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Affordable Urban Housing in Pakistan: Making the Impossible Possible

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Key Themes

Rapidly expanding cities in Pakistan face a severe and acute shortage of housing.

The growth in income per capita compared to the upsurge in land prices has been minute resulting in depriving thousands of the monetary resources to purchase a home.

Urban elite capture of the housing market and lack of government regulations are leading issues for the housing crises in Pakistan.

Revisiting land taxation policies, limiting cities growth, promoting mixed land use, and devising a sustainable model for affordable housing are some of the solutions to make urban housing available for a large segment of the population.

Urbanization in Context

Estimates suggest that by 2030 half of Pakistan's population will be residing in urban and peri-urban settlements¹. In the past three decades urban centers, due to their economic potential, have expanded at a bewildering pace in the country. Expansion of cities is a common phenomenon in lower and middle-income countries, across the globe². This growth in cities is problematic as it is unorganized (spatial) and unequal (social and economic) in nature. Major cities like Lahore, Karachi, Quetta, Islamabad, Faisalabad, Rawalpindi, and Peshawar have been deteriorating under the massive influx of people as they fail to provide access to affordable housing, breathable air, clean drinking water, sanitation, health care, education, and other basic social welfare needs of the residents. Given that Pakistan is the seventh most climate vulnerable country in the world the densely populated urban landscapes are hazardous in events of flooding, heatwaves, and the outbreak of pandemics³. There is an urgent need to restructure cities in Pakistan to make them resilient, inclusive and equitable.

The Need for Housing

Shelter is one of the universal primary needs of humans. Abraham Maslow argues that human needs such as those of food and shelter must be met so they are enabled to move towards higher goals. Amartya Sen in a similar spirit argues that humans need certain *freedoms* to develop and obtain their full potential⁴. The *five freedoms* by Sen focus on *political freedom, economic facilities, social opportunities, transparency guarantees, and protective security*; each of these freedoms focus on providing opportunities for *capabilities* development in individuals. In his

¹ LEAD (2019)

² Christopher et al. (2012)

³ German Watch (2018)

⁴ Maslow (1943)

theory of *development as freedom*, Sen, views that development can only take place when the *five freedoms* are present; development of *capabilities* is possible in their presence alone. For example, gender inequality, conflict, class inequality, economic disparity and other forms of social injustices are all curtailing factors. Thus, if a country's institution fails to provide these freedoms based on economic and social opportunities the actual potential of the population cannot be achieved⁵. Karl Polanyi's work further adds to the argument of right to housing. Polanyi suggests that resources such as land should not be commoditized and marketed as means of wealth generation for a few; thus, arguing for an equitable housing solution for everyone in society⁶.

Housing is a fundamental need and human development and wellbeing is incomplete without access to shelter. In addition, the future challenges of climate change will bring heatwaves and other climate change related issues frequently to Pakistani cities. Keeping these challenges in view, cities need to make efforts to meet future challenges and help nurture their human capital potential for maximum economic and human development gains.

Affordable Housing in the Urban Context of Pakistan

It is forecasted that by 2025 there will be a 20 million housing units shortfall in Pakistan⁷. Currently, cities in Pakistan have seen a boom in the housing industry which has led to the growth of cities on an unprecedented scale. This growth has taken the form of sprawl which is present in the form of gated communities and housing schemes. In addition, there is also a noticeable mushroom growth of slums in major cities. It is estimated that slums and *Katchi Abadies* have a growth rate of 3.97 percent per annum in urban cities in Pakistan⁸. Despite formal and informal growth, there is a shortfall in housing. The simultaneous growth of gated communities for the elite and upper-middle-income groups and slums for the less economically well-off groups reflect the reality of a widening income disparity of the urban landscape across Pakistan. There are several reasons for the building housing crises in Pakistan.

1. Housing Market

The housing market in Pakistan has shown a sharp growth and remains widely unimpacted by the economic shocks the country goes through⁹. Land prices have over the past decade steadily hiked in cities like Lahore, Karachi, and Islamabad. For instance, in Lahore, the price for some single square feet of land has gone up from 4,219 PKR to 10,380 PKR in only nine years¹⁰. On a national level between 2015 and 2016 alone, investment in gated housing schemes increased by 15 to 20 percent and between 2010 and 2016 apartment prices increased by 120 percent¹¹. The country has traditionally had a low saving rate in 2017 and 2018 Pakistan's Gross Savings only

⁵Sen (1999)

⁶Carroll & Stanfield (2016)

⁷Daily Times

⁸LEAD (2016)

⁹The Express Tribune (2018)

¹⁰Zameen.com

¹¹Aurora (2018)

6.78 percent and 5.5 percent respectively¹². Buying land and renting property is viewed as a lucrative and secure investment in Pakistan. The excessive trend of tenancy and procurement of land has meant little investment in actual economy's growth and inflation in land prices. This housing situation has meant that in 2016,

“Only one percent of the housing units developed annually to cater to 68% of Pakistan's total population, comprising people who earn a maximum monthly income of Rs 30,000. On the other hand, almost 56% of housing units target 12% of the population, comprising individuals with a monthly income of Rs 100,000 and above¹³”.

Regulation and Taxation

It is not uncommon to see vacant plots in housing schemes across major cities; the cities horizontal growth despite empty plots continues. Local authorities have shown idleness in taking notice and acting against not only the growth of housing societies but also increasing illegality in the market. In 2018 alone 33, 700, 295, 44 illegal housing societies were identified in Karachi, Lahore, KPK, and Islamabad respectively¹⁴. During the same year, in the Supreme Court of Pakistan it was revealed that there are only 3,432 registered housing schemes compared to 5,492 unregistered/ illegal/ ghost/on paper housing societies all over the country¹⁵. There is little focus on mixed land use or zoning the cities in Pakistan for effective urban land use and management. Master plans have been used as means to an end for politically motivated projects in major cities across the nation.

In registered housing schemes too, there are instances of land grabbing of pre-urban areas and farming land surrounding the cities peripheries. Legalized land grabbing mafias have been running and operating successful businesses of gated communities across the country. The Supreme Court of Pakistan and Public Accounts Committee have several times tried to bring housing development giants such as Bahria Town, Defense Housing Authority and Omni Group to court for illegally taken over forest land, rural properties and farming lands for housing schemes; in most cases they have been left alone due to the enormous power these elite land mafias have acquired within the state structure¹⁶.

At the same time, slums are not only increasing but eviction by local authorities is also worrying as they house a major chunk of the cities' population in Pakistan¹⁷. For instance, more than two dozen slums located in F-6, F-7, G-7, H-9, I-11, I-12 and other areas in Islamabad are currently housing around 0.1 million people¹⁸. Whereas in Karachi 55 percent of its urban population lives in slums areas¹⁹. Other than eviction, slums present municipal authorities with major challenges in terms of service delivery. Access to basic facilities such as electricity, sanitation, waste management, clean drinking water, and safe well-lit streets are some of the major challenges in

¹² World Bank Data Bank (2019)

¹³ Aurora (2018)

¹⁴ [The Nation \(2018\)](#); [The News \(2018\)](#); Dawn (2018); Dawn (2019)

¹⁵ Business Recorder (2018)

¹⁶ [Pakistan Today \(2017\)](#); The Express Tribune (2016); Dawn (2016); Pakistan Today (2019)

¹⁷ The News (2011)

¹⁸ Pakistan Today (2018)

¹⁹ The News (2011)

these areas. Due to inadequate structuring, these areas become prone to pandemic outbreak and construction failures in times of natural disasters.

Most people who own property in urban areas come from a wealthy income bracket. However, the regressive taxation system in the country means that property, both homes and plots, are not highly charged compared to their real market value. Currently, there are five types of taxes on property in Pakistan. Under the Urban Immovable Property Tax Act 1958 and Land Revenue Act 1967 each province generates an annual tax for property based on the percentage of a flat rate of the rental value²⁰. In 2019, there has been a 20% increase on the rate of property tax in the country resulting the tax to be 60 percent closer to the real value of the land²¹. The second tax applied to land possessions in the Capital Tax Value (CTV). This tax is paid when a property is purchased by a buyer; 2% of the value of the property recorded in the sale deed defines the CTV. Another tax paid by the buyer is Stamp Duty which is paid at the time of acquisition of a property which is 3% of the purchase value of the property. The fourth type of tax in this case is the Withholding Tax. It is paid by both the buyer and seller at the time of the exchange of property to the Federal Bureaus of Revenue (FBR). The rates for tax filers and non-tax filers vary. Sellers pay between 1-2% while buyers pay 4-2% of the recorded sale value of the land/property. Capitals Gains Tax (CGT) is tax payable by the seller to FBR. According to the Finance Act 2017, CGT is levied only when the property is sold within three years of its purchase. The rate of taxation is 10% for the first year, 7.5% if sold for the second year and 5% if sold during the third year²².

Not only is the land taxation system skewed in the favor of the upper-income brackets, there are other issues of land/property taxation. Firstly, Pakistan has one of the lowest tax collection rates in the world, averaging at 10 percent of the annual Gross Domestic Product (GDP)²³. Secondly, a lot of non-legal or informal land exchanges take place in the economy. Transfers on *baynam* or *pagri* system are common ways of informally transferring immobile property between two parties without formal involvement of the state. This casual land transfer evades taxes such as CGT, CTV and Withholding Tax. Low taxation and loopholes means buying multiple properties becomes a lucrative investment with maximum returns for the elite.

2. Poor urban planning (spatial inequality)

Urban space offers great economic opportunities thus they become contested between various factions of society. Urban planning in metropolitan centers like Lahore and Karachi indicates the askew nature of development. The lack of an interconnected transport system, non-existence of bicycle lanes and shirking footpaths all indicate that cities in the country are becoming places for the rich²⁴. Spatial planning of cities has impacted the housing as well. Two different things have been happening in Pakistan. One, the issue of gentrification under market forces and the second issue stems from the ad hoc plans of affordable housing initiated by various governments.

²⁰ Government of Punjab (2014)

²¹ The Express Tribune (2019)

²² [Samma News \(2019\)](#); Zameen.com

²³ World Bank

²⁴ Naqvi (2015)

Gentrification and Frustrated State Lead Efforts

To cater to the needs of the development in urban population, which had a growth rate of 2.7 percent in 2018, old neighborhoods, urban villages and peri-urban areas have been constantly revamped into posh localities in Pakistan²⁵. Gentrification is a phenomenon in which upgrading a locality results in increasing the rent and living expenses of the area; forcing the lower-income groups and original residents out of the area.

Villages that are engulfed by major cities have been taken over by private companies where housing and commercial development projects take place. The inherent motivation of serving to the need for upper-income groups has marginalized in the poor. For instance, since 1999 the expansion of DHA on the coastal belt of Karachi's is an example of gentrification. The location was virgin land for mangrove forests where local fishing communities had practice subsistence fishing for centuries. However, to modernize the city and provide housing of the elite the land was stripped of its forest while fishing communities were dislocated from the cost, stripped of their cultural heritage and livelihood sources. Today Sea View, Karachi's elite costal real estate, is home to expensive upend malls, residential bungalows and posh restaurants in Karachi²⁶. Under the Karachi Development Strategic Plan 2020 (KSDP), "no reclamation from the sea, mangrove marshes, mud flats which are fish and turtle nurseries and the land they require for survival, is permitted. Also, all beaches should be accessible to the fishing communities and to the public. No development between the high water mark and 150 meters beyond it, or on the seaward side of the coastal roads, is permissible²⁷". To which extent is KSDP 2020 being followed is debatable.

According to latest figures the urban housing demand in Pakistan is 350,000 units per year. Of this, 62 percent is for lower income groups, 25 percent for lower-middle income groups, and 10 percent for higher and upper-middle-income groups²⁸. Despite the huge housing demand of 87 percent from lower and lower-middle-income groups, huge investments are being made for the 10 percent affluent groups across the urban landscape. In the country's capital in a similar vein has invested millions in development of projects such as Centaurus Mall and Residential Apartments to serve only the rich and fail to attend the needs of low-income group of Islamabad²⁹. The market forces tend to ignore the needs of those with less capital despite their huge demographic. Rather than regulating the housing market successive governments in Pakistan have taken the onus of providing affordable housing. By launching various ad hoc scheme none of these overly ambitious ventures have been successful. For instance, in recent history Ashiana Housing Scheme unraveled due to lack of political will, corruption and mismanagement³⁰. In Sindh, Shaheed Benazir Bhutto Housing Cell has been unable to allocate land and stop illegal capture of land in Hyderabad. In a similar bid, Former Prime Minister Nawaz Sharif announced the Apna Ghar Housing Scheme in 2013. The project has yielded nothing. So far, except for files of the 350 million rupees asked for by the Housing Ministry, the government allocated only 10

²⁵ Hassan & Arif (2018)

²⁶ Hassan (2012)

²⁷ Ibid

²⁸ Hassan and Arif (2018)

²⁹ Siddiqui (2011)

³⁰ Dawn (2018)

million rupees³¹. Regi Model Town has 26,000 plots and is the oldest and largest housing project in the province of KPK but remains unimplemented even by PTI who now have a national level scheme for low-income housing³².

The persistent state failures and market fiasco to materialize affordable housing has resulted in a boom of informal housing market to cater to the housing needs of lower and lower-middle income groups. At various location in cities like Lahore, Islamabad, Quetta and Karachi land grabbing mafias have captured, both public and private, lands and sold them off illegally to lower and low-middle income groups that have taken the form of *Katchi Abadies* and slums. However, despite making payments the land does not belong to the occupants who face expulsion in cases of ‘clean up’ projects launch by city district governments.

Policy Recommendations

The need for housing is ever increasing in urban centers in Pakistan and is forecasted to grow. With a project such as Naya Pakistan Housing Scheme (NPHS) in place, there needs to be serious deliberation around policy changes in city planning and role of the state in regulation of the housing market to make NPHS successful.

1. **Taxation:** The current move on increasing the rate of annual property tax is made in the right direction but there is need for a more stringent taxation policy reforms. For instance, to prevent price inflation and increase revenue generation property tax needs to be generated at the property’s market rate vs. its rental value. CGT can also be extended from a period of three years to widen tax returns. While the discussion to exempt CVT should be dropped. At the same time to make property tax progressive the current policy of exempting homes small than 1360 sq. ft. needs to be continued to provide relief to small size homeowners.
2. **Mortgage:** The mortgage market in Pakistan is as low as 0.2 percent. At present, to finance the NPHS the State Bank of Pakistan has announced loans for 100,000 housing units at the mark-up rate of 5 percent for 12.5 years³³. However, for long term stability, there is a need to promote the culture of saving among Pakistanis which can promote the growth of a house loan system by private sector banks as well.
3. **City Zoning:** Cities need to be zoned for more effective land management and use in Pakistan. To curb urban sprawl and encourage mixed land use there needs to be a territorial limit on cities. In addition, engulfing agriculture land and villages need to be stopped. Zoning can ensure that peri-urban areas are a mix of forest and agriculture land that can provide agriculture, dairy, and other edible produce to the metropolitan population. Urban zoning master plans need to coordinate and incorporate with elements of provincial urban and peri-urban forest policies, provincial environmental agendas, and agricultural policies for synergized and meaningful outcomes.

³¹ Arif and Hassan (2018)

³² Ibid

³³ The News (2019)

4. **Sustainability:** Structures such as NPHS need to bring various income groups in the housing scheme for securing finances for a sustainable welfare housing project for a massive demographic in Pakistan. Selling plots to varying income groups at different rates based on their purchasing capacity can help finance the projects. Giving subsidies and loans to lower and lower-middle-income groups can be financed by sales made to upper-income groups.
5. **Anti-eviction Approach:** Slums and *Katachi Abdaies* need to be provided with better infrastructure facilities. The fact that they were illegally sold to buyers does not justify the state's eviction approach to "beautify" the cities. In places like Karachi, more than 50 percent of its population reside in slums. Turkey's Mass Housing Administration (TOKi) is a successful model of upgrading and promoting mixed land usage in urban slums. The current government can indigenize this model of vertical growth. Under this model, private companies take on the construct of buildings that are residential and commercial. The payments are made by the owner on a 10 to 20 years monthly installment plan³⁴. With mixed land use, TOKi provides habitable affordable housing along with economic opportunities to socially and economically disadvantaged groups previously residing in slums. To enhance the quality of life TOKi has also revamped public parks, schools, sports complexes and other facilities in these areas.
6. **Climate Change:** While restructuring the housing market, developing affordable housing, upgrading *Katachi Abadies* in urban centers and zoning cities, there is a need to incorporate the National Climate Change Policy as a part of efforts to build resilient cities.

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