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Low-cost housing: the audacity of hope

Jawaid Bokhari | Updated October 22, 2018



The low-cost housing project can only succeed over a period of time through collaborative effort.— AFP/File

FEW governments have tried to implement their election manifestos as seriously as Prime Minister Imran Khan appears to be doing, having bound himself to a 100-day ambitious reforms agenda.

With the reported International Monetary Fund (IMF) forecast that economic growth will fall to four per cent this year, the PTI leadership considers its flagship housing programme a good option to arrest the economy's downturn.

The huge project for building five million affordable housing units for low income groups — stipulated to generate 6m jobs — will be entrusted to the private sector. The move has been welcomed by business leaders.

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The planned affordable housing financing will help mobilise dormant or locked savings and generate new savings for investment. Some seed money is expected to flow from registration of prospective buyers, with the government likely balloting for allotment of lands. The programme will invigorate 40 industries, producing 200 components, required for each housing unit.

The existing challenges will need a herculean effort to be tackled. To begin with, it is not clear how this venture will fare in the IMF's austerity programme that will supersede at least some of the existing domestic policies and programmes.

To execute the housing project the government's short-span of policy focus on austerity has shifted to state apparatus expansion.

At least two new institutions are proposed to be created of which Naya Pakistan Housing Authority (NPHA) will be established to provide a one-window operation for investors to construct low-cost housing units in both urban and rural areas.

The State Bank of Pakistan (SBP) has been directed to set up a national financial regulatory body to help arrange the necessary finances.

In major urban centres, the focus is likely to be on high rise buildings. The government plans to re-settle slum dwellers with proper ownership rights in big cities.

With inflation rising faster than the estimated official rate, and reports that the IMF wants the central bank's policy interest rate to increase, the programme may suffer a setback and diminish the government's options to provide support to affordable loans.

Rising inflation will also erode the savings capacity of low income groups. Though local building materials and skills are to be used in the project, the price of items like steel and cement have already gone up.

The real estate industry expects land to be provided free of cost. Builders told this scribe that the industry is also looking at certain tax exemptions that will make low-cost housing affordable for those without shelter.

Even experts stress the need for ‘rationalisation and standardisation of rates of stamp duty and registration fees across the four provinces and the federal capital.’

As policymakers now seem more aware of the time-consuming, enormous challenges involved in restructuring the housing sector and housing finance, the housing programme has been split into two phases: 2.5m units will be built in each phase.

The proposed national financial regulatory body, which will help arrange finances for the building units, will work under a financial model which has yet to be evolved.

Studies have revealed that finances generated from buyers’ instalment payments are not sufficient to complete and handover housing projects in accordance with a booking schedule. Technocrats say ‘there is a need to evolve a modus operandi for financing arrangements through the formal banking system that is viable, acceptable and sustainable.’

Commercial banks are cautious in lending to the housing sector because of a variety of reasons. “Owing to a lack of sound corporate governance structure within the housing developer industry, it is difficult for financial institutions to verify the character, capital, and capacity of client’s potential,” says a recent central bank study.

Giving state lands to builders, subsidising credit or refinancing to improve liquidity of banks may not be enough. An SBP study on ‘Expanding Housing Finance System in Pakistan’ stresses the government need for working on certain areas.

“A competitive market can be encouraged by the elimination of regulatory barriers to new entry, breaking up of monopolies, facilitation of equal access of small firms and inputs, removal of constraints to the development of local building materials and construction methods.”

Finally for such a giant of a project, a huge amount of civic and utility services need to be provided ranging from gas, electricity, sewerage lines to education and health facilities. A major issue is: how will financing be mobilised for all this?

To improve availability of finances for infrastructure development, housing experts suggest flotation of tax exempted municipal bonds. In developed economies, municipal bodies are encouraged to raise funds for building schools, highways, hospitals and sewer systems. Since Pakistan is a federation, the reforms must be undertaken by the provincial governments.

The low-cost housing project can only succeed over a period of time through collaborative effort. International institutions like the World Bank and Asian Development Bank can extend a helping hand.

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