competitive market there are no abnormal profits and entry is free followed by more innovations and new products. But in case of other market types there are abnormal profits (price is higher
than the average costs), which reduces the total welfare and invites others to get into the market.

- **Bargaining power:** High rivalry among the competitors leaves low level of bargaining chances for both producers and buyers because its assumed that competitive price is either the fair price or close to the fair price. Fair price here means the price that is expected in the perfect competitive market.

- **Threat of new entrants:** In general the more significant the threat of new entrants the more is the rivalry among the existing firms.

- **Threat of substitutes:** As mention on the previous page, the threat of substitutes is composed of several parameters. The more significant the threat of substitutes the more this can increase the rivalry among existing firms.

- **Product differentiation:** Product differentiation can work as the added values for any firm in the market which also influences the rivalry among firms.

- **Switching barriers for buyers:** The more switching barriers buyers experience the less significant the rivalry among existing firms. In other word, if buyers are not able to switch from a certain producer there is no incentive for firms to compete.

- **Barriers to exit the market:** Huge initial and fixed investments force the company to stay in the market and compete with others.

### 3.3.b Applying Porter’s Model to the Real Estate Market in Bangladesh

The Porter model is applied in this section to describe the Bangladesh real estate market.

**Bargaining power of suppliers (Real Estate Firms)**

Huge number of real estate firms in Bangladesh real estate market shows that the market is pretty much attractive to the investors. But the real scenario is a bit different which is elaborated below.

- **Number of producers:** As mentioned earlier that there are lots of real estate firms in the market to produce the real estate products in Bangladesh. But major gains go to some of the big companies in the market. These companies could survive at the time of crisis in the market. At the same time these firms have advantages from economies of scale and scope. Lots of real estate business can be treated as the portfolio diversifier of investors. In case of market concentration market is pretty much concentrated as only 10-15 large companies hold the 95% of the total market share.
• **Differentiation of Input mix:** One of the major inputs in the real estate business is land. Therefore, values & prices of lands affect the Bangladesh real estate business very much. They play a strong role in determining the selling price of the real estate products.

For example, prices of houses vary considering the locations they are in. A house with lake view in Dhanmondi is far more expensive than the houses in other regions of Dhanmondi. In case of commercial spaces, Motijheel is that much expensive compared to new market region.

In addition to that, the time when the real estate firms buy lands is very important. Firms that have bought lands in the suburbs of Dhaka city ten years back are now in advantageous position than the rivals in the market. The price of the lands in the suburbs of Dhaka city has risen more than 5-6 times in the last ten years. Therefore, early buyers have an advantage over costs and gain more. At the same time, they if they can influence the rival’s business by setting the price at relatively low level.

So this is about the charisma of top management. The top management that could figure out today’s scenario of Dhaka city at ten years back and took actions in accordance of that is now garner to a large extent.

• **Importance of volumes to producers:** Not all the real estate firms are capable to operate largely to cover all the segments of real estate business. But depending on the business condition in Bangladesh, experts argued that a firm should target at least two ‘income level’ of the society. If one targets only one level say for example high income level, one might be pretty much limited to the Gulshan area. In bad business time one will face problem because of the limited customer base one has. But if one targets high and medium income people together one might make a tradeoff in bad business time.

In Bangladesh market though there are a lot of small firms operating in the real estate sector and can’t target more than one segment, majority of the big firms target more than one segments. Some firms target almost all segments. These are some big companies but not in the real estate sector only. In reality some big firms who were operating in other sectors came to the real estate sector too either to maximize the potential return from this market or to diversify their investment portfolio.

Discussion with experts and employees in Bangladesh shows that initially real estate sector came to the scenario as a huge potential source to earn revenues which motivated them to be involved. But later on they could realize that real estate business can also be a good addition in the asset portfolio to diversify the portfolio.

• **Switching costs for customers:** Normal law is that if the switching costs are high then customers have low incentive to switch. In Bangladesh real estate market we can
think about two switching scenarios. One is prepurchase scenario and the other is postpurchase scenario. Though there are some companies in market having brand loyalty, this loyalty not necessarily came from their real estate business operations. It came from other business operation of them in Bangladesh. For example, Sheltech, a well known real estate company is a sister concern of Square Groups of Bangladesh, a group having huge brand loyalty and recognition in different segments including information technology, consumer products, and medicine. Therefore real estate buyers normally have no predetermined suppliers. Their choice depends on a combination of factors like available budget, location where one wants to buy the house, who are the companies operating there etc.

So one might argue that before making a purchase decision one search information and real estate companies meet the demand of that information in different ways. One of the ways is extensive marketing campaign through different marketing tools. Physical inspection of the house premise is a frequent incident in case of real estate buying in Bangladesh. Now one might switch the companies in this period and this is prepurchase switching. It has the costs of time, energy, transportation, and information collection mainly. Considering the Bangladesh situation this costs are not that high. But it could be pretty high when one switches a lot and find it difficult to get the proper offer one was looking for. At the same time in case of high income group and the blue collar job holders the costs is high mainly because of the high level value of time of them.

In case of post purchase switching, it’s really expensive for all the groups in the market. The reason is that one has to go through all the steps i.e. information gathering, evaluating alternatives, deciding for one etc. again to buy another house. But in reality still switching happens mainly by the high income groups.

Bargaining power of buyers

Bargaining power of buyers that arises from different factors is the ability to force prices down, bargaining for higher quality or more service, and playing competitors against each other. The parameters of this force are described below.

- **Buyers-producers ratio (concentration):** In Bangladesh there is lots of real estate developers in the market with the varied offers to buyers. This variation is something that constraint the bargaining power as the products are not perfectly substitutes of each other. Each offer has something new and producers try to manipulate that. Customers have a narrow chance to compare in reality. But in case of general real estate products customers go for bargaining though the depth of bargaining depends on the location and the fact which party is in crisis. For example if a buyer is in a position that he has to buy a certain product, seller has the advantage and buyer cannot bargain a lot. The opposite is also true.
Again one really cannot bargain a lot in areas like Gulshan as it’s pretty difficult to get any houses in those areas to buy. High level of land scarcity in these areas is the main reason behind the low level of bargaining.

- **Ability of buyers to produce:** It happens when one at least has the land to build a house. Still one has to have the access to the financing institutions to finance construction activities. This kind of ability is pretty present among rich people. But they still hire some third parties to construct their dream house according to their preference. Most importantly these rich people also have the access to the financing services in Bangladesh.

On the other hand, poor and mid income people can’t do that even though they have lands because they don’t have the access to the financing. Sometimes they build some kind of association and through joint efforts they build their own houses.

Though not in the urban areas, it pretty much common in the sub urban areas. Therefore in those areas buyers enjoy more advantages than the suppliers.

- **Availability of information to buyers:** Well though real estate companies offer some kind of online services to the customers, those are mostly insufficient because it’s widely claimed that there is a gap in between their description of properties in the website and the reality. Companies claim that they just put a general description of their ventures in their website as it’s not possible for them to update all the specifications of their ventures. At the same time they think that in Bangladesh still people don’t rely much on online information. Rather they like to go for physical inspection. That’s why companies are focusing more on their marketing campaigns through visual Medias mainly. They also trying to build reference groups in the society.

This happened due to the improper IT infrastructure in the country. But the companies also noticed that the IT infrastructure has been improving in the last couple of years and the new generation is more or less dependent on the online information. Therefore to meet their information demand in coming days companies already ensured their online presence and it will be improved day by day.

So in conclusion it can be said that information is not readily available. One has to collect them if one wishes to compare the products to make a better purchasing decision.

- **Volume of purchase:** Well it says that when one buys a bulky amount of products one can go for significant bargaining with the producers. In case of real estate this does not work that much as there are few or no bulky purchases. Above all almost all companies have some offers that reduce the total price if one buys more than one unit.

- **Buyers know the production costs:** Once again this is related to the information availability. As mentioned earlier in Bangladesh one has to collect the information as
they are not readily available. But if one can collect the information its helpful for one to make a better purchasing decision.

If one knows about the production costs one can create more pressure on the seller to make a deal convenient for the buyer. But it depends once again who is the party with need-need to sell or need to buy.

- **Availability of substitutes**: In Bangladesh market buyers have substitutes to a large extent. But the scenario is different in urban and sub urban areas. In urban areas though there are substitutes, they are really varied in terms of locations, price, features etc. So how much a buyer can substitute is mainly dependent on the buyer’s affordability.

  In sub urban areas where buyers also has significant ability to build their own houses and the price difference is not that high, availability of better substitutes gives buyer a substantial edge in bargaining with the sellers. But in urban areas one has to make a trade off in between the price changes coming from substitution and the change in benefits.

- **Price sensitivity of buyers**: High price sensitivity leads a buyer to bargain more with the suppliers. But how much the buyer will be successful depends on the location and once again who is the party with need.

  If it’s in the urban area, the chance of success by the buyer is low while in sub urban areas buyer might gain some. The main reason is that price sensitivity is offset by the scarcity of land in the urban areas sometimes.

- **Price of total purchase**: Buyers consider the total price that includes the price of relevant services like gas and electricity connection, lift service, parking lot price etc. Now if these services make the total amount bulky buyers get an incentive to switch the producers; at least they go for bargaining with the producers.

  In Bangladesh buyers care for this pretty much. The good thing is that they can customize the construction activities to implement their preferences. Another thing is that in urban areas the relevant costs like parking costs are more or less same. In sub urban areas the costs are relatively low compared to the urban areas.

- **Strategic importance of the product**: Well this is common among the rich people. When they plan to purchase houses their first choice is Gulshan. Gulshan is the area which associates prestige and status for a buyer. Secondly they think about Banani or Uttara or Dhanmondi. These people don’t care about money; they care for status, prestige, and ego. Therefore houses in Gulshan or other mentioned areas are seen as the symbol of status and prestige.
In case of commercial real estate products sometimes locations become very much meaningful strategically. For example, it’s meaningless to have a park like wonderland, a famous amusement park in Gulshan area, in new market area because the park will not get many visitors here as it’s expensive to visit the park. Again as the commercial centre of Dhaka city, Motijheel has a strategic value for the commercial real estate products. No one really thinks of residential housing in this area.

Threat of new entrants

It’s widely believed that the real estate sector in Bangladesh has been rewarding abnormal profits to investors and therefore lots of investors came to the market. Abnormal profits here refers to the situation where price for the real estate products is more than the average costs to produce that products. In course of time profit margin has been declined and more and more competition came up in the sector.

- **Legal barriers to entry:** In Bangladesh there is no legal barrier to entry to the real estate market. All are free to do business here.

- **Economies of scale:** There are some big companies in the market enjoying these benefits. But it does not mean that they did lower the price to put the competitor in problem or put the buyers in high satisfaction level. They rather enjoy the high profit margin by reducing the costs. The author did not find at least in the urban area of Bangladesh that any firm having economies of scale trying to be more competitive by reducing the price. Therefore advantages from the economies of scale are being used to increase profit margin rather than building competitiveness, which could be a threat for new entrants.

- **Initial investments and fixed costs:** Well it requires large amount of investment. But in most cases real estate companies has very good access to the financial market of Bangladesh. At the same time they get the down payments from the buyers and this money can be used to start the project.

- **Learning curve advantages:** It’s very difficult to prove that the companies in real estate market in Bangladesh are experiencing the learning curve advantage because of the unavailability of data. But this is true that companies do not spend much money in R&D activities. They spend much money in land acquisitions rather than R&D.

- **Brand Loyal Customers:** This can’t be an entry barrier in Bangladesh market as brand loyalty is low here. Here buyers justifies the alternatives first based on the available data and then decide which one to select. At the same difference in locations and needs discourages the brand loyalty to some extent. The reason is that it might happen that the company to whom one is loyal is not present where one wants to buy a house.
• **Switching costs for buyers:** In Bangladesh pre purchase switching tendency is common rather than post purchase switching. Therefore new entrants should not be concerned as long as it is confident that it can provide quality products.

• **Availability of important resources:** Availability and access to the critical resources is one of the very first things a new entrant has to confirm before deciding to enter into a market. In real estate market of Bangladesh it’s not easy as the lands for example for the constructions is decreasing day by day. Availability of human resources both in general and technical side is another important factors to think about. Though day by day due to the different initiatives of government level engineering education in Bangladesh is improving, one has to look at the availability of those technologically sound labor forces in the area where one wants to operate.

**Threat of substitutes**

This refers to the extent by which buyers can replace their current products by another one. In the context of this report substitutes does not mean the pure substitutes of the core products. In fact here substitutes mean the substitutes of different dimensions of core products. The core product is house and different dimensions include among others location, luxury, producers etc.

• **Loyalty of customers:** As mentioned earlier that in Bangladesh real estate buyers are not brand loyal to any brand. In other words no company could yet build up brand image in such a way that can influence the buying decision. Therefore, though well known brands can motivate buyers sometimes, purchasing decision depends on lots of factors like price, desired location, other related attributes etc. Buyers inspect the activities directly beforehand to make a good decision. Therefore brand loyalty is less here and people has more switching tendency if they have the options available to switch. It should be noted here one more time that in Bangladesh pre purchase switching is pretty common compared to the post purchase switching. It’s because there are plenty of offers with varied features in the market for buyers.

• **Switching costs:** Switching costs are very high in case of post purchase switching. So there are few post purchase switching. But there are many more pre purchase switching as this is not expensive most often. Buyers try to justify the substitutes in terms of gains from the substitution and compare it with the substitution costs. In reality lots of buyers in Bangladesh market involve emotion in making purchase decision. Well this is a cultural phenomenon that Bangladeshis are pretty much emotional. People consider purchase of house as a very long term decision and they sometimes overlook the high switching costs if they get a better alternative.
This leaves an opportunity for the innovators in the market. Their innovation gets attention easily and if they can make it affordable for the target market, they can create a high substitution ratio in the market in favor of their products.

- **Economic advantages of substitutes:** In Bangladesh real estate firms apply different techniques to help buyers to realize the potential economic benefits of substitution. They make huge marketing campaigns, they arrange site inspection events so that buyers can imagine the benefits directly being in the house premise, they arrange flat or plot fare etc. All are aimed at creating better awareness in the market among buyers.

   REHAB housing fair is one of the most important events for real estate firms in Bangladesh. In these fairs firms participate and let the buyers know about their offers both in home and abroad.

- **Potential new substitutes:** Well there is newness of thinking in the industry. For example, for the inhabitants of Sylhet region real estate firms build houses in such a way so that buyers feel that their houses are similar to those they are used to live in London. It finally makes the houses much expensive. But as the target population is rather rich, real estate firms employ more resources there. Therefore there are lots of luxury houses in this area.

   Another new idea from some real estate firms is that they started to build houses in the outskirt of the Dhaka city couples of years back. At that time lots of people questioned their aim and justification of their activities in those areas. But suddenly when communication system in between Dhaka city and its outskirt has been improved substantially, everyone could realize the justification of their operations. In fact these firms at that time could imagine that after couples of years Dhaka city will be ineligible to live and people will move to the outskirts of the city. Therefore now a days most of the luxurious houses are being built in the outskirts of the city.

**Rivalry among existing firms**

This is all about competition in the market. By nature Bangladesh market is free for all and anyone can invest here. Therefore there are lots of companies in the market who compete among themselves. However competition is much fiercer in the urban areas like Dhaka city compared to the sub urban areas like Savar, an area about 20 kilometers away from the Dhaka city.

- **Market concentration:** Market concentration determines how many firms are in control of how much of the total market. If there is high level of concentration, competition is not fierce normally. Only few firms enjoy almost all the benefits.
• **Types of market & profits potential:** In Bangladesh market all are equally welcome to operate which means by nature one should brand the market as the perfect competitive market. Therefore there should not be any abnormal profits. But real estate experts say that there are still abnormal profits in the market i.e. average costs are lower than the price, and it attracts investors to this sector. But there is not any kind of cartel or oligopolistic behavior in the market. It’s not a monopoly too.

What really matters is the knowledge and experiences along with availability of resources. Companies with significant knowledge and experiences in operating in the market can gain from the utilization of the available resources. One of the gains comes from the costs’ reduction which ultimately works as a barrier for the new entrants to enter into the market.

• **Bargaining power:** Though there is high rivalry among firms mostly in the urban areas, still there is a place for bargaining for both buyers and sellers. This happens due to the asymmetric information in the market about the competing price, quality and other relevant issues. Buyers still go for bargaining to a large extent and success depends on some factors like location (urban or non urban area), which party is with the need (for which party the situation is critical) etc.

• **Threat of new entrants:** Day by day the real estate sector is getting new orientation in the Bangladesh market. New places are being penetrated and the market expands with good pace. That’s why the business has high profit potential to lots of investors which put the threat of new entry to the existing firms. This increases the rivalry among the existing firms to a large extent.

• **Threat of substitutes:** In Bangladesh market, there are lots of options for buyers to substitute the real estate products. This substitution is not the substitution of core products; rather substitution of different features of the core products.

As a result real estate firms face high rivalry from the competitors. Therefore they have to be careful in designing their offer with proper pricing, and marketing campaigns.

• **Product differentiation:** When a firm can differentiate products from the products of rivals, at least at the initial stage the differentiator gets some advantages. This can be described as the introduction of new features by real estate firms in Bangladesh market.

Buyers are now much more aware about the quality of the products and the difference in products. Therefore they want the best quality products at the lowest possible costs. But they are also ready to pay more for the quality products. For example they pay more for the houses with the lake view in Dhanmondi.
Now a days buyers are rather careful about the finer details of their houses like which tiles is being used, which constructing firm is employed, what’s the reputations of the construction firm, which architects are in charge of design process etc. They can realize the difference and the differences play important role in purchase decision making.

- **Switching barriers for buyers:** In Bangladesh market, pre purchase switching does not incur much cost. Therefore firms have to be careful about that stage as they experience more rivalry in that step. But once one buys the product, post purchase switching is pretty much low as it’s very expensive.

So the challenge in the pre purchase step. In this step all the marketing campaigns are put in large volume to motivate the buyers to buy certain products. More the information dissemination, customers have more knowledge about the products. At the same time companies try to build up some kind of reference groups to take the advantage of the words of mouth.

- **Barriers to exit the market:** Like all other business sectors, in real estate sector also the hard worker is the winner. Now if someone can’t work hard one has to get out from a market like Bangladesh market where there is no legal barrier to compete and there is no regulation to control the market competitive behaviors. Therefore one is free to enter and exit at least theoretically.

But once the company invests a lot in the factors of production like labor and land, practically it’s pretty difficult for the firm to leave the market. If the company leaves, company looses not only the investment but also the potential profits.

So it’s not common that firms investing huge amount of money leaves the market. In reality big firms that are operating in the market, they do invest in real estate in order to diversify their portfolio of investments.

### 3.4 Key Success Factors

In any kind of business, success is the ultimate goal. In real estate business, there is a term called Key Success factors (KSF’s) or simply the critical success factors generally referred to those limited number of areas in which results are satisfactory. These are the most important areas that one must get right in order to succeed. These are concepts that should not be ignored.

We know the fact that real estate investing is a thriving industry that has potential to generate income and make individuals life rewarding. However, there are times that real estate investors still lose amount of money. Why? This is because they lack knowledge on how to do the right thing. So to kill that tension, here are some factors that can help make differences from failure to success in real estate business.
1. Understanding the economy, and market research

This is the first thing we should know. This is absolutely the biggest key factor that affects the value in real estate – the overall health of the economy. There are a lot of factors in measuring one economic health, such as GDP, business activities, prices of commodities, etc. Generally speaking, when the economy goes down, so are the other types of businesses including real estate. So it is important to be aware of the market cycle of the economy, as every kind of business is sensitive to the economy where it stands.

2. Relationship building

Just like any other kind of businesses, real estate involves a great deal of networking. A good communication skill is a must for a real estate investor to become successful. He/she must know how to manage relationships between the two important parties – the sellers and the buyers, as well as to other organizations and businesses may involve in the process. It is important for one to establish strong networking relationships to these entities for better understanding.

3. Finding ways to generate income out of the property investment

Obtaining a certain property does not necessary mean the end of task. Talking about the situation that we are a kind of investor who wanted to earn money out of purchase property, and watching the four corners in unit, doesn’t make sense. That attitude is a big no, no! Instead, think of best possible tactics on how to generate income from it. One good example is letting it for lease either for residential or commercial purpose.

4. Patience

Patience is one important key in real estate success. We may ask ourselves, how patience affects real estate success. Financial understanding is the most crucial part that tests our patience and the key factor of determining our success. In here, we should know how to step back and study the good and bad aspects in our investment business. A good investor knows how to do research and spend money with it necessarily.
4.1 Resources

Firms are comprised of productive resources that either allow or hinder the development of strategies that generate and sustain competitive advantages. Resources are two forms: Tangible and Intangible. The tangible resources include financial assets, equipments and infrastructure. On other hand large customer, market share, marketing channel, brand identity are intangible assets of Irving Properties Ltd. The reputational and human resources assets are the intangible resources that Irving owns which help produce new competencies and adding value to its market position.

4.2 Core competencies

Core competencies are the combination of pooled knowledge and technical capacities that allow a business to be competitive in the marketplace. Theoretically, a core competency should allow a company to expand into new end markets as well as provide a significant benefit to customers. By analyzing external environment and resources the following core competencies are found from Irving properties.

I. Strong Financial Position

Financial strength is much more important in real estate business. Irving properties started its business with a authorized capital of Tk. 50(Fifty) million where paid up capital is Tk. 10(Ten) million. At 2011 Irving got OD (Over Draft) facility up to limit of 100(One Hundred) million from Prime Bank Limited. At year 2013 Irving has applied to Mercantile Bank for Tk.500(Five Hundred) million as OD facility which are in pipe line. In overall Irving has enough financial strength to do well in this industry.

II. Potential and Capable Human Resource

Irving created an environment to get human resources where the people were not only achieved the goals, also the people can work in the harmony and share value to take responsibility and make commitments to customers. Irving attract the top talent from the market because of the employee diversity is integral to business success as every employee bring their unique skill and work experience to enable grow the global market. Through integrating best-in-class human resource practices for talent recruitment, retention, development and employee welfare, the company nurture and groom future leaders to power Irving’s sustainable growth.
4.3 SWOT Analysis

A SWOT analysis (alternatively SWOT matrix) is a structured planning method used to evaluate the strengths, weaknesses, opportunities, and threats involved in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective. The SWOT analysis of Irving Properties Limited is given below.

Strengths

- Quality products and services
- Company reputation and goodwill
- Expanding market, expanding sales & profitability
- A healthy industry sector with quality business Experienced management
- Good purchasing power of target customers group
- Government keen interest to solve housing problem with the rapid increase of urban population
- Open market economy, recent housing policy etc. may favor sustainable growth of housing industry

Weakness

- Small number of project
- Lack of adequate marketing (advertising and promotion) effort
- Lack of full scale automation
- Lack of training facilities for the employees
- Strong competition among the existing players of the industry
- Increased price of industrial materials will be difficult to pass on the customers because the agreement in response of the price and construction standard is made 2 to 3 years before the actual handing over of the apartments
- Higher wastage rate
- Higher employee turnover rate
- Higher overhead expenses due to deny in handover of projects

Opportunities

- Regulatory environment favoring private sector development
- Value addition in products and services
- Increasing purchasing power of people
- Increasing trend in international business
- Increasing the population of Bangladesh
- A high profitable investment opportunity for individuals as well as financial institutions
- A very wide scope is prevailing for foreign investor
- Urban population is developing favorable attitudes towards apartment living, although the present market of apartment business is limited within high income groups of the society, there exists opportunity for middle and lower level income groups.

**Threats**

- Frequent changes of inhabitation rule of Bangladesh Government or RAJUK
- Market pressure for lowering of lending rate
- National and global political unrest
- Lack of land of Bangladesh
- Political instability and unrest directly or indirectly threats all the business sectors including housing industry
- Bureaucratic complexity imposed by RAJUK, WASA, DESA, and many other Government and semi Government agencies
- Dependency of the major housing companies in the market
- Higher interest rate of loan
Chapter-5
PROSPECT AND CHALLENGES
5.1 Prospects

Being one of the most densely populated countries of the world with a huge population, Bangladesh has already surrendered nearly 25% of its land to human settlements and related uses. With the current 30 million urban populations, the share of urban land is about 2 percent of all lands and nearly 10 percent of land under settlements.

Urbanization helps saving land for settlements. This is because of the possibility of higher density. As of today 30 million urban population are squeezed on about 3370 square kilometers (1300 square miles) of land in the country giving a gross density of 8870 persons per square kilometer (23000 persons per square mile) as opposed to about 700 persons per square kilometer (1800 persons per square mile) in rural areas. Thus the urban density is more than 12 times that of the rural density. But urban population will be more than double in the next 20 years and the trend would continue. By the year 2040 Bangladesh would possibly have half of its population (of 200 million or so) in urban areas that would amount to 100 million people in urban areas.

5.1.a Interaction of Urbanization with Population Growth

Bangladesh is a densely populated area with acute shortage of housing especially in cities. The present population density is approximately 964 per sq. km (Population Census, 2011). Total population is 158.57 million (World Fact Book-2011). The population growth rate is 1.566 (World Fact Book-2011), meaning that every year more than 2 million peoples are added to the population. There is huge gap between house supply and demand in the urban area, particularly in Dhaka.

The country’s urbanization rate is 3.1 (World Fact Book-2011) indicating the mounting housing pressure on urban governments. Dhaka, for instance, has a population of 14.25 million (World Fact Book-2011) and every more than 0.5 million is added to this mass. Every year more than 0.1 million new household units are needed to fulfill the growing the demand in Dhaka city. Unfortunately the government has done very little to meet the housing demand which in turn has given rise to the increased involvement of private sector. However, real estate sector can provide only 10,000-12,000 dwelling units per year. It is obvious that real estate business in Bangladesh has high potential in the future.

5.1.b Housing in Dhaka City

Housing conditions of Dhaka City vary greatly between high and low-income groups as well as by area. The gap is obvious between luxurious high income apartments/houses which exist in high-income areas such as Gulshan, Baridhara, Dhanmandi, Uttara areas and poorly constructed temporary housing (Jhupri) with extremely small floor space, very densely located on the lands prone to flood disasters. About 30% of the slum dwellers live in Jhupri, 24% in Chhai, 13% in Tong, 30% in Tin-shed, 2.5% in Semi-pucca and 0.5% in Pucca type of structure. Housing requirements in Dhaka is 218,000 units including dissolution of backlog
until 2001 and replacement, wherein the requirements of urban poor are 140,000 units, which share almost two-thirds of the total requirements. In terms of tenure, 54% of the households are on private rental basis while 31% are owned. Only 1.2% is on social housing. It can be pointed out that people from all socio-economic backgrounds in Dhaka are facing housing problem of one type or another. While the urban destitute need rehabilitation, the slum dwellers need slum upgrading. The low-income families are in need of low cost flats or plots and the middle and upper income families are complaining that the cost of a decent plot or a decent flat is going beyond their means. The solution to the problems of these different groups is also different and mainly lies in the hand of the policy makers and the government.

5.1.c Housing Access and Affordability

The rapid growth of city population has led to a phenomenal increase in housing demand in the city. The housing market of the city consists of five tenure groups – owner occupied, private rental, rent free, squatters and slums. Physically, housing has extended from makeshift arrangement and permanent houses. Dhaka City has a very high proportion of poor population (65%) and as such affordability of housing is significantly affected by the income distribution. The access of poor to housing is constrained by high land and material prices. In one study (DMDP, 1995), it has been observed that the first quintile of city household has zero affordability to housing; the second quintile can afford Tk. 140 to Tk. 300 per month; the third quintile can afford Tk. 300-400 per month; the fourth quintile of household can afford Tk. 480 to Tk. 600 per month and the fifth quintile of household can afford Tk. 1000-2500 per month. Only 3.85% of household can afford above Tk. 2500. The affordability indices of Dhaka City imply that the govt. has to play the role of both provider and facilitator/enabler for different income groups.

Historically government has lower contribution in real estate sector in considering the demand of market. Private sector contributed significantly to the supply of urban housing, particularly in the capital. During the last four decades private developers provided more than 100,000 apartment unit (Sheltech Survey, 2010). 25,000-30,000 units will be added in the next three years (Sheltech Survey, 2010). Real estate developers are able to provide house for high and middle income group. Therefore, Irving Properties Ltd has huge opportunity to do business in this industry.

5.2 Challenges

There are some challenges that Irving has to face in operating business. These are as follows-

5.2.a Construction Material Price Increase:
One of the major challenges of Irving Properties Ltd is to maintain the construction cost of project due to the price hike of construction materials. The price of construction materials is consistently increasing thereby increasing the construction cost and apartment price.
### Yearwise Material Cost Table

<table>
<thead>
<tr>
<th>Year</th>
<th>Brick (Tk./Piece)</th>
<th>Sand (Tk per cft)</th>
<th>Cement (Tk/Bag)</th>
<th>Steel Reinforcement 60 Grade (Tk./ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brick</td>
<td>Sand Fine</td>
<td>Sand Coarse</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(TK./Piece)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>1.10</td>
<td>4.73</td>
<td>6.70</td>
<td>115.00</td>
</tr>
<tr>
<td>1995</td>
<td>1.50</td>
<td>7.00</td>
<td>8.50</td>
<td>162.00</td>
</tr>
<tr>
<td>2000</td>
<td>2.50</td>
<td>7.80</td>
<td>10.50</td>
<td>193.00</td>
</tr>
<tr>
<td>2005</td>
<td>3.15</td>
<td>8.00</td>
<td>22.00</td>
<td>283.00</td>
</tr>
<tr>
<td>2010</td>
<td>7.00</td>
<td>10.50</td>
<td>29.00</td>
<td>365.00</td>
</tr>
<tr>
<td>2011</td>
<td>9.10</td>
<td>13.50</td>
<td>30.50</td>
<td>378.00</td>
</tr>
</tbody>
</table>

*Source: Sheltech, 2011*

#### 5.2.b High Property Transfer and Registration Fee

Besides, high apartment cost, fees pertaining to property transfer and registration impose extra burden to the buyers. According to new procedure, fees include Gain Tax (2%), Stamp Duty (3%), Registration Fees for the central government (2%) and City Corporation (2%) and fees for sub-registrar (0.5%) which together account for additional 9.5% cost of an apartment. In addition, the buyers have to pay advance Income Tax (up to tk. 2000 per sq. meter) along with a 1.5% VAT which further worsens the affordability of the buyers.

#### 5.2.c Limitations of Existing Regulation

There is provision of compulsory 20 ft Road Width in Dhaka Metropolitan Building Construction Rules, 2008. There is no FAR benefit if any plot owners widen adjacent road width from less than 20 ft to 20 ft sacrificing his owned plot. Building Height is to determine considering plot size, adjacent road, ground coverage and FAR.
Findings

✓ There are a large number of competitors in the market
✓ Irving has small number of ongoing project which is hindering in achieving economies of scales
✓ Market is very sensitive with the economic conditions of the country, even with the fiscal policy of the Government
✓ Most of the projects of Irving Properties Limited are located in some specific locations
✓ Irving needs to focus on using their resources properly
✓ Political unrest is a major issue in handover the project on due time
✓ Restriction in getting connectivity of utilities in residential building

Recommendations

✓ Irving should understand the customer’s needs
✓ Irving may need to improve the customer service such as maintenance service after handover of the projects
✓ Irving should undertake strategic plans and action to increase market position in real estate industry
✓ Irving can arrange training for their employees to improve their lack of dedicated behavior and functional skills
✓ Government should be flexible in providing utility facilities in residential building
✓ Political parties should be responsible in declaring any political activities
Conclusion

The real estate sector is growing and shows tendency of future growth. The GDP share and growth of real estate and construction is growing. This indicates a hopeful future for this sector. Rise in house rent, increasing demand for housing, getting easy financing facility, rapid urbanization, inadequacy of land and many other factors are creating huge scope for this sector to grow. As a result aggregate demand for housing and apartments has shown increasing trend and is expected to increase further. Though inadequate, supply of apartments with the number of real estate developers also has shown rising trend and suggests future growth. Regulatory environment has been helpful for the sector to grow except the recent Real Estate Management Ordinance 2008 which is yet to be passed and is likely to be very important for protecting buyers’ interest. Financing market for the real estate sector has become easier and more available than ever before. Private sector housing finance is available at competitive interest rate for flexible period but still the amount of loans given is very low compared with loans in other sectors. Strengthening the regulatory and supervisory system for the financial sector and improving and expanding debt markets are of particular concern for the housing finance sector. Cost for apartment has increased varying with different locations and size. Additional cost for additional facilities is required. On the whole, this study finds a very promising and positive tone of growth, provided this sector is given proper attention and facilities. It has certainly become very necessary to satisfy the increasing housing demand and minimize the supply gap in the country.
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