



Pakistan: Housing a Mega Issue

By;

Zaigham Mahood Rizvi

Chairman HBFC

2008



Contents

- 1. Housing – A Mega Issue**
- 2. Global View**
- 3. Affordability Issues (SMH Financing)**
- 4. Sponsor a Shelter Foundation**
- 5. Social Housing Company**
- 6. Regulatory & Titling Issues**



Housing – A mega Issue



HOUSING – a Critical Issue

- Growing rate of Housing Demand in Urban areas 8% p.a.
- Housing Units in the country 19.0 million.
 - Ownership 80.8% 15.5 m
 - Rent free 10.2% 2.0 m
 - Rented 9.0% 1.5 m

Units required for the population of 149 million. 25 million

- **Shortfall of Housing Units** 6.0 million*

* Based on 1998 Survey.

* This estimates that backlog may now be increased to 7.0 m.



Annual Demand for Housing

Contributing Factors

- **Population Growth**
- **Previous Backlog**
- **Depletion.**



HOUSING – The Prime Issue

[Units per annum]

- Additional Supply required (Due to Population Growth) 700,000
- Depletion of stock @ 1% p.a. 200,000
- To meet backlog in 20 years 300,000
- **New Housing Need 1,200,000**
- Supply estimate 300,000
- Persistent Gap adding to backlog 900,000
- One third in urban housing 400,000



Potential for Housing Construction Industry and Housing Finance

	<u>Per Year</u>
• Urban Housing Needs	400,000
• At average cost of Rs.1.0 Mn/Unit	Rs.400 Billion
• Mortgage Finance potential at 35% of Urban Housing needs	Rs.135 Billion (3% of GDP)
• Current Mortgage Finance (2005)	Rs.18 Billion only (0.5% of GDP)



The Demand/Supply Gap Resulting to “Homeless” People Issue

- The ever widening demand/supply gap is finding solution (or hiding itself) through following options:
 - a) Katchi Abadis (squatter settlement) on Govt. land.
 - b) Informal subdivision settlements on agricultural land (zoning issue as well).
 - c) Densification of environmentally degraded inner city areas.



Housing Stock in Pakistan

Total Housing Stock

19.0 Million Units

- **Urban** **32.3%**
- **Rural** **67.7%**
- **Total :** **100.0%**

Overall Housing Stock comprised of :-

- **Kuccha Houses** **39%**
- **Semi Pucca houses** **40%**
- **Modern brick houses** **21%**
- **Total :** **100.0%**



Housing Solutions





Housing Solutions

Financing of Mega Projects

- **Mega Housing Projects** Upto 5000 housing Units
- **Satellite Towns** Upto 25,000 housing units.
- **Workers/Staff Housing Colonies**
 - **Pakistan Railways**
 - **Post Office**
 - **National Logistics Cell**
 - **Government Housing Schemes**
 - **Other Corporations**
 - **Textile Mills**



BUILDING NEW HOUSES IS THE ONLY SOLUTION

- We need to substantially increase the **HOUSING STOCK**.
- This is possible through “construction” finance and not “purchase” finance.
- In Pakistan nearly 90% of housing is built for ownership and not for investment (equity built up through mortgage is not common).
- Housing to become an investment avenue as opposed to plot. Today it is the reverse.
- Investment in housing is possible only if “rentals” match the “mortgage” payments.
- This is possible through increase in housing stock investment.
 - fiscal incentives on mortgage payments; and
 - effective tenancy laws.



Squatter Settlements and Rehabilitation of Homeless

- Nearly half of urban Pakistan's is illegal habitat and squatter settlements.
- In Karachi only more than 55% of population live in "Katchi Abadis" or squatter settlements.
- In Karachi, an estimated 250 – 300,000 people annually migrate to Karachi (urbanization issue), needing an additional 40 – 50,000 housing units annually and accommodate them.
- Due to population growth
- In Karachi, nearly 1/3rd of the population is deprived of drinkable water and nearly 2/3rd of population/habitat is without sanitation.
- This leads to issues of adequate supply of sanitation, water, electricity municipal services, health and education.



Squatter Settlements and Rehabilitation of Homeless

- More than 50% population of large cities like Karachi, Lahore, Islamabad lives in Katchi Abadis, illegal habitat and slums.
- 55% population of Karachi is Katchi Abadi.
- Around 538 Katchi Abadis are only in Karachi.



Fact Sheet

AREA IN ACRES

Province	No. of Katchi Abadis	TOTAL	Govt. Owned	Private Owned
PUNJAB	902	9376	8875	501.16
SINDH	1300	26000	24300	1700.38
BALUCHISTAN	65	4943	1509	3434.03
N.W.F.P.	55	2826	2826	0.3
Total	2322	43145	37510	5635.6

Global View

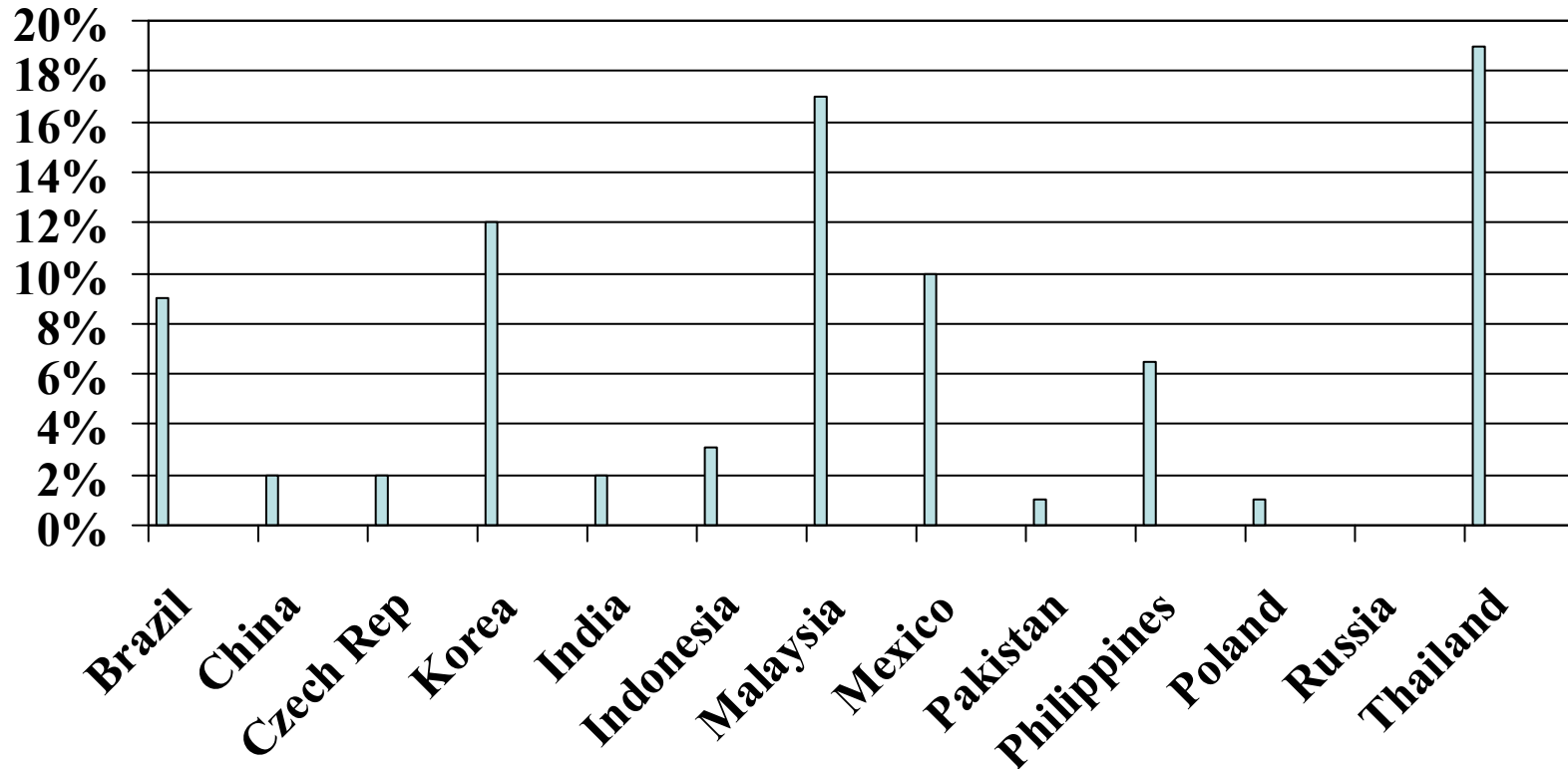


Room Density Persons per Room

- Pakistan & India 3.5
- Turkey 1.3
- China 1.1
- U.S.A 0.5
- Average 100 Countries 1.1

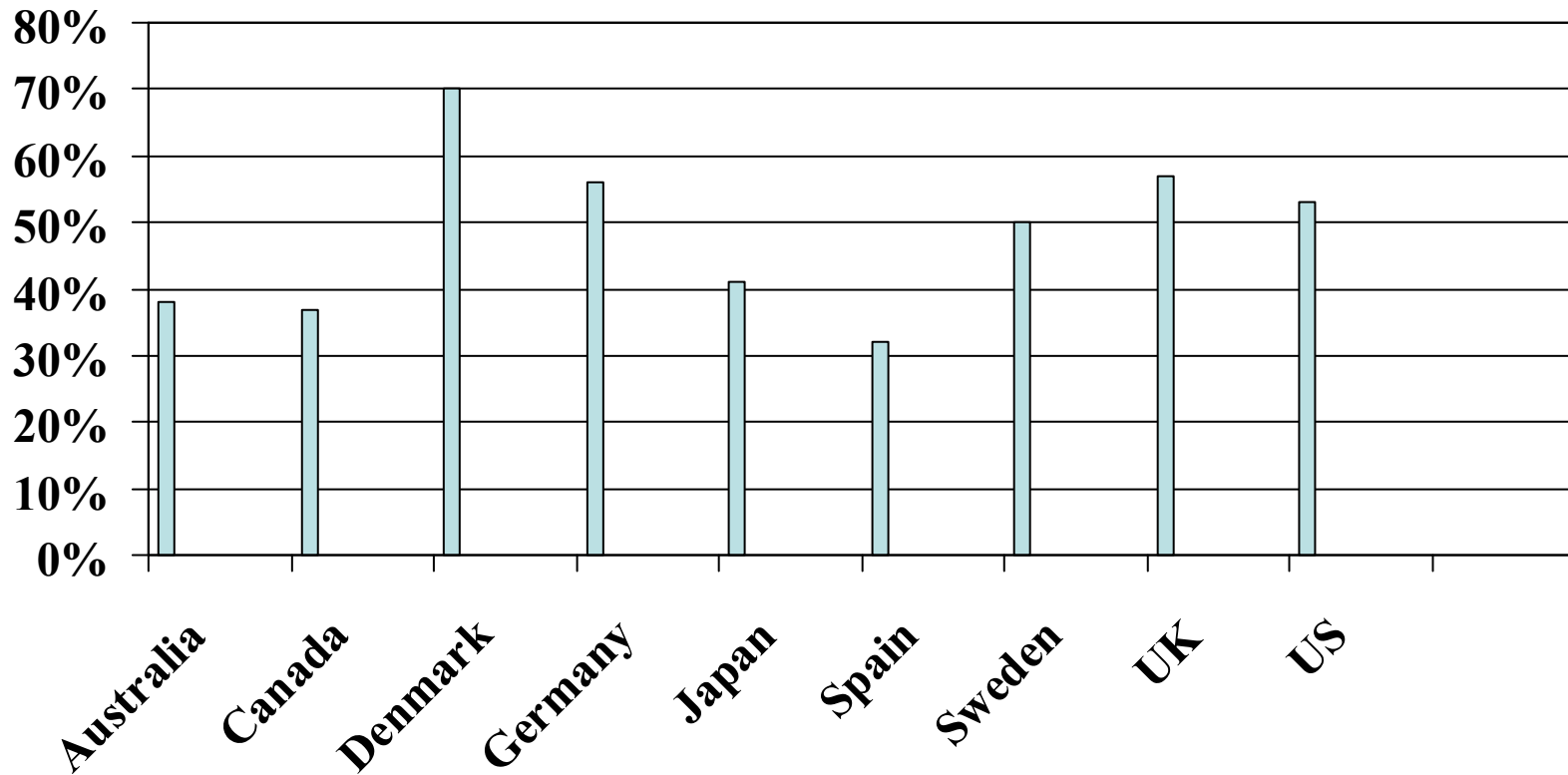
Source: U.N. (Habitat)

Mortgage Debt / GDP: Developing Countries



Source: Mortgage-Backed Securities Markets in Asia published in 1999 by the ADB, the International Housing Finance Program/Wharton Real Estate Center, and Raiffeisenbank. Data from years 1996-2000.

Mortgage Debt / GDP: Developed Countries



Source: International Housing Finance Program/Wharton Real Estate Center.
Data from 1999 – 2000.



A comparison of housing units financed

Institution	Life	Units financed (Since Inception)
• HBFC, Pakistan	53 years	450,000
• HDFC, India	28 years	2,400,000
• Singapore (HDA)	31 years	700,000

HDFC writes annual mortgages of Rs.150 Bn+, viz-a-viz **HBFC** at around Rs.2 Bn+, with **HDFC** having less number of staff & branches.



AFFORDABILITY ISSUE

Small & Medium Housing (SMH)

Low & Middle Income Groups



INCOME DISTRIBUTION IN PAKISTAN (1 US \$ = 60 Pakistani Rupees)

- **Absolute Poor: Surviving On Charity & Community Help** **05 %**
- **Families Monthly Earning Between**
 - » **Rs.1,000 to 2,000** **15 %**
 - » **Rs.2,001 to 10,000** **60 %**
 - » **Rs.10,001 to 25,000** **15 %**
 - » **Rs. 25,000 & above** **05 %**



hbfc's Definition of Financing

- Micro up to 2 lac.
- Small Rs. 2 – 10 lac.
- Lower Medium Rs. 10 – 25 lac.
- Upper Medium Rs. 25 – 50 lac.
- Higher Rs. 50- 75 lac.



Income levels and Mortgage Affordability

- About 20% of population is very needy and very poor. Their mortgage affordability is less than Rs. 2 lac (Micro upto 2 lac).
 - Nearly 3/4th of the people have income levels less than Rs.6,000 per months and their mortgage affordability is less than Rs. 5 Lac (Small – between Rs. 2 – 10 lac);
 - Nearly 85% of the people can hardly afford mortgage up to Rs. 15 Lac (Lower Medium – between Rs. 10 – 25 lac);
 - Nearly 95% of the people fall below the Mortgage affordability of Rs. 30 Lac (Upper Medium - between Rs.25–50 lac);
 - Less the 1% can afford mortgage of Rs.100 Lac and above
-
- Average per capita income of Pakistan is Rs. 4,000 per month;
 - Commercial banks focus on high net worth clients and maintain a large negative locations and negative profession list.



Affordability Issues of Low Income Groups

It has three dimensions

SOCIAL

FINANCIAL

LEGAL



Affordability Issues of Low Income Groups

S O C I A L

- Large family units
- For initial period of mortgage, spirits are high to sacrifice for the shelter. The spirit gradually fades over the years.
- While longer tenors are desired for lowering mortgage installments, sustainability of income for longer tenors is rather unrealistic assumption.
- Documented verification of income is difficult. Some time whole facility is gain fully employed but informally.
- In case of any emergency the family circle being financially weak is enable to share burden.



Affordability Issues of Low Income Groups

FINANCIAL

- Propensity to save is negligible rather negative in most cases.
- Sustainability of cash flows and affordability over 15-20 years tenors of the loan, is generally an unrealistic assumption.
- Any prolonged illness moreso in elders of the family adversely effect mortgage affordability.
- Mortgage payments being small amounts, the bank transaction costs are prohibitive.



Affordability Issues of Low Income Groups

LEGAL

- Titling issues are complex in retail low cost housing.
- Documentation is poor and difficult due to illiteracy.
- Bribing to get documentation/ verification from various concerned departments becomes of significant portion of the loan amount.



Social Housing Company

MICRO HOUSING FINANCE



Social Housing Company (Proposed)

A socially responsible and commercially sustainable solution to poor people housing problems.

- A Social Housing Company is being promoted by HBFC, SAIBAN, Acumen Fund etc to design and develop low cost housing projects on concept of “Incremental Housing”
- Initial capital is proposed at Rs 125 – 250 Mn.
- The idea has been encouraged by the Prime Minister and is being promoted under SBP platform.
- Nearly 55% of urban population is living in Katchi Abadis in Karachi. Figure is lower in other cities.
- Social Housing Company is to promote affordable housing facilities to low-income groups and less privileged class of the society.



Social Housing Projects (Proposed)

- To provide housing to needy and poor people, on the concept of “Incremental Housing”, like Khuda Ki Basti, Karachi.
- HBFC has approached Government of Sindh to allocate a 100 acre land to HBFC, wherein it will be floating a housing scheme for needy and poor section of the population.
- The Project will be structured to be socially responsible and will operate as commercially viable entity as well.
- Similar low cost housing scheme is being planned for Lahore, Gawadar, and other cities.



Social Housing Company (Proposed)

- Potential Sponsors
 - HBFC
 - Acumen Fund, USA
 - Saiban
 - Corporates etc
- Initial Capital
 - Rs.125 – 250 Million



Sponsor a Shelter Foundation

AFFORDABILITY ENHANCEMENT PROGRAM



Sponsor a Shelter Foundation”

Public support program through Zakat and Donations for enhancing mortgaged payment capacity of low income borrowers.

- HBFC being a housing finance institution, specializing for low and middle income groups of the population, is fully conscious of the fact that due to property price escalation during the last few years, even low cost housing has gone beyond the affordability of low income people.
- HBFC being socially responsible, caters to housing finance needs of low and middle income groups of population. Any support to enhance mortgage affordability of the poor is the responsibility of society at large and any institutional mechanism for this has to be through a separate entity, outside HBFC.
- Therefore, to support these people and to enhance their mortgage affordability, a program “Sponsor a Poor for seeking Shelter” is proposed to be launched where a poor borrower may be required to make a part of the mortgage payment, whereas the balance will be from the Foundation through contribution of Zakat and/or individual/corporate Donations.



Sponsor a Shelter Foundation

- Eligibility for such poor and needy will be determined through a transparent mechanism of the Foundation and the amounts will be limited within its financial resources.
- It has been checked with the religious scholars that such a support program is perfectly eligible for Zakat.
- Initial response is positive from various corporates, philanthropists and overseas Pakistanis to make their Zakat contributions/donations for the purpose.
- HBFC is in a very comfortable position to ensure that the recipient is a very deserving case and the contributions are being applied towards reduction of loan obligations. Since the objective is a very noble one, of providing shelter to the poor and needy, it is expected to receive a good response.
- HBFC would only recommend deserving cases to be assessed by the foundation. The Foundation would approve/disapprove requests for financial support on merit, as per its own laid down criteria.



Sponsor a Shelter Foundation

- Through “Foundation” we propose to take charity and social service outside HBFC.

- Initial Resources: (Rs. In Mn).

HBFC's	250*
Zakat Foundation,	750
Corporates, Individual.	1,000
Total	2,000

* HBFC will contribute this amount from a special fund at HBFC, which can be used only for charity and social cause.

- Corporate and Individual donations will be tax exempted.
- Management of Foundation will be a combination of public and private sector nominees.



Projects Under Consideration

- **Taiser Town Karachi** **100* Acres.**
- **Shahdra Lahore** **20 Acres.**
- **Lahore** **100* Acres.**
- **N W F P** **100 Acres.**

* Land allocation applications have been submitted to the respective authorities.



Projects Under Consideration.

- Gawadar – two schemes are under consideration.
 - Small housing:
For fishermen, port workers and lower grade employees of business and government Employees.
 - Medium housing.
For middle level workers and people from Makran Coast working in Oman and Gulf.
- Two schemes are of 100 acres each.



Regulatory & Titling Issues



Titling and Ownership Issues

- No uniform document of ownership
- No common Registrar.
- No electronic “storage” and “retrievable” system (website/digital archiving)
- No common system for transfer of ownership
- No focal point in District Governments for verification of titles/documents/encumbrances.
- Overly generous tenancy and rent control laws.
- Lack of document centralization. At least 5 offices are to be visited to verify titles (Law Registrar, Excise Deptt, Revenue Deptt, etc)
(Punjab Land Records and Information Management System –LRIMS)
- Barriers to Site Permits, Environmental Clearance, Utilities connections.



Why People feel un-secure about Housing Societies.

- Under the existing laws, an owner/developer of a society could be:-
 - A natural person
 - Company under Companies Ordinance 1984
 - Cooperative Societies Act, 1925
 - Societies Registration Act, 1860
 - Partnership Act, 1932
 - Trust Act, 1882.
- None of these statutes ensure that a buyer for valuable consideration shall be a real or absolute owner.
- Each one has different regularity regime. None has specific statutes to deal with “housing societies” related issues.
- No monitoring of the promoter/builder
- No standardized/pre-approved format for advertisements.

8/15/2016 • “Zoning” review, verification etc.



Why Illegal Habitat/Squatters Emerge

- Is it the cost of construction, or the cost of land which has made housing unaffordable to the masses? – LAND
- What squatters do is to “zero” the cost of land or marginalize it through land grabbers.
- Houses are being built on illegal habitat on incremental/progressive housing concept. Indicating that construction is somewhat affordable.
- It is learned that a sizeable land in Karachi is either with land grabbers or with illegal habitat or both.
- Why not to take bold decisions and allot land, under a well defined program for low cost housing.
- Find some viable solutions like “Korangi Township” project of Azam Khan to rehabilitate squatters.
- HBFC has requested to Sindh Government for 100 acres land in Karachi to develop low cost housing.



Role of DFI's



DFI's to Promote and Syndicate Mega Housing Projects

- Work closely with Builders, CMIs, Architects and Design Consultants.
- Financial Engineering to develop and float innovative financing products
- Lead and support syndicates to ensure transparency, risk management and credit enhancement
- Float and manage REITs/Bonds etc, in association with housing banks
- Float and manage real estate mutual funds
- Work closely with the housing banks and the governmental agencies for simplification of enforceable/marketable titles
- Work with fiscal authorities for promoting mortgage friendly tax incentives



DFI's to promote low cost Housing through CMIs

- Basic challenge for low-cost housing is low cost construction materials and reduced priced land
- Primary challenge is to design low cost construction materials – DFI's to promote research for this in association with CMIs
- Another challenge is to promote standardization. Variety is less important than low cost bulk production.
- Low cost of advertising - direct industry to industry sales.
- Transfer of technology for low cost housing and standardization of low cost CMIs to be promoted between ADFIAP member countries.

**DFI's to become a link between CMIs, Builders, Architect/Design Firms
and Governmental agencies for promoting**

AFFORDABLE HOUSING FOR LOW / MIDDLE INCOME POPULATION



Population of Major Cities

<u>S.NO.</u>	NAME OF THE CITY	POPULATION (000)		INTERCENSAL GROWTH
		1981	1998	RATE (PERCENT)
1	KARACHI	5208	9339	3.5
2	LAHORE	2953	5443.5	3.66
3	FAISALABAD	1104	2008.9	3.58
4	RAWALPINDI	795	1409.8	3.43
5	MULTAN	732	1197.4	2.94
6	HYDERABAD	752	1166.9	2.6
7	GUJRANWALA	601	1132.5	3.8
8	PESHAWAR	566	982.8	3.3
9	QUETTA	286	759.9	5.92
10	ISLAMABAD	204	529.2	5.77
11	SANGODHA	291	458.4	2.71
12	SIALKOT	302	421.5	1.98
8/15/2010	Total:	13794	24849.8	2.52



Pakistan's Population Ranking in the World

Year	Rank	Population
1950	14	33
1981	10	84
2001	7	143
2005	6	154
2050*	5	295

2005 World Population Data Sheet, Population Reference Bureau.

* Projection by Population Reference Bureau.