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BRIEF RECORDINGS

‘For 100,000 more houses every year, we can create one million jobs’



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M Akber Sheikh is the Managing Director of Guarantee Engineers, a construction company in Pakistan operating since 1980s that has undertaken many well-known industrial, residential, and commercial development projects. The company has built cement plants, power houses, roads, bridges, high rises and housing societies. Most recently, it was a contractor for Nishat Emporium Mall in Lahore. Akber Sheikh is a civil engineer from Karachi University and has a Master from McGill University Canada. He has over 35 years of experience in the project management business, working in Pakistan as well as Canada. He has been the former Chairman of All Pakistan Textile Manufacturers Association (APTMA) as well as Association of Builders and Developers (ABAD).

BR Research sat down with him in Lahore to talk about the growing housing stock gap in Pakistan, touching upon construction costs and the hurdles private developers face from the country's regulatory environment. Here are edited transcripts of the conversation.

BR Research: Tell us about some of your prominent projects.



Akber Sheikh: I started my own construction business in 1982 and have since done a range of projects that come under construction contracting. We have done construction for Emporium Mall, IT Tower, Expo center, and one constitution avenue in Islamabad. We are more into industrial buildings.

The property business is relatively new. We did Zaamin Lake City Villa which was a joint venture with the Lake City where we built 300 houses. We are now working on a house scheme of around 8000 canals. We would partially construct the area to encourage rapid development of the scheme.

BRR: What is the biggest reason for the supply of housing not being able to keep up with the demand?

AS: There are several reasons why supply is low. One of them is that our regulatory agencies have made the approval of housing schemes so difficult that it encourages the creation of an illegal sector. Then they complain about illegal activity in the housing sector.

I have been the Chairman of ABAD; we tell the authorities that since we represent the organised and compliant sector, illegal housing schemes mean taking away our customers. So the effort against illegal housing should be a joint effort of ABAD and the authorities.

Associations play a huge role. They evolve through interactions with and support of the government. They should be able to interact with all levels of government. This has happened with APTMA, so much so that any scheme regarding textile by the government is done in consultation with the association. Same has happened with developers in Karachi. You cannot work in Karachi without the support of ABAD.

Unfortunately, Lahore is missing the requisite coordination.

BRR: How has that affected private development work in Lahore?

AS: We cannot get due recognition, which is causing a number of problems. Authorities are focusing on foreign developers to build planned mega projects in Lahore, and in the process are ignoring domestic developers. To date, none of foreign developers have shown interest in Lahore. They fail to realize that no foreign investment would come unless they are accompanied by domestic partners.

BRR: You say supply is low because regulations are stringent. But authorities say the regulations are stringent because of the illegal schemes and failed housing societies and projects. Can you explain this irony?

AS: The problem is not lack of delivery; the problem is that when the developer is developing a scheme, the regulator will find some violations against the prescribed regulations, and the work will be stopped; the deliverables will get delayed and that is where the default comes. I believe, if both the developers and the regulators work in a mutually supporting and facilitating mode, this whole complaint about non-delivery will disappear.

There are some good schemes that are up and coming. Because of the slowdown in the industrial sector, our corporate sector was looking for alternative activity, and real estate became attractive for many corporate players to come in. There is Nishat, Nagina, Sapphire, Lake City, Ijaz Group, Kohinoor, Chenab. You name it, the whole corporate sector is interested and these are compliant people.

You will find fly-by-night people everywhere. You can go to Ferozpur road, buy a one-acre land, make 50 houses of 2-3 marla, and sell them forward. Come election time, politicians will come and finish brick soling; get them electricity connection and you would have a housing society. But there would be no record of it whatsoever.

BRR: What other issues do you face with regulators that make supply of housing difficult?

AS: A major problem is competition with the government. The regulator can start a housing scheme, buy the land at half the price and sell the plots immediately. On the other hand, a developer is not allowed to sell the plots until the scheme is approved, 20 percent of the plots and all the roads and green spaces are mortgaged and the contents of newspaper ads are approved. The government also by acquiring the land creates a monopoly whereby they can dictate the price of buying the land.

Moreover, they need to have a path to control. Today anyone can develop a housing society. The government needs to license the developers, while the public should know that they should only transact with licensed developers. Also, they need to know that if that developer defaults, the licenses can be cancelled. Like any other business, there is a proper way to regulate.

BRR: What would you estimate is the supply gap in Lahore?

AS: Lahore's population is increasing by 350,000-400,000 per year. This means we need 70,000-80,000 houses every year. How many houses are we building? Interestingly enough, nobody knows the number. My guess is about 20,000. Every year, we are adding 40,000-50,000 houses to the existing shortfall. It is a crisis situation. Many people working in the city live alone in Lahore, while their families are still living in villages because there is no housing available here.

BRR: What is the employment generated by the sector?

AS: I did some rough calculations, and based on the cost of construction of Rs2500 per sq. ft for a 10 marla house, we create 10 direct jobs. Labor costs are 25-30 percent of total construction costs. With proper planning, if we start constructing 100,000 additional houses every year, we can create a million jobs.

If you want to estimate the impact on the economy from the GDP point of view, we contribute 2-2.5 percent to the GDP. But this does not include the cost of plots etc. Additionally, the construction spending in Pakistan per year is 11-13 percent of GDP. When you look at official figures of 2 percent share in GDP for construction, it does not include cement, steel, paint, gravel and sand etc. These get reported in industry and mining.

We have developed a formula. Every year, we make 250,000 houses (where the demand is 750,000-800,000). This does not take into account the backlog, which is around 10 million. Each house constructed creates 10 jobs per house. We are creating 2.5-3 million direct employments every year. Those working in the cement mill, paint factory, or steel bar factory are not included. If you include them, I would say, the employment would be conveniently 10 million. And mind you, this is only 1/3rd of the construction industry since housing occupied one-third share in the industry. Commercial and infrastructure are the other two.

BRR: In Lahore, why is there no vertical movement? Don't costs come down in vertical?

AS: There are a number of reasons. Traditionally, the culture of Lahore has been to have own land and own roof. Then there was an argument that the weather is not good in

Lahore. But the perception is now changing. Houses are properly developed; air-conditioning and other facilities are available.

One goes vertical if the land is expensive. In Lahore, land is comparatively cheap. The cost of a flat would be around the same as a 1500 sq. ft. house. Secondly, flats have additional costs. When you go multi storey, the construction costs go up. The circulation space is added, which is about 25-30 percent of the space. If you account for all that, the attraction for flats is low. Buyers prefer small villas.

The acceptance for flats will go up when we go for smaller units — 800-1000 sq.ft. It will also go up when people start realising that flats are more secure, and there are more facilities for the residents even in medium sized flats.

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