

# RESEARCH REPORT

## 2024



**Mortgage Matters:  
Exploring Housing Finance  
in Pakistan alongwith  
Asian Countries**



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# OVERVIEW: ADDRESSING THE CRITICAL NEEDS OF PAKISTAN'S HOUSING FINANCE

In 2024, Pakistan's real estate market is witnessing a significant transformation, characterized by decreasing home prices and increasing mortgage rates, diverging from the earlier trend of rising property values and low interest rates. This shift is largely fueled by high inflation and increased interest rates implemented by the State Bank of Pakistan (SBP). The surge in mortgage rates has predominantly affected the affordability for middle-class buyers, leading to a cooler market and fewer property transactions.

Amid these trends, the construction sector's role as a vital economic driver in Pakistan cannot be overstated. The decline in construction activities, as a result of the real estate market's downturn, has broader implications for economic growth. The construction industry not only contributes significantly to the country's GDP but also employs a large portion of the workforce. Thus, a slowdown in this sector can have a ripple effect, potentially leading to increased unemployment and reduced economic activity in related industries such as manufacturing, materials, and services.

## ECONOMIC BOOST THROUGH CONSTRUCTION-LED GROWTH

The construction sector in Pakistan is a vital economic driver, contributing over 2.5% to the GDP, its potential is rooted in its extensive connections with more than 200 industries, ranging from construction materials to electronics. Moreover, the real estate sector, valued at over \$1 trillion, outperforms other major sectors in the economy.

This sector is not only pivotal for economic growth but also crucial in addressing Pakistan's housing crisis. Given that only 0.5% of Pakistan's land is currently under planned development, the real estate sector is set to play a key role in future economic expansion and employment opportunities. The construction sector's economic impact is further highlighted by its high multipliers in backward (2.29) and forward (1.80) linkages.

These numbers demonstrate a strong demand for inputs from upstream industries and a significant influence on downstream sectors. An increase in the construction sector's output leads to more than double the demand for raw materials and an 80% increase in business for industries reliant on construction outputs. These robust linkages emphasize the construction sector's central role in stimulating supplier industries and propelling the growth of dependent sectors, reaffirming its importance in Pakistan's economic structure.

## CLOSING THE HOUSING GAP WITH STRATEGIC CONSTRUCTION INITIATIVES

In Pakistan, while the figures of an annual shortage of 0.4 million housing units and a backlog of 10 million units are debatable, the economic impact of the housing sector is undeniable and cannot be overlooked. This sector, pivotal in its contribution to the economy, serves as a key driver for employment and growth, despite the controversies surrounding the actual extent of the housing deficit. The government's focus on urban construction projects, influenced by these figures, has significant implications for the real estate market, labor market, and overall economic development. Even if the need for new housing might be inflated by cultural norms and overestimations, the industry still plays a crucial role in stimulating economic activity. Therefore, a balanced approach is necessary, one that acknowledges the potential exaggeration in housing shortage figures while still recognizing and leveraging the substantial economic benefits that the construction and housing sector brings to Pakistan. This approach should involve not just building new houses but also improving the quality of existing ones, alongside a thoughtful urban planning and policy-making process that includes local expertise and realistic assessments of housing needs.

## REAL ESTATE TRENDS: GROWTH VERSUS CONSTRUCTION CHALLENGES

In FY23, Pakistan's Gross Fixed Capital Formation (GFCF) in the real estate sector experienced considerable growth, with its contribution rising to 22%, an increase from 18% in the previous fiscal year. This uptick signifies a heightened investment focus on real estate activities. In contrast, the construction sector faced a notable decline, with its GFCF dropping by 23.3% to PKR 45.8 bn, down significantly from PKR 59.7 bn in the previous year. This downturn is primarily attributed to a decrease in the importation of construction machinery, hinting at either a slowdown in new construction projects or a shift towards more cost-efficient construction methods. These divergent trends between real estate and construction investments suggest a potential reallocation of capital towards real estate ownership and development, rather than new construction. This indicates a shift in the sector's dynamics and may reflect broader economic or policy changes within Pakistan.

## A DEEP DIVE INTO THE CONSTRUCTION SECTOR'S FINANCING DYNAMICS

At the end of Dec-23, the construction sector has a total outstanding loan amount of ~PKR 200 bn, comprising of PKR35 bn in working capital or short-term loans and PKR 165 bn in fixed investment or long-term loans. Within this sector, building construction holds the largest share, totaling PKR147bn, of which residential construction accounts for PKR 74 bn and non-residential construction for PKR 73 bn.

Civil engineering, which includes roads, railways, utility projects, and other civil engineering activities, represents an outstanding amount of PKR 50 bn. Of this, roads and railways command PKR 21 bn, underscoring their significant contribution to infrastructure development.

In terms of the sectoral share of total loans to the private sector business, the construction sector accounts for 3%. Breaking this down, the residential and non-residential sectors contribute 37% and 50%, respectively, of the construction sector's total outstanding loans. Although civil engineering comprises only 1% of the total loans, roads and railways within this sub-category have a considerable share of 41%, indicating a targeted investment in transport infrastructure. Conversely, utility projects, despite their importance, hold an 18% share, suggesting a potential area for increased investment focus.

## HOUSING FINANCE TRENDS: A FOUR-YEAR ASCENDANCY AND RECENT SETBACKS

From December 2019 to December 2023, the financing for house building in Pakistan exhibited a remarkable upward trend. In December 2019, the total amount stood at PKR 89 bn and consistently increased each year, reaching PKR 200 bn by December 2023. This growth represents an impressive increase of approximately 133% over the four-year period. However, it's notable that there was a slight decrease from the December 2022 figure of PKR 215 bn to December 2023, indicating a year-on-year contraction of about 3.2%.

In terms of consumer finance, the share of house building loans also saw significant expansion. Initially comprising around 16% of the total consumer financing in December 2019, it increased to approximately 25.4% by December 2023. This notable growth demonstrates an increasing emphasis on housing finance within the broader consumer finance portfolio in Pakistan.

## THE EXPANDING INFLUENCE OF HOUSE BUILDING CREDIT IN THE NATIONAL ECONOMY

The house building segment in Pakistan's total credit market experienced a modest yet significant growth, increasing its share from approximately 0.43% in December 2019 to about 0.56% by December 2023. This growth indicates the sector's rising prominence in the credit landscape, though it still occupies a small overall fraction.

This trend suggests house building is gaining importance within consumer finance, possibly driven by government housing initiatives, increasing demand for residential properties, and favorable lending conditions. Nonetheless, the sector faced challenges like rising construction costs, disruptions in funding schemes like Mera Pakistan Mera Ghar, high interest rates of up to 22%, policy uncertainties, and a slowdown in construction due to high input costs. Despite these obstacles, the notable growth over four years demonstrates the housing finance market's resilience and expansion in Pakistan.

## INFLATION CHALLENGES: SOARING CONSTRUCTION COSTS AND CPI IMPACT

In December 2023, Pakistan's Consumer Price Index (CPI) inflation rate for the general category soared to 29.7% from 24.5% in December 2022, marking a significant cost of living increase due to rising goods and services prices. This inflation is attributed to factors like currency devaluation, supply chain disruptions, and economic policy impacts.

The construction sector has been particularly affected by inflation. Construction materials such as cement, steel, and lumber saw a 20.26% price increase in 2023, leading to higher overall project costs, potential delays, and slowed sector growth. Additionally, construction wages rose by 12.72% in 2023, reflecting increased labor costs due to the higher cost of living or a demand-supply imbalance in skilled labor.

This combination of escalating input and labor costs could drive up prices for new and ongoing construction projects, impacting consumers and potentially squeezing profit margins for industry investors and businesses. These inflationary trends may necessitate government intervention to balance economic growth with cost stability.

## CONSTRUCTION'S ROLE IN DRIVING NATIONAL EMPLOYMENT GROWTH

In Pakistan, the labor force currently stood at 72mn individuals. The construction sector, a significant employment contributor, accounted for 9.5% of total employment or 6.8 mn workers, underlining its vital role in economic activity and development. Additionally, the construction sector formed 19% of all informal sector employment, attracting workers with its flexible, labor-intensive nature and less formal job structures. This rise in informal employment reflect broader economic trends and the sector's ability to absorb labor during downturns. However, challenges like ensuring decent work conditions and legal protections for informal workers remain critical for improving employment quality and diversity in this sector.



# ASIA IN FOCUS: PAKISTAN'S HOUSING MARKET IN REGIONAL PERSPECTIVE

The mortgage market in Pakistan is notably smaller than those in other Asian countries, as seen in its consistently low mortgage-to-GDP ratio of under 0.5% for over ten years. This is in sharp contrast to more mature markets like Malaysia, where the ratio is 44%, and Thailand, at 20%, showing a vast potential for growth. Although there has been a slight increase recently, reaching a peak of 0.32%, the gap with more developed markets underscores the urgent need for strategic reforms and policy changes. Such measures are essential to boost this crucial financial sector, which would stimulate the economy and increase the chances for people to own homes.

Pakistan's mortgage sector faces additional hurdles with its exceptionally high interest rates, soaring up to 24%. This figure significantly exceeds the single-digit rates seen in countries like Vietnam, Indonesia, and India, which range around 9-10%. In contrast, more stable economies like Singapore, Japan, and Taiwan benefit from much lower rates, between 2% and 4%. The high rates in Pakistan indicate perceived higher risks, a less competitive banking sector, and macroeconomic instability. To address this, strategic policy reforms are required to bring Pakistan's mortgage rates in line with those of its more successful Asian peers.

The real estate market is currently facing a significant downturn, with property values falling by 15% in the last year, a rate faster than that seen in other Asian cities. Over the past decade, the city has seen a 4% decrease in property values, whereas Mumbai, in contrast, experienced an 8% increase. This decline in Karachi stands in sharp contrast to the resilience observed in cities like Tokyo, Taipei, and Bangkok, highlighting the unique challenges in Pakistan's property sector. These issues underline the need for urgent economic reforms to stabilize the real estate market and restore investor confidence.

Despite these challenges, Karachi remains notable for its exceptional affordability in the context of Asian real estate markets. It offers the lowest buying price per square meter at \$131. However, the price-to-rent ratio of 18 suggests that the low purchase costs in Karachi do not necessarily lead to high rental yields. With an average monthly rent of \$60 and the cost of a single bedroom apartment standing at \$12,877, the market appears balanced yet cautiously growing. It is characterized by its accessibility in terms of housing prices but is limited by a lack of robust economic growth.

Pakistan's real estate market is distinguished by its moderate rental yields and transaction costs, striking a balance between markets that offer high yields with high risk, and those with low yields but lower risk. This balance positions Pakistan as an attractive destination for investors looking for a steady income stream from their investments. However, the attractiveness is somewhat tempered by the country's higher corporate tax rate at 29% and a property tax rate of 5%.

These rates may deter corporate entities and long-term investors, highlighting the need for tax reforms to increase Pakistan's competitiveness in the Asian real estate market.

Furthermore, Pakistan's real estate market benefits from competitive rental tax rates. These rates are progressive, starting lower for modest incomes and reaching up to 15% for higher income brackets, which is particularly advantageous for small to mid-level investors. This progressive tax structure is favorable compared to countries with flat, higher rates. Although it aligns with regional norms for higher incomes, it places Pakistan in a unique position for those considering long-term property investments.

In summary, Pakistan's real estate and mortgage markets present distinct benefits such as affordability and moderate rental yields. However, these markets are also confronted with substantial challenges. High mortgage rates, decreasing property values in the context of inflation, and the pressing need for wide-ranging economic and policy reforms are key issues. Effectively addressing these challenges is essential for improving the appeal of Pakistan's real estate market to both investors and potential homeowners. Doing so is critical to fully realizing the potential of Pakistan in the competitive arena of Asian real estate markets.

## GLOBAL PERSPECTIVE ON REAL ESTATE FINANCE: MORTGAGE TO GDP COMPARISON

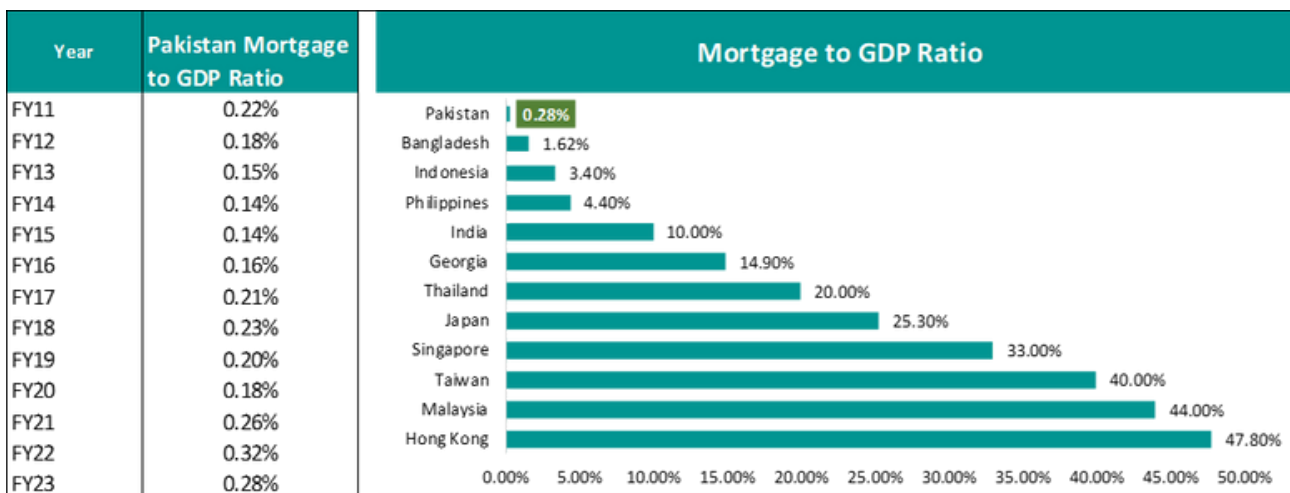
Analyzing the historical trends in Pakistan's mortgage to GDP ratio reveals a consistently subdued performance, with the ratio hovering below 0.5%. The data traces a path from 0.22% in the fiscal year 2011 (FY11), dipping to a low of 0.14% by FY15. Post this decline, there's a noticeable, albeit modest, uptick, peaking at 0.32% in FY22, followed by a minor reduction to 0.28% in FY23.

This pattern highlights a mortgage market in Pakistan that has remained largely undeveloped over the years. However, the slight upward movement in the latter years suggests the beginnings of a growth trajectory. The stability in the low fluctuation and the recent incremental increase underscore a latent potential in Pakistan's mortgage sector. Leveraging this potential requires strategic initiatives, including financial reforms to facilitate credit accessibility and targeted economic policies to invigorate the housing market. Such proactive measures could catalyze the growth of the mortgage market, which is currently in a nascent stage but showing signs of emerging development.

In comparison with other Asian economies, Pakistan's mortgage to GDP ratio is significantly low, highlighting its early-stage mortgage market. This stands in sharp contrast to countries like Malaysia and Thailand, where the ratios are much higher at 44% and 20% respectively. These figures from Malaysia and Thailand represent more mature markets, characterized by deeper credit penetration and higher levels of homeownership.

Pakistan's consistently low ratio, remaining under 0.5% over the past decade, points to a market with considerable room for growth. The slight increase observed in recent years indicates the beginning of market development. However, the stark difference when compared to its regional counterparts emphasizes the urgent need for specific interventions.

To bridge this gap, Pakistan requires targeted financial policies aimed at market stimulation. Regulatory reforms are essential to create a more conducive environment for mortgage growth. Additionally, introducing market incentives could play a crucial role in enhancing the appeal and accessibility of mortgages. These steps are critical for developing a more robust and dynamic mortgage sector in Pakistan, aligning it more closely with the established markets in the Asian region.



Source: Global Property Guide, HBFC Research

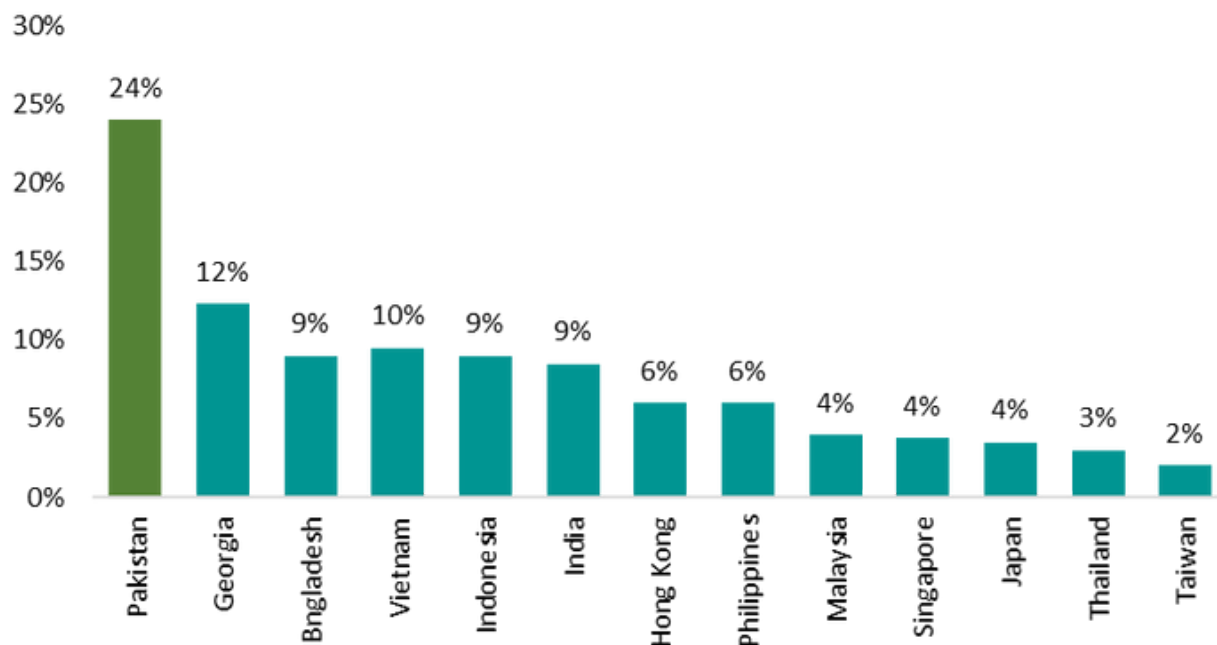
Note: Based on the recent available figures of 2023

## MORTGAGE RATES EXAMINED: A GLOBAL CONTEXT

Pakistan's mortgage rates are exceptionally high at approximately 24% (spreads nearly 3-4%, inline with south Asia), marking the highest among its Asian counterparts. This rate is notably higher than the single-digit mortgage rates prevalent in other regional economies such as Vietnam, Indonesia, and India, where they fluctuate around 9-10%. This situation presents a stark contrast to more developed Asian economies like Singapore, Japan, and Taiwan, where mortgage rates are considerably lower, ranging between 2% and 4%.

The elevated mortgage rates in Pakistan may be symptomatic of several underlying issues: lenders perceiving higher risks, a lack of competitive dynamics within the banking sector, or the impact of inflationary trends on the economy. In contrast, the lower mortgage rates in countries like Taiwan could be reflective of more stable economic conditions, well-established credit markets, and potentially more aggressive monetary policies aimed at fostering homeownership through more affordable financing options.

This pronounced disparity in mortgage rates underscores the challenges faced by Pakistan's housing finance market. It highlights the necessity for policy interventions that can help reduce financing costs and enhance accessibility for potential borrowers. Such measures could include fostering competition in the banking sector, mitigating risk factors that lead to high lending rates, and implementing monetary and fiscal policies that support more affordable home financing. These steps are critical for making homeownership more attainable and stimulating growth in Pakistan's housing market.



## TRENDS IN PROPERTY PRICES: INSIGHTS FROM AN EMERGING MARKET

The inflation-adjusted real estate prices in Karachi present a striking contrast when compared to Mumbai and other cities in Asia, reflecting unique economic and market dynamics at play. Over the past year, Karachi experienced the steepest decline in property prices among its Asian peers, with a 15% drop, while Mumbai witnessed a relatively modest decrease of 3%. This trend extends over a decade, during which Karachi's property prices fell by 4%, in sharp contrast to an 8% growth in Mumbai, indicating the resilience and growth of India's real estate market.

In the broader Asian context, Karachi's real estate challenges become even more pronounced. Cities like Tokyo and Taipei have experienced significant long-term growth, with increases of 52% and 111% respectively over 15 years, demonstrating robust market fundamentals. Southeast Asian cities like Bangkok and Hanoi have also outpaced Karachi, with Hanoi recording a remarkable 5-year growth rate of 73%.

The consistent growth of Singapore's real estate market over 15 years at 18% highlights its maturity, whereas the recent 15% increase in Tbilisi may signal a rapidly developing emerging market.

From this analysis, it is evident that Pakistan's property sector is facing challenges due to inflationary pressures, leading to a decline in real property values. This situation starkly contrasts with the more favorable long-term trends seen in India and the resilience of other Asian real estate markets. For Pakistan, the data underscores the need for strategic economic reforms aimed at fostering market stability and rejuvenating investor confidence in its real estate sector. These reforms are critical for aligning Pakistan's property market with the positive growth trajectories observed in other Asian regions.

Inflation Adjusted Property Prices				
Country/City	1 Year	5 Years	10 Years	15 Years
Georgia, Tbilisi	15%	n.a.	n.a.	n.a.
Thailand, Bangkok	3%	6%	26%	n.a.
Vietnam/HCMC, Hanoi	0%	73%	n.a.	n.a.
Singapore	0%	14%	9%	18%
Indonesia, Jakarta	-1%	-5%	-5%	n.a.
Philippines, Manila	-2%	-22%	12%	19%
Malaysia, Kuala Lumpur	-2%	0%	22%	n.a.
Japan, Tokyo	-2%	20%	28%	52%
India, Mumbai	-3%	-13%	8%	n.a.
Taiwan, Taipei	-3%	29%	26%	111%
Hong Kong	-11%	-23%	5%	88%
<b>Pakistan, Karachi</b>	<b>-15%</b>	<b>-10%</b>	<b>-4%</b>	<b>-4%</b>

Source: Global Property Guide, HBFC Research, Zameen.com

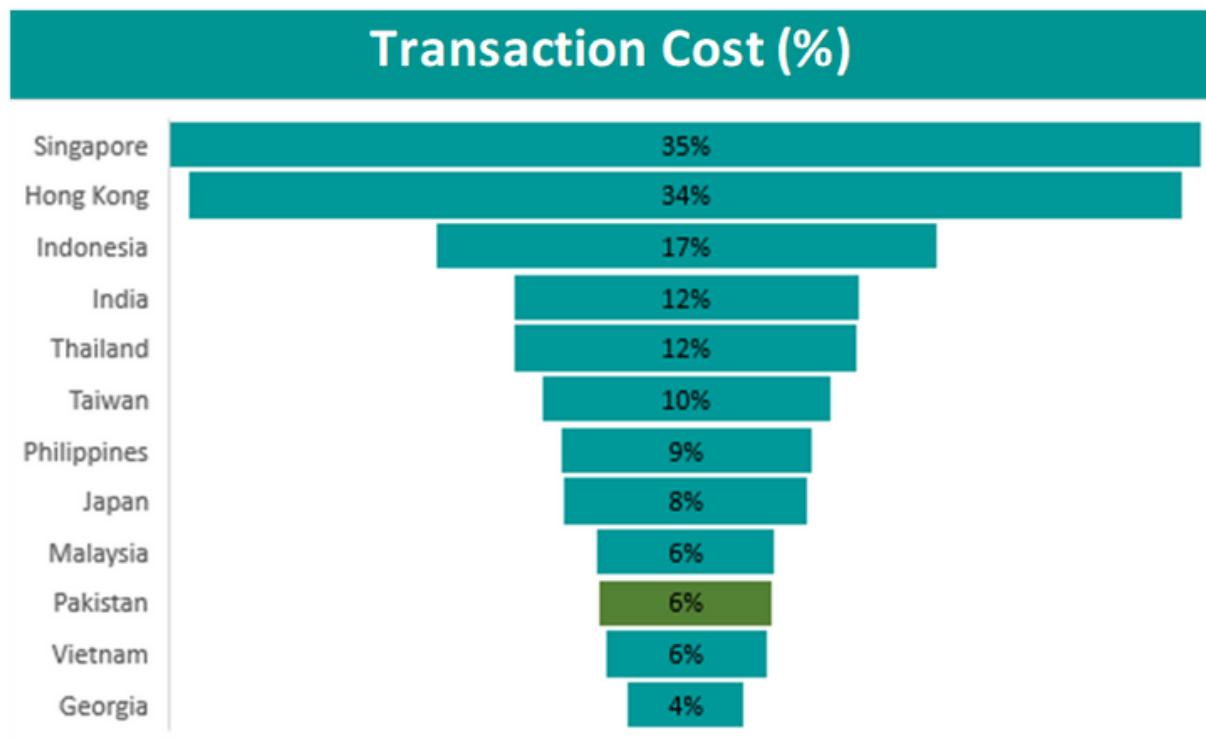
## IN-DEPTH ANALYSIS OF REAL ESTATE TRANSACTION COSTS

The 6% roundtrip cost for real estate transactions in Pakistan, slightly higher than India's 12%, highlights nuanced differences in market regulation and economic strategy between the two countries. Pakistan's cost structure suggests an emphasis on revenue generation, potentially reflecting a more conservative approach to its real estate market. This contrasts with India's focus on reforms aimed at stimulating investment and energizing the real estate sector.

In comparison, the notably high transaction costs in Singapore and Hong Kong, at 35% and 34% respectively, are indicative of deliberate policy measures. These high costs are implemented to temper market activity, discourage speculative buying, and maintain market stability.

On the other hand, Vietnam and Georgia, with their lower transaction costs of 6% and 4%, respectively, appear to be adopting a strategy to attract investment by reducing entry barriers. While this approach can stimulate market activity and investment, it may also introduce a higher degree of market volatility.

Pakistan's real estate market, with its mid-range transaction costs, represents a balanced approach. This strategy is likely intended to ensure a steady stream of government revenue while keeping the market attractive and accessible to investors. It strikes a balance between stability and growth, avoiding the extremes of overly restrictive or excessively liberal market conditions. This positions Pakistan in a unique place among its Asian peers, reflecting a specific blend of market accessibility and regulatory prudence.



Source: GPG, HBFC Research, Zameen.com

## EVALUATING HOUSING AFFORDABILITY IN THE REAL ESTATE SECTOR

The real estate market in Karachi, Pakistan, offers an insightful perspective on affordability and market dynamics within Asia. The city stands out for its remarkably low buying price per square meter at \$131, coupled with a price-to-rent ratio of 18. These metrics not only define Karachi's real estate landscape but also prompt a deeper analysis of the economic factors influencing it.

In comparison, cities like Hong Kong and Singapore exhibit buying prices of \$25,133 and \$18,632 per square meter, respectively, reflecting their status as global financial hubs with high living costs, limited land availability, and strong demand for housing. These factors lead to significantly higher barriers to entry into the real estate market.

Karachi's real estate landscape, characterized by its exceptional affordability, reflects unique economic, demographic, and policy-driven factors that differentiate it from other Asian cities. Understanding these underlying drivers is key to comprehensively analyzing the city's real estate market and its potential for future growth and development.

Prices and Rent					
Country/City	Buying Price	Price/Rent	Yield	Rent per	Single Apartment
	US \$ per Sq. M.	Ratio (x)	%	Month (\$ or €)	Price
Hong Kong	25,133	32	2%	3,175	1,800,000
Singapore	18,632	21	4%	3,800	1,040,000
Japan, Tokyo	4,691	23	4%	1,270	393,500
Thailand, Bangkok	3,980	16	4%	953	323,500
Malaysia, Kuala Lumpur	2,938	19	4%	770	252,500
India, Mumbai	2,900	23	4%	541	180,276
Taiwan, Taipei	2,632	49	1%	780	675,500
Vietnam/HCMC, Hanoi	2,280	25	4%	670	214,500
Philippines, Manila	1,300	20	5%	730	176,000
Georgia, Tbilisi	1,253	11	8%	945	142,000
Indonesia, Jakarta	812	13	10%	975	112,500
<b>Karachi, Pakistan</b>	<b>131</b>	<b>18</b>	<b>6%</b>	<b>60</b>	<b>12,877</b>

Source: GPG, HBFC Research, Zameen.com

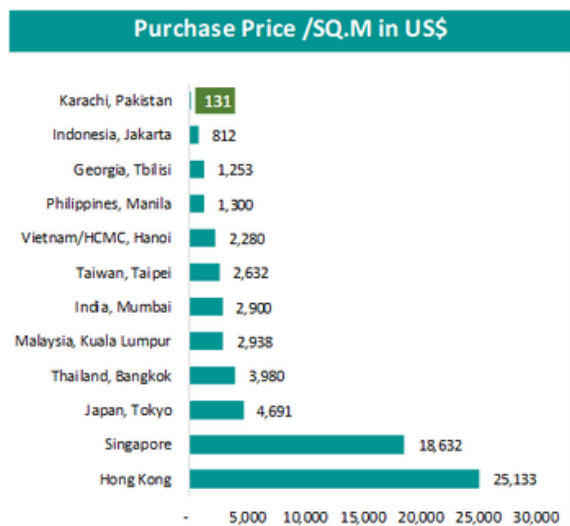
## RENTING VS. BUYING: A COMPARATIVE MARKET ANALYSIS

The price-to-rent ratio of 18 in Karachi implies that buying a property costs the equivalent of 18 years of rent. This ratio, aligning with higher-cost markets like Singapore, presents a seemingly paradoxical situation. Despite Karachi's low property purchase prices, the rental market does not yield high returns, suggesting a nuanced market dynamic.

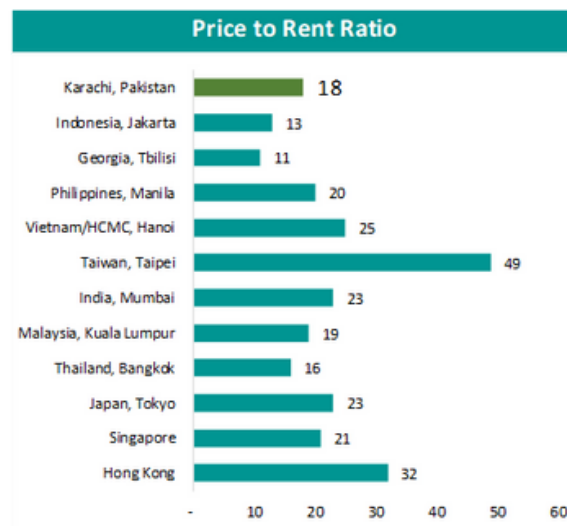
In this context, the ratio indicates a balanced market but also hints at limited incentives for property investment. For investors, the rental yields might not seem compelling enough to justify the property purchase costs, particularly when considering a reasonable investment horizon. This could lead to a cautious approach from potential investors, who may seek shorter payback periods or higher returns on investment.

The average monthly rent of \$60 in Karachi is attractive for renters, likely a result of the city's dense population and competitive housing market. However, from the perspective of landlords and investors, this rental price suggests only modest returns. Coupled with the price-to-rent ratio, it points towards a market that is more favorable for renters than for investors seeking aggressive growth or quick returns.

This scenario underscores a real estate market in Karachi that is accessible and appealing for those looking to rent, but potentially less attractive for investors looking for high rental yields. It highlights the need for a careful assessment of investment strategies, especially for those considering long-term gains in Karachi's real estate market.



Source: GPG, HBFC Research, Zameen.com



Source: GPG, HBFC Research, Zameen.com

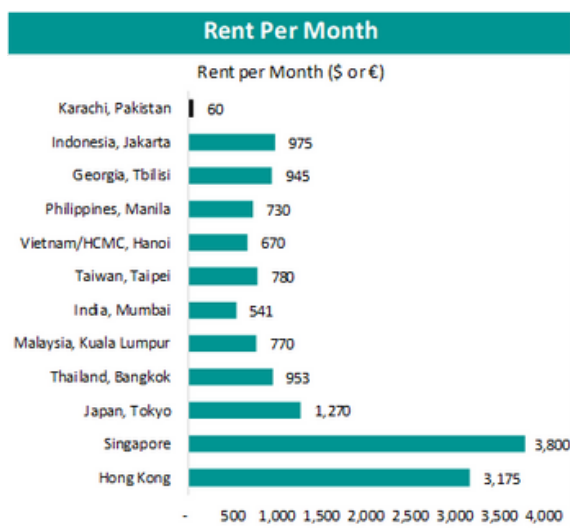
## APARTMENT PRICING DYNAMICS: INSIGHTS FROM AN EMERGING REAL ESTATE MARKET

The price of a single -bedroom apartment in the middle of Karachi stands at 131/sq.m, which is substantially lower than that in most of the surveyed cities. This affordability is a double-edged sword; it provides accessible housing options but also may reflect a cap on investment growth.

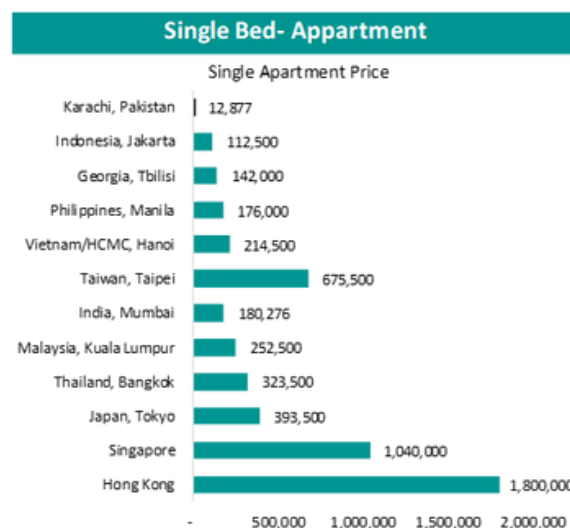
When placed in the broader Asian context, Karachi's real estate market stands out for its low cost. However, the price-to-rent ratio and rental prices suggest a market that is either experiencing high supply or limited economic growth, which does not significantly push up property or rental values.

Karachi's real estate market is characterized by its remarkable affordability, both in terms of property purchasing and renting. This affordability, however, comes with implications. The comparable price-to-rent ratios with more expensive cities could indicate a market with limited appreciation potential or a preference for renting over buying. The low rental income may act as a deterrent for real estate investors looking for quick returns. Nonetheless, the low entry cost presents a potentially attractive long-term investment for those betting on future economic growth and market maturation. For the city's residents, the current market conditions provide accessible housing options, which is a crucial factor in the city's overall livability and economic inclusivity. Looking forward, strategic economic policies and targeted investments could be key in elevating Karachi's real estate market to realize its full potential within the competitive landscape of Asian cities.





Source: GPG, HBFC Research, Zameen.com



Source: GPG, HBFC Research, Zameen.com

## UNDERSTANDING REAL ESTATE RELATED TAXATION

When juxtaposed with Southeast Asian counterparts, Pakistan's real estate taxation structure offers a clear advantage in transactional terms. For instance, mature markets like Singapore impose significant stamp duties to cool down speculative investments, which can reach up to 20% for foreigners, making Pakistan's 6% buying charges appear particularly attractive. The low selling tax in Pakistan is conducive to a fluid market, unlike in markets such as Indonesia or the Philippines, where higher transactional taxes can impede the frequency of property exchanges.

However, the appeal of Pakistan's real estate market is tempered by its corporate tax rate and property taxes. In comparison, countries like Thailand and Malaysia are aggressively adjusting their tax policies to entice foreign direct investment, often featuring corporate tax rates as low as 20% and property taxes that rarely exceed 1% of the property's assessed value.

Moreover, burgeoning markets like Vietnam offer tax holidays and incentives for certain investments, highlighting the competitive nature of tax structuring in the region. These nations are not only looking to attract foreign investment but also to stimulate domestic market activity through tax benefits.

While Pakistan's low transactional costs are attractive on the surface, the country's real estate market faces stiff competition from other Asian economies that are deploying aggressive fiscal strategies to attract investment. The higher ongoing tax costs in Pakistan could deter long-term and corporate investors who might find more favorable conditions in these other rapidly developing markets. To enhance its competitive stance, Pakistan may need to consider reforms that align its long-term tax rates more closely with these emerging trends across Asia.

Property Taxes					
Country	Roundtrip Transaction Cost	Buying	Selling	Corporate Tax	Property Tax
Vietnam	5.57%	12.50%	4-5%	20%	0.09%
Thailand	11.81%	0.01-2%	9.8-11.8%	20%	0%
Taiwan	9.93%	3.26-9.3%	3-4%	20%	2%
Singapore	35.38%	7.3-39.15%	6.15-18.15%	17%	15%
Philippines	8.63%	2.5-3.75%	4.5-6.5%	25%	2%
Malaysia	6.18%	1.5-6.1%	2-2.75%	20.50%	5%
Japan	8.36%	8.26-8.45%	0%	19%	1.70%
Indonesia	17.20%	6.7-7.7%	10%	21%	0.50%
India	11.88%	7.625-12.75%	1.125-2.25%	33%	5%
Hong Kong	34.11%	22.08-44.63%	0.5-1%	12%	15%
Georgia	4.00%	0%	3-5%	14%	1%
<b>Pakistan</b>	<b>6.00%</b>	<b>4%</b>	<b>2%</b>	<b>29%</b>	<b>5%</b>

Source: GPG, HBFC Research, Zameen.com, FBR

## RENTAL TAXES AND YIELDS: A COMPREHENSIVE OVERVIEW

In the landscape of Asian property markets, Pakistan offers a distinctive tax regime on rental income. The rates start at 18% for a \$1,500 per month income bracket and modestly ascend to 23% for the \$6,000 bracket, reaching 24% for the \$12,000 bracket. This tiered structure reflects a commitment to progressive taxation that scales with income, positioning Pakistan as an environment where property investment is accessible yet progressively responsible at higher income levels.

Compared to the uniform taxation policies in Malaysia and the Philippines, which levy a flat 30% and 25% rental tax respectively, Pakistan’s starting rate is considerably lower, particularly for entry-level investors. This offers a tangible advantage for those looking to enter the property investment market at a lower threshold.

Pakistan's rental yield between 5-6% indicates a real estate market with moderate income-generating potential from property investments. This yield, coupled with the country's low rental tax rates for smaller income brackets, could provide a conducive environment for investment, particularly for those starting with smaller properties. However, for investors seeking high rental yields, other markets may be more attractive. The challenge for Pakistan is to enhance the factors that contribute to rental yields, such as property desirability, location, and economic conditions, to improve its standing in the competitive Asian real estate market.

<b>Rental Taxes (amount in \$ or €/Month)</b>			
<b>Country</b>	<b>1,500</b>	<b>6,000</b>	<b>12,000</b>
Georgia	5%	5%	5%
Hong Kong	15%	15%	15%
India	6%	17%	22%
Indonesia	20%	20%	20%
Japan	20%	20%	20%
Malaysia	30%	30%	30%
Philippines	25%	25%	25%
Singapore	22%	22%	22%
Taiwan	20%	20%	20%
Thailand	7%	20%	25%
Vietnam	20%	20%	20%
<b>Pakistan</b>	<b>18%</b>	<b>23%</b>	<b>24%</b>

Source: GPG, HBFC Research, FBR

<b>Rental Yield</b>	
<b>Country/City</b>	<b>Gross Rental Yield %</b>
Georgia	9%
Indonesia	8%
Thailand	6%
Philippines	5%
Malaysia	5%
Singapore	5%
India	5%
Japan	4%
Vietnam	4%
Hong Kong	3%
Taiwan	2%
<b>Pakistan</b>	<b>5%</b>

Source: GPG, HBFC Research, FBR

## THE PATH AHEAD: FINAL THOUGHTS

The year 2023 was challenging for Pakistan's real estate sector. With a new government incoming, it's vital to carefully manage fiscal issues, including the Public Sector Development Program (PSDP) allocation, crucial for the industry. The sector also faces rising construction costs due to inflation, necessitating mitigation strategies in 2024. Examining successful international housing models, like Singapore's, could help address affordable housing issues in Pakistan.

The real estate market in Pakistan in 2024 is at a critical juncture, with declining property prices and high mortgage rates indicating a sector in transition. This period is characterized by adjusting property values and investment strategies. The construction sector's slowdown, a key economic driver and major employer, has broader economic implications, affecting related industries and potentially increasing unemployment and impacting consumer spending.

The future of Pakistan's real estate market hinges on balancing various economic, social, and policy factors. The sector's resilience and adaptability will be crucial, requiring strategic foresight from stakeholders like developers, investors, policymakers, and consumers. Ultimately, the state of the real estate market in 2024 reflects Pakistan's overall economic narrative, and addressing its challenges and opportunities is key to shaping the country's economic future.

## DATA SOURCES & METHODOLOGY

### • DATA SOURCES

- Economic Survey of Pakistan
- State Bank of Pakistan
- Pakistan Institute of Development Economics (PIDE)
- The Pakistan Credit Rating Agency Limited (PACRA)
- World Bank (WB)
- Asian Development Bank (ADB)
- Pakistan Bureau of Statistics (PBS)
- HIES survey
- Labor Force Statistics
- Income Survey of Pakistan
- Demographic Survey
- Federal Board of Revenue (FBR)
- Global Property Guide (GPG)

### • METHODOLOGY

- Karachi is selected for comparison due to its demographic significance relative to other cities in Pakistan. Emphasizes median returns from properties, typically Single Room Apartments, in selected areas of each country, focusing on houses, marionettes, or townhouses where apartments are less common.
- Roundtrip costs refer to the expenses involved in buying and then selling a property, including transfer taxes, stamp duty, registration fees, notary, and legal fees.
- Shows median purchase price and monthly rent (in US\$/€) for a single-bedroom apartment in Karachi, using the most expensive area of the capital city for regional comparison.
- Presents the median price per square meter (in US\$/€) for residential properties in Karachi and the average for the capital or main city of each Asian country. Price to rent ratio, calculated by dividing Median/ Average house price by yearly rent, indicates years needed to recoup investment in the current market.
- Involves researching property-related taxes in each country, encompassing roundtrip costs, income tax on rent for individuals, and corporate tax. House price changes over 1, 5, 10, and 15 years, including nominal and inflation-adjusted values, based on data from various national statistical offices.

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