



Affordable Housing Finance in Pakistan – Opportunities and Challenges



Key Statistics – Housing

- Population: More than **170 million**
- Population Density: **206/ km²**
- Annual Projected Growth of Population: **2.41%**
- Number of persons per house: **6.6persons**
- Population: **2/3rd rural, 1/3rd urban**
- Population below Poverty line: **40%**
- Access to formal finance: **14%**
- GDP: **Us \$ 174.8 bn (2010)**
- Per capita income: **US\$1046**
- Major metropolitans like Karachi are facing **high rate of urbanization**
- Karachi population 16 million plus, growing @ of 7-8% pa
- Nearly half of Karachi's population is in squatter settlements (**600-800 squatter settlements**)
- **Karachi only needs 100,000 new housing units per year** to meet natural growth, cover backlog & urbanization pressure



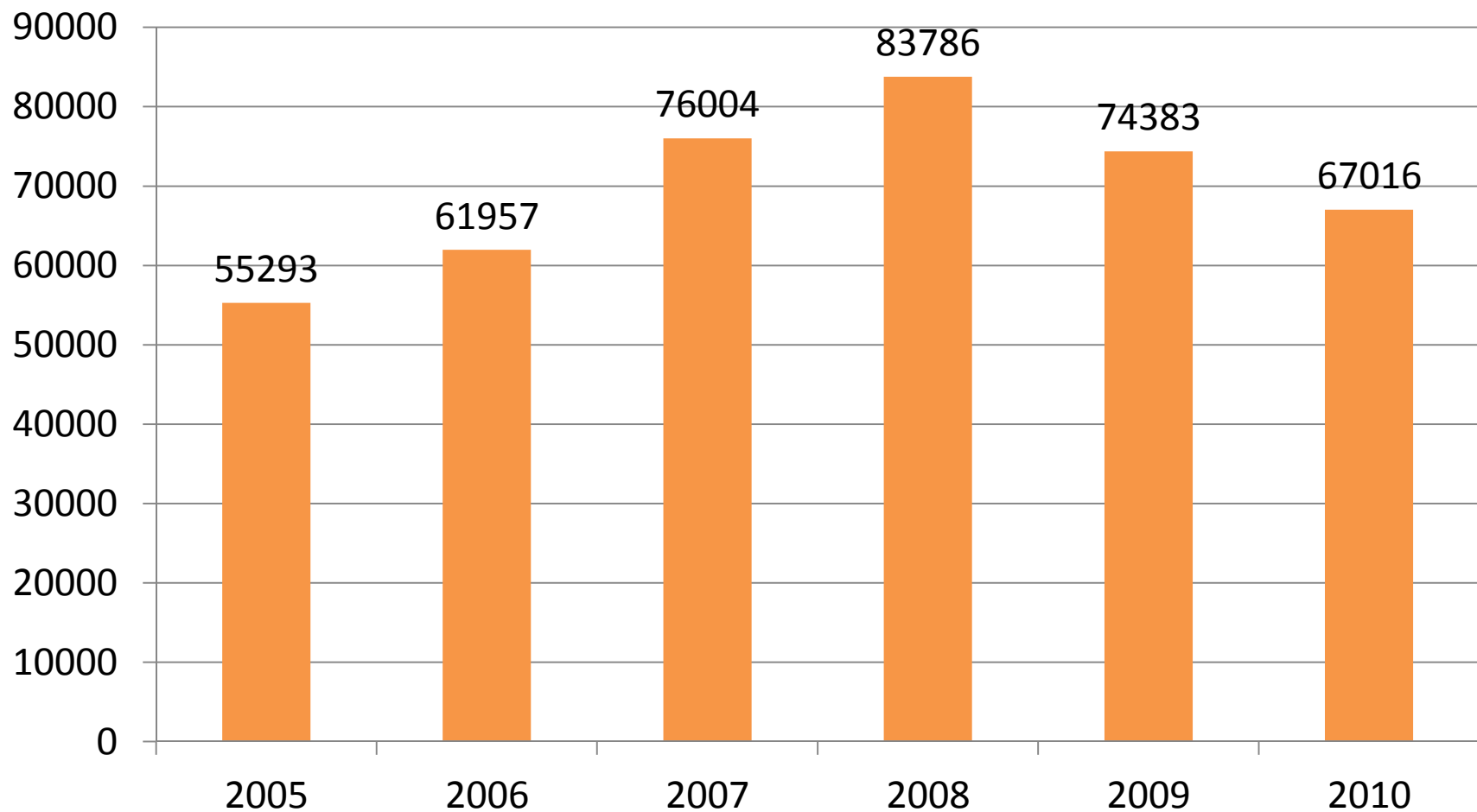
Key Statistics – Housing

- Housing Finance to GDP ratio less than 1%
- Housing Shortfall 8 million units
- Urban Shortage 3 million plus
- Nearly all of Urban shortage is in LIG
- Housing Supply per Year 0.3 million units
- To meet Housing shortfall in 20 years 0.41 million units/year
- New housing needs due to population growth and stock depletion 1.03 million units/year
- Total housing needs 1.13 million units/year
- Candidate for micro-housing 20% of population
- Candidate for small-housing 40% of population
- Urban Persons/Room Density 3.5



Key Statistics – Housing Finance

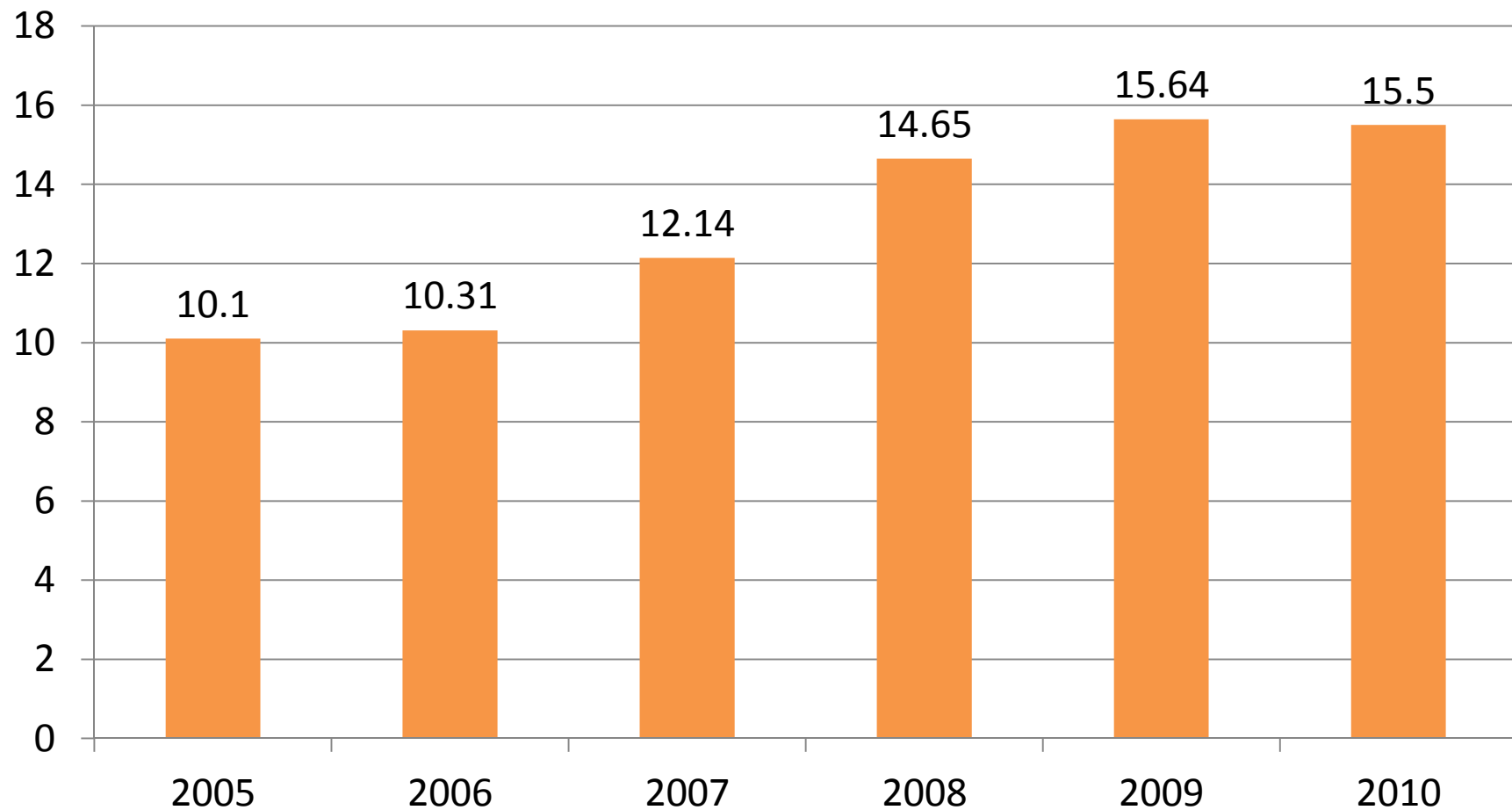
Mortgage Finance Outstanding (Million Rupees)





Key Statistics – Housing Finance

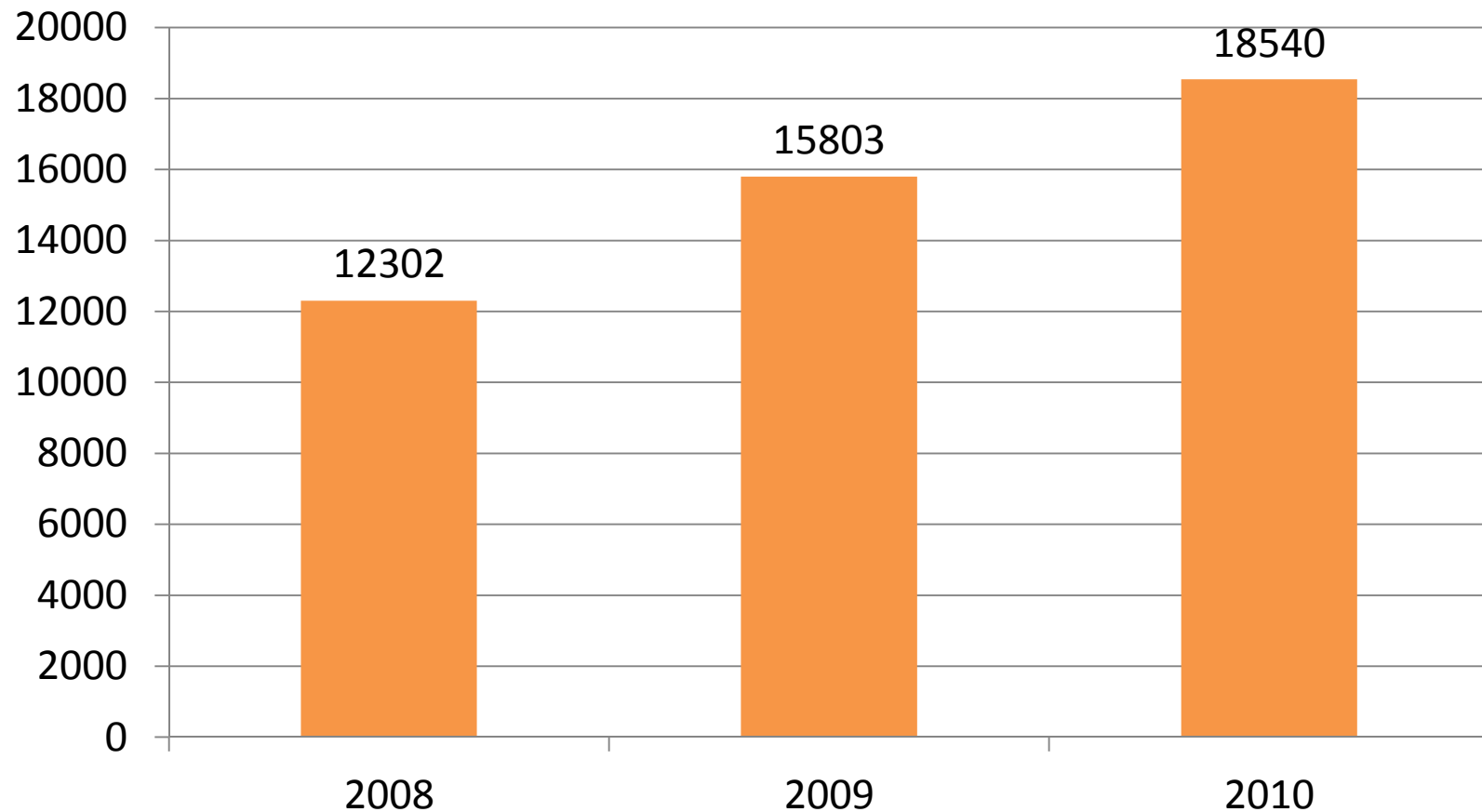
Weighted Average Interest Rate(%)





Key Statistics – Housing Finance

Mortgage Finance - Non-performing loans (Million Rupees)





Key Challenges & opportunities in affordable housing & housing finance

Challenges

- Rising trend of urbanization compounded with a rapidly growing population
- Rising mark up rates and inflation
- Limited land registration information system
- Issues related to land titling
- Lack of proper legal framework protecting rights of house owners
- Issues in land availability for construction purposes especially in urban areas



Key Challenges & opportunities in affordable housing & housing finance

- Unavailability of fixed rate, long-term funds
- Limited targeted subsidy programs for low income housing
- Lack of incentives for private developers to enter low income housing schemes.
- Lack of implementation of foreclosure laws
- Lack of product innovation
- Inadequate research for introducing cost effective construction techniques
- Limited access of housing finance for low income groups



Key Challenges & opportunities in affordable housing & housing finance

Opportunities

- Linkages of construction industry with more than 40 allied industries
- The widening gap between demand and supply of housing in the country can be seen as an opportunity by private entrepreneurs and developers
- Low Mortgage Debt to GDP ratio highlights the potential



Measures required to promote affordable housing & housing finance

- To promote long term instruments of finance
- To devise fiscal support measures and initiate construction houses at large scale basis
- To seek support of multilateral agencies (World Bank, Asian Development Bank, Islamic Development Bank) for:
 - Long term Funds at subsidized rates
 - Technical Assistance for low cost technologies
 - Construction materials and technologies
 - Program review based on international experience



Other possible measures

- Flotation of “Housing Bonds” through National Saving Organizations. The funds so raised to be passed on to financial institutions /Banks for housing finance for low and middle income segments of population.
- Promote Mortgage backed instruments like Sukuk, Securitization , REITs etc. First such MBS was floated by HBFC in Pakistan in 2007 of size Rs 1.5Bn. Such initiatives are needed for LT Liquidity.
- Provision of wide range of incentives at the central and local level are required in order to attract entrepreneurs and private developers in low cost housing schemes in low cost housing schemes.
- Low Cost Construction Technologies through utilizing low-cost technologies, which may include precast, pre-stressed or light weight interlocking blocks construction etc.



Some Low Cost Low Income Housing Schemes

- **Public Sector Projects**
 - Korangi Town Project, Karachi
 - Surjani Town, Karachi
 - Liyari Expressway Projects, Karachi
 - Taiser Town, Karachi
 - Baldia Town, Karachi
 - Hawksbay Town, Karachi
 - A recent initiative - Ashiana Housing Scheme by Punjab Land Development Company, Lahore



Some Low Cost Low Income Housing Schemes

- **Public-Private Partnership**

- Al-Azam Apartments, Karachi
- Gulshan-e-Maymar Apartments, Karachi
- Khuda Ki Basti (KKB)
 - KKB Karachi
 - KKB Hyderabad
 - KKB Lahore

- **Private Sector Initiatives**

- Bahria Town (Awami Villas), Rawalpindi
- Heritage Homes, Lahore
- Housing Project by Ansar Management Company, Lahore



Lessons Learned in Pakistan

- Low Cost Housing Schemes (LCHS) by Private-Public Partnership (PPP) were better managed and more sustainable.
- LCHS should be equipped with essential services and infrastructure at the planning stage Large Scale Builders & their Associations have an important role to play
- Transparent identification and screening of beneficiaries
- Transport, Utilities, Schooling and Health are key elements of success
- Title/ownership should be tied to the owner living in that house
- Cross-subsidy models are a further help
- NGOs play a key role In micro-housing schemes



Role of SBP in Promotion of Housing Finance

- Formation of Housing Advisory Group (HAG)
- Implementation of HAG's recommendations
- Development of secondary mortgage market in Pakistan by creating a Mortgage Refinance Company (MRC)
- Development of separate Prudential Regulations for Housing Finance
- Development of a Model for Housing Builders/Developers Finance
- Capacity Building of Financial Institution in housing finance through seminars, workshops and training programs



Housing Advisory Group

Following HAG's recommendations are being considered/pursued by SBP

- Reforming Legal Framework affecting Foreclosure, Transfer, Tenancy, Rent Control and Credit bureaus etc
- Rationalization of Transaction Costs
- Establishing an integrated land registration information system
- Increasing supply of land for affordable housing
- Structuring and streamlining large scale developer's finance
- Facilitate low-cost/low-income housing models and products
- Facilitate Real Estate Investment Trusts (REITs)
- Provision of long term funding for housing loans
- Housing Observatory (housing market information system)
- Capacity building of the mortgage banking industry in Pakistan



Mortgage Refinance Company

- Develop the Primary Mortgage Market
 - Provide financial resources to enable primary lenders to grant more loans at fixed/hybrid rates and for longer tenure
 - Prepare PMLs for BASEL II compliance by narrowing the gap between the maturity structure of the housing loans and the source of funds
 - Ensure loan standardization across primary lending institutions which is necessary for any future securitization
- Develop the capital markets
 - Provide more private debt securities (Bonds) with different maturities and rates for investment of surplus funds
 - Promote ABS as a tool for raising funds from the capital markets
 - Create a Yield Curve to serve as a benchmark for other institutions



Development of Prudential Regulations

- Currently Housing Finance regulations are covered under Consumer Finance Prudential Regulations.
- Since Housing Finance has its distinct nature and scope, there has been growing demand from all stakeholders to separate Housing Finance from Consumer Finance and to launch full-fledged Housing Finance Prudential Regulations.
- SBP intends to issue Housing Finance Specific Prudential Regulations in 2011-12.



Builders/Developers' Finance Model

- SBP is working to develop financing model to facilitate builders/ developers' access to formal financial sector.
- Draft Model shared with the Association of the Builders and Developers (ABAD), Investment Bankers, Association of Mortgage bankers (AMB) and Rating Agency.
- Key challenges include:
 - Corporatization of large-scale developers
 - Bankable financial statements
 - Credit rating (Entity and Instrument Ratings)
 - Fiscal issues relating to Book Value and Market Value, declared income and wealth etc



Thank You